COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-146285

OCT 2 1973

The Honorable H. R. Gross
House of Representatives

Dear Mr. Gross:

Your letter of May 8, 1973, noted that several State, and possibly local, governments had invested funds received under the State and Local Fiscal Assistance Act of 1972 (Public Law 92-512), commonly known as the Revenue Sharing Act, in Federal Government obligations. You asked that we provide you with information on the interest cost of the revenue sharing program and our views on prohibiting State and local governments from obtaining their revenue sharing funds until needed.

As agreed with your office, we contacted the 50 State governments, the District of Columbia, and the 50 counties and ~~and~~ 50 cities that received the largest amounts of revenue sharing funds through June 30, 1973. For each of the 151 governments, we obtained or estimated the interest earned on revenue sharing funds through June 30, 1973, and, when possible, we identified the interest earned on funds invested in Federal Government obligations.

The Revenue Sharing Act was enacted on October 20, 1972, but provided for payments covering a retroactive period beginning January 1, 1972. The first payment for the 6-month period ended June 30, 1972, was made on December 11, 1972, and the second payment for the period July 1 through December 31, 1972, was made on January 8, 1973. The act provides that subsequent payments be made at least once each quarter and not later than 5 days after the close of each quarter. Quarterly payments began with the April 1973 payment.

Section 123(a) of the act provides that a recipient government must use its revenue sharing funds and any interest earned on them within the time prescribed by the Secretary of the Treasury. This indicates that the Congress anticipated that recipient governments could invest the funds and earn interest on them.

Department of the Treasury regulations require a recipient government to use, obligate, or appropriate funds within 2 years after the end of the period for which the funds were received. Because the time between obligation or appropriation and disbursement varies considerably, revenue sharing funds could remain invested beyond 2 years. The regulations also provide that the period in which the funds must be used, obligated, or appropriated can be extended with the Department's approval. Thus it is possible that the funds could be invested for even longer periods.

ESTIMATED INTEREST EARNED BY THE GOVERNMENTS

Through June 30, 1973, the 151 governments received about $3.8 billion in revenue sharing funds, or about 58 percent of the $6.6 billion distributed to all 38,000 governments.

At June 30, 1973, about $2.8 billion, or 74 percent, of the funds received by the 151 governments was invested. Investment practices varied considerably. Some governments placed all their revenue sharing funds in a single type of investment, such as U.S. Treasury bills or bank certificates of deposit; others placed their funds in several different types of investments; and others commingled their revenue sharing funds with other funds in a common investment pool.

Through June 30, 1973, the 151 governments had earned an estimated $76.4 million in interest on the funds. Of this total, an estimated $17.9 million was earned from investing in Federal Government obligations.

Detailed data on the funds invested and the interest earned on them is shown in the enclosures. The following table summarizes that data.

Revenue Sharing Funds Received and Invested and Interest Earned as of June 30, 1973

Governments Type	Governments Number	Funds received	Funds invested	Estimated interest earned from Federal obligations	Estimated interest earned from Other investments (note a)	Total
		(millions)				
States and District of Columbia	51	$2,257.6	$1,914.9	$11.7	$38.1	$49.8
Counties	50	544.7	441.2	2.9	10.1	13.0
Cities	50	982.6	416.9	3.3	10.3	13.6
Total	151	$3,784.9	$2,773.0	$17.9	$58.5	$76.4

[a]Consisted primarily of certificates of deposit, time deposits, commercial paper, and repurchase agreements.

ESTIMATED INTEREST COST TO THE FEDERAL GOVERNMENT

When Federal receipts are insufficient to meet expenditures, the difference is obtained through borrowing; when receipts exceed expenditures, outstanding debt can be reduced. Thus, advancing funds to organizations outside the Government before they are needed either unnecessarily increases borrowings or decreases the opportunity to reduce the debt level and thereby increases interest costs to the Federal Government.

Because almost all of the 151 governments had invested revenue sharing funds, they apparently received the funds before needed or before they were prepared to spend the funds. The funds which were not invested in Federal obligations typically were placed in low-risk investments which have interest rates that are reasonably comparable to the rates of Federal obligations. Therefore, the interest earned by the governments can be used as an approximation of the interest cost to the Federal

Government through June 30, 1973, as a result of early advancement of revenue sharing funds.

POLICY FOR ADVANCING CASH TO FINANCE FEDERAL PROGRAMS

The Federal policy for financing grants and other programs is to avoid premature advances of funds to organizations outside the Government. Department of the Treasury Circular No. 1075 states that advancing funds substantially affects Treasury financing costs and the public debt.

The circular provides two methods for advancing funds: by Treasury check or letter of credit. If funds are advanced by Treasury check, the Federal agency responsible for the program is required to schedule the advances so that the funds are available to the recipient only immediately before the recipient disburses them. However, if the agency has, or expects to have, a continuing relationship with a recipient for at least 1 year and if annual advances aggregate more than $250,000, a letter of credit is used.

A letter of credit permits a recipient of Federal funds to draw funds for program operations, as needed, through a commercial bank and a Federal Reserve bank subject to monetary and other limits established by the program agency. The program agency is responsible for monitoring the recipient's use of the letter of credit to insure that it draws funds only when needed for disbursements.

If the payment methods prescribed in the circular are properly implemented, idle Federal funds in the possession of recipients are kept at a level which minimizes the Federal Government's financing costs.

OPINION ON ADVANCING REVENUE SHARING FUNDS WHEN NEEDED BY RECIPIENT GOVERNMENTS

The Federal policy of advancing funds as close as possible to the date the recipient needs them does not apply to the revenue sharing program under the existing act. Primarily because of the flexibility inherent in revenue sharing, it is not possible to accurately estimate the interest savings if the act were amended to permit a system of disbursing funds when the recipients need them.

Under most Federal aid programs, funds must be used for specific purposes. If funds are so earmarked and if there are adequate accounting controls, the program agency usually can determine when funds are needed and thereby time the advance of funds to coincide with the recipient's cash requirements.

In contrast, a basic objective of revenue sharing is to give State and local governments wide discretion and flexibility in deciding how and when to use the funds. Even if a policy of disbursing funds when needed were adopted, recipient governments could expend revenue sharing funds in programs or activities which have immediate cash needs and thus could decrease or eliminate interest savings that could be realized by the Federal Government. Recipient governments could benefit from using revenue sharing funds in programs with immediate cash needs because they could then invest their own funds that are freed by using revenue sharing funds. Therefore, we believe a policy of disbursing funds when needed might affect recipient governments' decisions on using the funds and would tend to conflict with the objective of giving them flexibility.

On the other hand, if a sufficient number of recipient governments do not use their revenue sharing funds as soon as they are available, the Federal Government could save substantially. Because the amount of savings depends on recipient governments' actions, we cannot be certain whether such a policy would achieve the desired savings in interest costs to the Federal Government.

AGENCY COMMENTS

Officials of the Office of Revenue Sharing, Department of the Treasury, generally agreed with our observations but emphasized the following.

--Because State and local governments have wide discretion in deciding how to use revenue sharing funds, the extent of savings to the Federal Government would depend largely on their voluntary cooperation.

--During the period reviewed, recipient governments had received a full year's retroactive payment. In the future, when the funds are being disbursed on the regular quarterly basis, the amount of idle revenue sharing funds available for investment probably will decline.

--Because about 38,000 governments receive revenue sharing funds, a policy of advancing funds when needed would significantly increase the administrative workload of the Office of Revenue Sharing and would thereby increase costs and reduce overall savings.

--Many State and local governments, assuming that the investment of revenue sharing funds would continue to be permitted, have budgeted or appropriated anticipated future interest earnings. A change in the law at this point could adversely affect State and local government plans.

The officials also pointed out that most recipient governments obtain relatively small amounts of revenue sharing funds and suggested that, if the Congress prescribes a change in the payment method, it should consider making it apply only to those recipients that obtain large amounts of funds.

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We do not plan to distribute this report further unless you agree or publicly announce its contents.

We trust the above information is responsive to your needs.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

Enclosures - 3

REVENUE SHARING FUNDS RECEIVED AND INVESTED AND

INTEREST EARNED BY 50 STATES AND DISTRICT OF COLUMBIA

AS OF JUNE 30, 1973

State	Funds received	Funds invested	Estimated interest earned from: Federal obligations	Estimated interest earned from: Other investments	Total
	(millions)		(000 omitted)		
Alabama	$ 38.7	$ 23.0	$ 797	$ -	$ 797
Alaska	2.8	2.8	-	39	39
Arizona	21.3	21.3	-	508	508
Arkansas	24.8	24.9	81	278	359
California	234.8	235.1	805	5,245	6,050
Colorado	22.9	22.9	3	595	[a]596
Connecticut	28.0	28.6	19	803	822
Delaware	8.1	(b)	-	119	119
District of Columbia	29.9	15.4	449	-	449
Florida	61.8	62.2	1,403	78	1,481
Georgia	45.8	45.8	-	1,264	1,264
Hawaii	9.9	(b)	-	86	86
Idaho	8.9	6.6	-	217	217
Illinois	114.0	116.2	243	2,574	2,817
Indiana	47.4	48.5	-	1,358	1,358
Iowa	31.5	32.2	77	633	710
Kansas	21.8	22.1	-	317	317
Kentucky	45.0	45.0	-	1,165	1,165
Louisiana	52.2	52.1	64	1,216	1,280
Maine	13.0	13.0	105	193	298
Maryland	44.4	44.7	-	1,213	1,213
Massachusetts	69.2	(b)	76	20	96
Michigan	93.7	93.7	161	1,930	2,091
Minnesota	44.1	45.3	1,213	-	1,213
Mississippi	37.6	37.7	941	-	941
Missouri	41.1	41.6	1,064	-	1,064
Montana	8.6	8.2	162	57	219
Nebraska	16.2	16.6	-	472	472
Nevada	4.8	4.7	-	[c]68	[c]68
New Hampshire	7.0	7.0	176	-	176
New Jersey	69.4	69.8	1,127	741	1,868
New Mexico	14.5	14.8	-	447	447
New York	245.7	55.3	798	2,735	3,533
North Carolina	56.7	54.2	481	1,086	1,567
North Dakota	9.2	9.2	-	218	218
Ohio	88.8	90.9	204	2,399	[a]2,602
Oklahoma	24.6	24.4	5	519	[a]525
Oregon	22.0	20.1	35	562	597
Pennsylvania	115.8	76.4	14	2,045	2,059
Rhode Island	10.1	10.3	-	267	267
South Carolina	31.1	31.4	509	291	[a]799
South Dakota	10.1	10.1	31	279	310
Tennessee	41.3	41.2	-	1,058	1,058
Texas	104.0	104.9	-	920	920
Utah	12.9	12.9	-	313	313
Vermont	6.2	2.8	-	132	132
Virginia	44.1	45.2	26	1,000	1,026
Washington	32.4	32.5	63	818	881
West Virginia	29.6	29.9	-	775	775
Wisconsin	55.6	57.2	597	964	1,561
Wyoming	4.2	4.2	-	118	118
Total	$2,257.6	$1,914.9	$11,729	$38,134	[a]$49,861

[a]Totals do not add due to rounding.

[b]No funds were invested as of June 30, 1973.

[c]Amount of interest could not be broken out between Federal obligations and other investments.

REVENUE SHARING FUNDS RECEIVED AND INVESTED AND

INTEREST EARNED BY 50 SELECTED COUNTIES

AS OF JUNE 30, 1973

State	County	Funds received	Funds invested	Estimated interest earned from: Federal obligations	Other investments	Total
		(millions)		(000 omitted)		
Alabama	Jefferson	$ 9.0	$ 8.7	$ 211	$ -	$ 211
Arizona	Maricopa	6.4	6.0	27	128	155
	Pima	4.9	3.0	7	97	104
California	Alameda	12.2	12.3	-	323	323
	Contra Costa	7.0	7.0	-	195	195
	Fresno	8.2	7.9	62	132	194
	Kern	9.0	9.1	2	229	231
	Los Angeles	106.6	106.8	1,413	1,413	2,826
	Orange	10.9	10.9	1	300	301
	Riverside	8.6	8.3	15	240	255
	Sacramento	10.4	7.7	-	230	230
	San Bernardino	12.4	12.3	-	321	321
	San Diego	14.0	14.2	-	481	481
	San Joaquin	6.1	1.2	-	157	157
	Santa Clara	9.8	9.9	-	242	242
	Tulare	4.9	4.9	3	128	131
	Ventura	6.6	6.0	19	162	[a]180
Delaware	New Castle	5.4	5.0	-	152	152
Florida	Dade	13.0	13.2	332	-	332
	Hillsborough	5.6	4.0	-	147	147
Georgia	Fulton	7.4	6.3	2	189	191
Illinois	Cook	18.3	16.5	-	516	516
Indiana	Lake	4.1	4.1	60	37	97
Kentucky	Jefferson	7.4	7.5	201	-	201
Louisiana	Jefferson	5.8	5.9	-	163	163
Maryland	Anne Arundel	6.0	6.0	59	127	186
	Baltimore	12.1	5.8	-	226	226
	Montgomery	6.1	5.8	51	95	146
	Prince Georges	11.8	11.1	-	268	268
Michigan	Wayne	14.8	(b)	-	-	(b)
Minnesota	Hennepin	7.4	6.8	-	203	203
Missouri	St. Louis	6.7	6.1	162	-	162
New Jersey	Essex	8.8	6.3	-	218	218
	Hudson	5.8	5.8	4	173	177
New York	Erie	12.5	9.8	-	343	343
	Monroe	6.6	3.0	-	76	76
	Nassau	16.4	3.5	-	372	372
	Onondaga	6.5	6.7	-	201	201
	Suffolk	16.8	.1	-	103	103
	Westchester	4.5	.2	-	37	37
Ohio	Cuyahoga	11.7	9.4	195	-	195
	Hamilton	5.0	5.0	-	131	131
Oregon	Multnomah	6.3	5.5	-	172	172
Pennsylvania	Allegheny	14.7	6.0	-	239	239
Tennessee	Shelby	6.9	6.2	-	178	178
Texas	Harris	7.7	7.8	-	226	226
Utah	Salt Lake	6.7	6.8	-	170	170
Virginia	Fairfax	5.2	5.2	64	63	127
Washington	King	7.3	4.5	-	145	145
Wisconsin	Milwaukee	16.4	7.1	-	319	319
Total		$544.7	$441.2	$2,890	$10,067	$12,956

[a]Totals do not add due to rounding.

[b]County officials stated that any allocation of interest to revenue sharing funds would be meaningless. They consider the funds as the first funds to be expended in the areas for which they are allocated.

REVENUE SHARING FUNDS RECEIVED AND INVESTED AND

INTEREST EARNED BY 50 SELECTED CITIES

AS OF JUNE 30, 1973

State	City	Funds received	Funds invested	Estimated interest earned from: Federal obligations	Other investments	Total
		(millions)		(000 omitted)		
Alabama	Birmingham	$ 6.3	$ 5.5	$ 104	$ 52	$ 156
	Mobile	5.6	3.8	31	93	[a]125
Arizona	Phoenix	9.7	8.7	-	266	266
	Tucson	5.7	5.7	7	156	163
California	Los Angeles	40.1	25.1	805	-	805
	Oakland	5.9	5.9	82	82	164
	San Diego	8.0	7.1	45	157	202
	San Francisco	22.4	23.0	-	595	595
Colorado	Denver	15.0	14.6	373	-	373
Florida	Jacksonville	10.2	10.4	80	160	240
	Miami	8.4	4.8	107	75	[a]183
	Tampa	6.7	5.6	2	163	165
Georgia	Atlanta	7.7	2.5	108	-	108
Hawaii	Honolulu	15.0	14.7	23	343	366
Illinois	Chicago	78.6	(c)	-	[b]872	[b]872
Indiana	Indianapolis	13.9	5.7	3	388	391
Kentucky	Louisville	11.8	11.4	301	-	301
Louisiana	Baton Rouge	8.5	[d]7.2	-	[b]161	[b]161
	New Orleans	21.4	12.4	-	436	436
Maryland	Baltimore	29.8	20.5	101	565	666
Massachusetts	Boston	22.6	21.6	-	641	641
Michigan	Detroit	46.3	(e)	-	-	(e)
Minnesota	Minneapolis	7.0	2.0	33	112	145
Missouri	Kansas City	11.6	10.9	296	-	296
	St. Louis	15.8	16.0	-	434	434
New Jersey	Jersey City	5.8	.9	-	115	115
	Newark	10.7	4.0	-	229	229
New Mexico	Albuquerque	7.6	3.8	-	173	173
New York	Buffalo	9.6	(c)	-	24	24
	New York	258.6	(e)	-	-	(e)
Ohio	Cincinnati	10.4	6.1	87	185	272
	Cleveland	18.2	15.7	-	456	456
	Columbus	8.2	8.2	-	161	161
	Toledo	5.8	4.8	147	-	147
Oklahoma	Oklahoma City	6.9	.2	4	2	6
Oregon	Portland	10.5	10.6	231	45	[a]275
Pennsylvania	Philadelphia	55.5	(c)	17	27	44
	Pittsburgh	14.8	7.9	-	329	329
Rhode Island	Providence	5.5	4.0	-	139	139
Tennessee	Memphis	14.5	13.1	12	374	[a]385
	Metro-Nashville/ Davidson	9.0	8.8	-	249	249
Texas	Dallas	14.7	14.6	-	309	309
	El Paso	6.9	6.5	-	177	177
	Fort Worth	5.8	4.0	4	113	[a]118
	Houston	18.9	19.0	73	444	517
	San Antonio	10.8	10.5	-	197	197
Virginia	Norfolk	8.5	8.4	26	209	235
	Richmond	6.9	6.9	-	198	198
Washington	Seattle	10.5	6.1	174	54	228
Wisconsin	Milwaukee	14.0	7.7	-	353	353
Total		$982.6	$416.9	$3,276	$10,313	[a]$13,590

[a]Totals do not add due to rounding.

[b]Amount of interest could not be broken out between Federal obligations and other investments.

[c]No revenue sharing funds were invested as of June 30, 1973.

[d]Represents revenue sharing funds available for investment on June 30, 1973. City officials could not say whether the funds were actually invested on that day.

[e]Revenue sharing funds were never invested.