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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT
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WEDNESDAY, OCTOBER 29, 1975

STATEMENT OF
ELMER B. STAATS
COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS AND HUMAN RESOURCES
COMMITTEE ON GOVERNMENT OPERATIONS
UNITED STATES HOUSE OF REPRESENTATIVES
ON
[GENERAL REVENUE SHARING]

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WE ARE PLEASED TO HAVE THE OPPORTUNITY TO DISCUSS OUR VIEWS ON GENERAL REVENUE SHARING.

THE REVENUE SHARING ACT DIRECTED THE COMPTROLLER GENERAL TO REVIEW THE WORK OF THE DEPARTMENT OF THE TREASURY, THE STATE GOVERNMENTS, AND THE LOCAL GOVERNMENTS TO ENABLE THE CONGRESS TO EVALUATE COMPLIANCE AND OPERATIONS. FOR THIS REASON AND BECAUSE OF THE LARGE EXPENDITURES INVOLVED, WE HAVE DEVOTED A CONSIDERABLE EFFORT TO REVIEWING THE PROGRAM.

TO PUT THE FUNDS PROVIDED FOR REVENUE SHARING IN PERSPECTIVE, THEY REPRESENTED ABOUT 13.3 PERCENT OF THE \$46 BILLION TOTAL FEDERAL AID TO STATE AND LOCAL GOVERNMENTS IN FISCAL YEAR 1974. THE PROPOSED FISCAL YEAR 1976 BUDGET SHOWS REVENUE SHARING TO BE ABOUT 11.3 PERCENT OF FEDERAL AID TOTALING \$55.6 BILLION. IN ADDITION, THE \$6.1 BILLION 1974 REVENUE SHARING APPROPRIATION WAS ABOUT 2.6 PERCENT OF TOTAL STATE AND LOCAL REVENUES.

WE HAVE HAD, AND STILL RETAIN, RESERVATIONS ABOUT THE REVENUE SHARING PROGRAM. WE BELIEVE THAT FUNDS RAISED BY THE FEDERAL GOVERNMENT SHOULD BE USED FOR MORE CLEARLY IDENTIFIED NATIONAL PURPOSES OR OBJECTIVES, AND WE HAVE BEEN CONCERNED BY THE LACK OF ACCOUNTABILITY THAT IS INHERENT IN A PROGRAM OF GENERAL, UNDIRECTED ASSISTANCE. ON SEVERAL OCCASIONS WE HAVE VOICED OUR CONCERN OF THE DANGERS INHERENT WHEN SPENDING AND TAXING RESPONSIBILITIES ARE SEPARATED.

WHEN A RECIPIENT GOVERNMENT SPENDS REVENUE SHARING FUNDS FOR ACTIVITIES THAT WERE PREVIOUSLY FINANCED, OR WOULD HAVE BEEN FINANCED, FROM OTHER REVENUES, CONSIDERABLE LATITUDE EXISTS FOR USE OF FUNDS THUS FREED. THAT APPEARS TO BE THE BROAD OBJECTIVE OF REVENUE SHARING. THIS MAKES IT ALMOST IMPOSSIBLE TO ASSESS THE SPECIFIC IMPACT OF REVENUE SHARING FUNDS AS SUCH. BECAUSE GOVERNMENTS TEND TO CONSIDER TOTAL RESOURCES WHEN DETERMINING THE SIZE OF EXPENDITURES FOR THEIR DIVERSE ACTIVITIES, AN OBJECTIVE IDENTIFICATION AND MEASUREMENT OF THE IMPACT OF REVENUE SHARING ON SPECIFIC TAX LEVELS, ACTIVITIES, OR PROGRAMS IS EXTREMELY DIFFICULT, IF NOT IMPOSSIBLE.

OUR REVIEWS OF THE GENERAL REVENUE SHARING PROGRAM HAVE INCLUDED WORK AT THE OFFICE OF REVENUE SHARING, ALL OF THE STATE GOVERNMENTS AND NUMEROUS LOCAL GOVERNMENTS, AS WELL AS DISCUSSIONS WITH RESEARCHERS AND REPRESENTATIVES OF PUBLIC INTEREST GROUPS AND CIVIC ORGANIZATIONS.

WE HAVE ISSUED 6 REPORTS TO THE CONGRESS, AND WE EXPECT TO ISSUE 3 ADDITIONAL REPORTS WITHIN THE NEXT FEW MONTHS. A LISTING OF THE WORK WE HAVE COMPLETED AND A DESCRIPTION OF THE WORK WE HAVE IN PROCESS IS INCLUDED AS AN ATTACHMENT TO THIS STATEMENT.

FROM OUR WORK WE HAVE SELECTED AREAS WHICH WE BELIEVE THE CONGRESS MAY WISH TO CONSIDER DURING ITS DELIBERATIONS ON RENEWAL OF THE GENERAL REVENUE SHARING PROGRAM.

CONTINUATION OF THE PROGRAM

IF THE CONGRESS WISHES TO PROVIDE FINANCIAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS UNDER A PROGRAM WHICH HAS AS ITS PURPOSE SIMPLY GIVING RECIPIENTS DISCRETION IN THE USE OF THE FUNDS PROVIDED, THEN GENERAL REVENUE SHARING IS CERTAINLY A WAY TO ACHIEVE THIS OBJECTIVE. WE BELIEVE, HOWEVER, THAT THE ACT'S REQUIREMENTS THAT THE FUNDS BE USED FOR CERTAIN "PRIORITY EXPENDITURES" AND THAT THE RECIPIENT COMPLY WITH CERTAIN OTHER EXPENDITURE RESTRICTIONS ARE NOT COMPATIBLE WITH THIS CONCEPT.

FURTHER, AS WE HAVE PREVIOUSLY STATED, RECIPIENTS CAN ARRANGE TO USE REVENUE SHARING FUNDS IN WAYS REQUIRED BY THE ACT AND THEN USE THEIR OWN DISPLACED FUNDS IN OTHER AREAS WHERE THE RESTRICTIONS ON THE USE OF REVENUE SHARING FUNDS ARE NOT OBSERVED. WE HAVE RECOMMENDED THAT MOST OF THE EXPENDITURE RESTRICTIONS BE ELIMINATED IF THE PROGRAM IS RENEWED. THERE ARE HOWEVER, TWO REQUIREMENTS--CIVIL RIGHTS AND CITIZEN PARTICIPATION--WHICH WE BELIEVE SHOULD BE RETAINED AND MADE MORE EFFECTIVE. I WILL COVER THESE AREAS MORE SPECIFICALLY LATER IN THIS STATEMENT.

FUNDING

THE MANNER IN WHICH THE REVENUE SHARING PROGRAM SHOULD BE FUNDED HAS BEEN THE SUBJECT OF MUCH DISCUSSION. OBJECTIONS RAISED AGAINST THE PRESENT METHOD OF A FIRM 5-YEAR APPROPRIATION INCLUDE THE ARGUMENTS THAT THE ANNUAL CONGRESSIONAL BUDGET REVIEW IS AVOIDED AND THAT THE SPECIFIC ANNUAL INCREASE IS NOT SUFFICIENT TO OFFSET INCREASING COSTS DUE TO INFLATION. OTHERS

HAVE POINTED OUT, HOWEVER, THAT SUBJECTING REVENUE SHARING TO AN ANNUAL BUDGET REVIEW WOULD DENY THE PROGRAM THE HIGH DEGREE OF STABILITY THAT HAS PERMITTED STATE AND LOCAL GOVERNMENTS TO INCLUDE REVENUE SHARING IN THEIR NORMAL BUDGETING PROCESS.

WHILE I DO NOT FAVOR A 5-YEAR APPROPRIATION, I BELIEVE THAT SOME ADVANCE FUNDING IS DESIRABLE. A PROCEDURE WHEREBY THE FUNDING LEVEL FOR A FISCAL YEAR WOULD BE APPROVED ONE OR TWO YEARS IN ADVANCE OF THE FEDERAL BUDGET WOULD PROVIDE FOR MORE CURRENT ASSESSMENT OF THE PROGRAM AND ANNUAL CONSIDERATION OF THE FUNDING LEVEL WHILE STILL ALLOWING STATE AND LOCAL GOVERNMENTS SUFFICIENT INFORMATION TO INCLUDE REVENUE SHARING FUNDS IN THEIR FISCAL PLANNING.

FORMULA RESPONSE TO NEEDS OF GOVERNMENTS

VARIOUS INDIVIDUALS AND ORGANIZATIONS HAVE SUGGESTED THAT THE REVENUE SHARING FORMULA SHOULD BE CHANGED TO GIVE MORE FUNDS TO GOVERNMENTS THAT HAVE THE GREATEST NEED. ONE WAY THAT WE SEE THIS MIGHT BE DONE IS TO PUT MORE WEIGHT ON THE PER CAPITA INCOME FACTOR CONTAINED IN THE FORMULA. IN ESSENCE, THIS FACTOR RESULTS IN MORE REVENUE SHARING FUNDS BEING ALLOCATED TO POORER COMMUNITIES AND LESS TO THE MORE AFFLUENT COMMUNITIES. THIS WOULD PLACE MORE FUNDS IN AREAS THAT HAVE HIGH UNEMPLOYMENT AND LARGE WELFARE COSTS.

THE 145 PERCENT AND 20 PERCENT LIMITATIONS

THE PRESENT PROHIBITION AGAINST ANY LOCAL GOVERNMENT RECEIVING MORE THAN 145 PERCENT OR LESS THAN 20 PERCENT OF THE

PER CAPITA AMOUNT AVAILABLE FOR DISTRIBUTION TO ALL LOCAL GOVERNMENTS WITHIN A STATE WAS ESTABLISHED BY THE CONGRESS TO PREVENT SOME GOVERNMENTS FROM GETTING INORDINATELY LARGE OR SMALL AMOUNTS OF REVENUE SHARING FUNDS. A GAO SURVEY OF ALLOCATIONS FOR THE YEAR ENDED JUNE 30, 1974, REVEALED THAT THE ALLOCATIONS OF OVER 1,400 LOCAL GOVERNMENTS (OR ABOUT 3.7 PERCENT) WERE LOWERED TO THE 145 PERCENT LIMIT. THE REDUCTION IS SUBSTANTIAL IN SOME CASES. FOR EXAMPLE, THE PER CAPITA ALLOCATION TO THE CITY OF ST. LOUIS, MISSOURI WAS LOWERED FROM \$38.80 TO \$23.11 WHEN THE 145 PERCENT MAXIMUM WAS APPLIED. THIS DROPPED ST. LOUIS' TOTAL ALLOCATION FROM ABOUT \$24.1 MILLION TO ABOUT \$14.4 MILLION. PHILADELPHIA'S ALLOCATION WAS REDUCED FROM ABOUT \$78.4 MILLION (\$40.23 PER CAPITA) TO THE 145 PERCENT MAXIMUM OF \$50.1 MILLION (\$25.70 PER CAPITA). THE DIFFERENCES WERE USED TO RAISE THE ALLOCATIONS OF OTHER GOVERNMENTS IN MISSOURI AND PENNSYLVANIA.

THE 20-PERCENT MINIMUM, ON THE OTHER HAND, CAUSED THE ALLOCATIONS TO ABOUT 9,600 LOCAL GOVERNMENTS TO BE RAISED BY SOME \$45 MILLION. FOR EXAMPLE, PURCELL CITY, MISSOURI WAS ALLOCATED \$1,036 FOR THE YEAR ENDED JUNE 30, 1974. IF THE 20 PERCENT LIMITATION WERE REMOVED, HOWEVER, PURCELL WOULD HAVE BEEN ALLOCATED ONLY ABOUT \$377. THE ALLOCATIONS TO ABOUT 6,300 TOWNSHIPS ALONE WERE RAISED NEARLY \$37 MILLION, OR ABOUT 82 PERCENT OF THE \$45 MILLION. THE FUNDS NEEDED TO RAISE THE ALLOCATIONS TO THESE GOVERNMENTS WERE TAKEN FROM OTHER LOCAL UNITS.

GENERALLY, OUR CONCLUSION AGREES WITH THAT OF MOST RESEARCHERS WHO HAVE STUDIED REVENUE SHARING RECOMMENDING A CHANGE IN THE 145 PERCENT AND 20 PERCENT LIMITATIONS, ESPECIALLY THE 20 PERCENT FLOOR. CITIES THAT HAVE MUCH GREATER NEED FOR MONEY ARE FORFEITING LARGE AMOUNTS TO SUPPORT NUMEROUS LIMITED-PURPOSE GOVERNMENTS, SUCH AS MANY OF THE MIDWESTERN TOWNSHIPS. THESE LIMITATIONS TEND TO REDUCE THE REDISTRIBUTIONAL EFFECTS OF THE FORMULA SPECIFIED IN THE ACT. WHILE GAO DOES NOT HAVE A RECOMMENDATION FOR A CHANGE IN SPECIFIC PERCENTAGES ON THIS POINT, WE HAVE A FAVORABLE REACTION TOWARD PROPOSALS WHICH WOULD RAISE THE CEILING AND LOWER OR PERHAPS ELIMINATE THE FLOOR.

TAX DATA USED IN ALLOCATING REVENUE SHARING

ADJUSTED TAXES ARE THE TOTAL TAXES, AS DETERMINED BY THE CENSUS BUREAU, OF A GOVERNMENT--EXCLUDING TAXES FOR SCHOOLS AND OTHER EDUCATION PURPOSES. ADJUSTED TAXES ARE ONE OF THE FACTORS USED IN THE REVENUE SHARING FORMULA TO ALLOCATE FUNDS TO LOCAL GOVERNMENTS. THE OTHER TWO FACTORS ARE POPULATION AND PER CAPITA INCOME.

THE ADJUSTED TAX FACTOR, WHICH IS USED AS A MEASURE OF A LOCAL GOVERNMENT'S EFFORT TO MEET ITS NEED, IS AN INCOMPLETE MEASURE OF SUCH NEED. LOCAL GOVERNMENTS USE SEVERAL METHODS, IN ADDITION TO TAXES, TO RAISE REVENUES IN ORDER TO FUND PUBLIC SERVICES. WE RECOMMEND THAT THE CONGRESS EXPAND THE DEFINITION

OF ADJUSTED TAXES TO INCLUDE PROFIT TRANSFERS AND PAYMENTS IN LIEU OF TAXES FROM PUBLICLY OWNED UTILITIES. THESE REVENUES TOTALED ABOUT \$172 MILLION IN 1972. IN ADDITION, WE RECOMMEND THE EXPANDED DEFINITION INCLUDE SERVICE CHARGES FOR SANITATION SERVICES AND THAT SERVICE CHARGES FOR OTHER SERVICES BE STUDIED TO DETERMINE IF IT WOULD BE POSSIBLE TO INCLUDE THEM IN ADJUSTED TAXES.

ADJUSTED TAXES ARE ALSO AN INCOMPLETE MEASURE OF LOCAL TAX BURDENS BECAUSE OF THE EXCLUSION OF SPECIAL DISTRICT TAXES. IF A LOCAL GOVERNMENT PROVIDES A SERVICE AND COLLECTS TAXES FOR IT, SUCH TAXES ARE USED IN CALCULATING LOCAL REVENUE SHARING ALLOCATIONS. HOWEVER, TAXES FOR IDENTICAL SERVICES COLLECTED ELSEWHERE BY SPECIAL DISTRICTS ARE NOT INCLUDED IN CALCULATING LOCAL REVENUE SHARING ALLOCATIONS. BECAUSE SPECIAL DISTRICTS OFTEN OVERLAP THE BOUNDARIES OF SEVERAL GENERAL-PURPOSE GOVERNMENTS, IT WOULD BE ADMINISTRATIVELY DIFFICULT TO CREDIT SPECIAL DISTRICT TAXES TO INDIVIDUAL MUNICIPALITIES. CONSEQUENTLY, WE BELIEVE SPECIAL DISTRICT TAXES SHOULD BE RECOGNIZED IN THE REVENUE SHARING ALLOCATION PROCESS BY CONSIDERING THEM IN DETERMINING THE COUNTY AREA REVENUE SHARING AMOUNT THAT IS DIVIDED AMONG LOCAL GOVERNMENTS WITHIN THE COUNTY.

WE TESTED THE ACCURACY OF THE ADJUSTED TAX DATA FOR 111 GOVERNMENTS IN 4 STATES AND FOUND THAT THE OFFICE OF REVENUE SHARING USED INACCURATE DATA TO COMPUTE ALLOCATIONS FOR THE 4TH AND 5TH ENTITLEMENT PERIODS. DATA FOR ABOUT 40 PERCENT

OF THE GOVERNMENTS TESTED WAS INACCURATE BY MORE THAN 5 PERCENT IN EACH ENTITLEMENT PERIOD.

THE LARGEST NUMBERS OF ERRORS OCCURRED WITH GOVERNMENTS WHOSE POPULATIONS WERE UNDER 2,500. WE NOTED THAT THE FORMULA'S 20 PERCENT MINIMUM AND 145 PERCENT MAXIMUM LIMITATIONS MAY LESSEN THE EFFECT OF THESE ERRORS ON REVENUE SHARING ALLOCATIONS. HOWEVER, DATA ACCURACY CAN AND SHOULD BE IMPROVED. WE RECOMMENDED THAT THE OFFICE OF REVENUE SHARING AND THE BUREAU OF THE CENSUS PROVIDE MORE SPECIFIC DATA TO LOCAL GOVERNMENTS TO ASSIST IN THEIR VERIFICATION OF THE ACCURACY OF THE ADJUSTED TAX DATA.

INDIAN TRIBES

THE BOUNDARIES OF INDIAN RESERVATIONS AND ALASKAN NATIVE VILLAGES OFTEN CROSS COUNTY OR ALASKAN DISTRICT LINES. THE PRESENT REVENUE SHARING ACT REQUIRES THAT REVENUE SHARING FUNDS ALLOTTED TO AN INDIAN TRIBE OR ALASKAN NATIVE VILLAGE FOR 2 OR MORE COUNTY AREAS MUST BE SPENT FOR THE BENEFIT OF MEMBERS OF THE INDIAN TRIBE OR ALASKAN VILLAGE RESIDING IN EACH COUNTY FROM WHICH SUCH FUNDS WERE ALLOCATED. THIS REQUIREMENT IS NOT IMPOSED ON ANY OTHER TYPE OF GOVERNMENTAL UNIT WHICH CROSSES COUNTY LINES AND TENDS TO REDUCE THE EXTENT TO WHICH INDIAN TRIBES CAN USE REVENUE SHARING TO MEET THEIR MOST PRESSING NEEDS. WE BELIEVE THAT THIS SECTION OF THE ACT SHOULD BE DELETED.

REVENUE SHARING FUNDS AVAILABLE FOR DISTRIBUTION TO LOCAL GOVERNMENTS WITHIN A COUNTY AREA ARE DETERMINED BY A COMPARISON

OF THAT COUNTY AREA'S POPULATION, TAXES, AND PER CAPITA INCOME WITH SIMILAR DATA FROM OTHER COUNTY AREAS IN THE STATE. INDIAN TRIBES GENERALLY DO NOT COLLECT TAXES AND THEREFORE DO NOT CONTRIBUTE TOWARDS THE TOTAL TAXES COLLECTED BY ALL GOVERNMENTS WITHIN THE COUNTY AREA ALTHOUGH THEY RECEIVE A PORTION OF THE REVENUE SHARING FUNDS BASED ON THEIR SHARE OF THE COUNTY'S POPULATION. CONSEQUENTLY, LOCAL GOVERNMENTS IN COUNTY AREAS THAT HAVE INDIAN TRIBES DO NOT RECEIVE THE FULL BENEFIT OF THEIR TAXES WHEN THEIR REVENUE SHARING ALLOCATION IS CALCULATED USING THIS DATA.

SINCE INDIAN TRIBES GENERALLY DO NOT COLLECT TAXES, WE BELIEVE THAT THE USE OF ADJUSTED TAX DATA FOR DETERMINING A COUNTY AREA AMOUNT WHICH IS DIVIDED BETWEEN INDIAN TRIBES AND LOCAL GOVERNMENTS IS INEQUITABLE TO BOTH LOCAL GOVERNMENTS AND INDIAN TRIBES. THEREFORE, WE RECOMMEND THAT CONSIDERATION BE GIVEN TO ALLOCATING FUNDS TO INDIAN TRIBES BASED ON THEIR PERCENT OF TOTAL STATE POPULATION AND THAT THIS ALLOCATION BE MADE PRIOR TO THE ALLOCATION TO COUNTY AREAS.

CIVIL RIGHTS

WE HAVE CONDUCTED TWO REVIEWS WHICH DEALT EXTENSIVELY WITH CIVIL RIGHTS MATTERS. ONE REVIEW CONSISTED OF CASE STUDIES OF REVENUE SHARING IN 26 LOCAL GOVERNMENTS. IN EACH CASE STUDY, WE COMPARED THE RACIAL AND SEX COMPOSITION OF THE GOVERNMENT'S WORK FORCE WITH THE COMPOSITION OF THE TOTAL CIVILIAN LABOR FORCE IN THE AREA.

WE NOTED FROM THE RESULTS OF THESE COMPARISONS THAT THE LEGACY OF WHAT IS NOW RECOGNIZED AS DISCRIMINATORY EMPLOYMENT PRACTICES APPEARS EVIDENT FROM THE COMPOSITION OF MANY OF THE RECIPIENTS' WORK FORCES. THERE WAS SUBSTANTIAL EVIDENCE, HOWEVER, THAT EMPLOYMENT COMPOSITIONS HAVE BEEN AND ARE CHANGING AS A RESULT OF CHANGES IN RECENT HIRING PRACTICES, ESPECIALLY IN THE LARGE JURISDICTIONS. WE NOTED ALSO THAT MUCH STILL NEEDS TO BE DONE TO ELIMINATE DISCRIMINATION FROM OUR SOCIETY.

IN THE OTHER REVIEW, WE EXAMINED THE OFFICE OF REVENUE SHARING'S (ORS'S) ENFORCEMENT OF THE CIVIL RIGHTS PROVISIONS OF THE REVENUE SHARING ACT. WE CONCLUDED THAT THERE WERE EXCESSIVE DELAYS IN ORS'S PROCESSING OF COMPLAINTS OF ALLEGED DISCRIMINATION IN THE USE OF REVENUE SHARING FUNDS. WE NOTED THAT THE AVERAGE TIME REQUIRED FOR ORS TO PROCESS A COMPLAINT IS INCREASING. THE PRINCIPAL REASONS FOR THE DELAYS HAVE BEEN INADEQUATE CONTROLS OF CASES REQUIRING ORS ACTION AND AN INSUFFICIENT NUMBER OF CIVIL RIGHTS SPECIALISTS AT ORS.

ORS HAS RECENTLY ESTABLISHED NEW PROCEDURES AND PERIODIC REPORTS WHICH IT FEELS WILL ESTABLISH CONTROL OF THE COMPLAINTS UPON RECEIPT AND ALERT THE COMPLIANCE STAFF OF DELINQUENT ACTIONS SO THAT COMPLAINTS CAN BE PROCESSED FASTER. ORS ALSO PLANS TO INCREASE ITS CURRENT STAFF OF FIVE CIVIL RIGHTS SPECIALISTS BY FIVE ADDITIONAL SPECIALISTS IN FISCAL YEAR 1976.

THE EXISTING REVENUE SHARING LEGISLATION PROHIBITS DISCRIMINATION IN ANY PROGRAM OR ACTIVITY THAT IS WHOLLY OR PARTIALLY FUNDED WITH REVENUE SHARING. BECAUSE REVENUE SHARING IS GENERAL FINANCIAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS, THE IMPACT OF THE PROGRAM CAN OCCUR IN ANY PART OF A GOVERNMENT'S BUDGET AND NOT NECESSARILY IN THE AREAS WHERE THE REVENUE SHARING FUNDS ARE DESIGNATED AS BEING SPENT. FURTHER, AS WE HAVE PREVIOUSLY REPORTED, RECIPIENTS MAY INTENTIONALLY OR UNINTENTIONALLY ARRANGE TO USE REVENUE SHARING FUNDS IN WAYS REQUIRED BY THE ACT AND THEN USE THEIR OWN DISPLACED FUNDS IN OTHER AREAS WHERE THE RESTRICTIONS ON THE USE OF REVENUE SHARING FUNDS DO NOT APPLY.

CONSEQUENTLY, WE BELIEVE THE CIVIL RIGHTS PROVISIONS OF THE ACT SHOULD BE BROADENED TO PROVIDE THAT (1) A GOVERNMENT RECEIVING REVENUE SHARING COULD NOT DISCRIMINATE IN ANY OF ITS PROGRAMS OR ACTIVITIES THAT COULD BENEFIT FROM REVENUE SHARING REGARDLESS OF THE SOURCE OF FUNDING AND (2) REVENUE SHARING FUNDS COULD BE WITHHELD, AFTER A DUE PROCESS FINDING OF DISCRIMINATION, PENDING ACCEPTABLE ACTIONS TO CORRECT DISCRIMINATORY PRACTICES.

REPORTING REQUIREMENTS AND
CITIZEN PARTICIPATION IN
THE LOCAL BUDGETARY PROCESS

ONE OF OUR REPORTS, ISSUED IN SEPTEMBER 1975, DEALT WITH THE SYSTEM FOR REPORTING USES OF REVENUE SHARING FUNDS. WE CONCLUDED THAT THE REPORTS WHICH STATES AND LOCALITIES ARE

REQUIRED TO PUBLISH SHOWING THEIR PLANNED AND ACTUAL USES OF REVENUE SHARING, DO NOT NECESSARILY PROVIDE MEANINGFUL INFORMATION AND CAN BE MISLEADING.

BUDGETARY DECISIONS ARE USUALLY MADE ON THE BASIS OF TOTAL AVAILABLE RESOURCES, OF WHICH REVENUE SHARING IS A PART. WHEN FUNDS FROM DIFFERENT SOURCES ARE COMMINGLED FOR BUDGETING PURPOSES, IT IS IMPOSSIBLE TO IDENTIFY THE EFFECT OF ANY PART OF THE FUNDS ON THE TOTAL PROGRAM.

REVENUE SHARING HAS BECOME A PART OF STATE AND LOCAL GOVERNMENTS' PROCESSES. IT IS DIFFICULT, IF NOT IMPOSSIBLE, FOR STATE OR LOCAL OFFICIALS, ESPECIALLY THOSE FROM GOVERNMENTS WITH LARGE AND COMPLEX BUDGETS, TO ISOLATE THE ACTUAL FISCAL IMPACT OF FUNDS RECEIVED FROM ANY ONE SOURCE INCLUDING REVENUE SHARING.

WE RECOMMENDED THAT THE CONGRESS ABOLISH THE PRESENT REPORTING SYSTEM AND REQUIRE INSTEAD THAT A GOVERNMENT RECEIVING REVENUE SHARING BE REQUIRED TO PROVIDE THE PUBLIC WITH YEAR TO YEAR COMPARATIVE FINANCIAL DATA ON THE SOURCES AND USES OF ALL OF ITS FUNDS, SHOWING ITS OVERALL PLAN AND RESULTS OF OPERATIONS. AS A MINIMUM THIS SHOULD BE SHOWN FOR THE PRIOR, CURRENT, AND BUDGET YEAR FOR EACH MAJOR PROGRAM OR ACTIVITY.

THE FUNDAMENTAL OBJECTIVE IN PREPARING AND PUBLISHING THE REPORT WOULD NOT BE COMPLETELY MET UNLESS CITIZENS HAD ADEQUATE OPPORTUNITY TO EXPRESS THEIR VIEWS. ACCORDINGLY, WE ALSO

RECOMMENDED THAT EACH RECIPIENT GOVERNMENT PROVIDE NOTICE AND OPPORTUNITY FOR ITS RESIDENTS TO VOICE THEIR RECOMMENDATIONS AND VIEWS ON THE PROPOSED EXPENDITURES IN A PUBLIC HEARING OR IN SUCH OTHER MANNER AS THE SECRETARY OF THE TREASURY MAY AUTHORIZE.

ELIGIBILITY OF MARGINAL LOCAL GOVERNMENTS

BECAUSE OF THE CONCERN THAT HAS BEEN EXPRESSED ABOUT DISTRIBUTING REVENUE SHARING FUNDS TO SO-CALLED "MARGINAL" UNITS OF GOVERNMENTS, WE HAVE REVIEWED PRESENT AND PAST ROLES OF MIDWESTERN TOWNSHIPS AND NEW ENGLAND COUNTIES.

IN NEW ENGLAND, COUNTIES HAVE PLAYED AND CONTINUE TO PLAY A RELATIVELY INSIGNIFICANT ROLE IN THE DELIVERY OF PUBLIC SERVICES. OVER THE YEARS, FUNCTIONS, REVENUES, AND EXPENDITURES OF MIDWESTERN TOWNSHIPS HAVE DECLINED RELATIVE TO OTHER LOCAL GOVERNMENTS. MANY TOWNSHIPS PROVIDE ONE SERVICE, MAKING THEM MORE LIKE SPECIAL DISTRICTS THAN GENERAL PURPOSE GOVERNMENTS. THE 20 PERCENT MINIMUM GRANT PROVISION OF THE ACT TENDS TO DISPROPORTIONALLY REWARD TOWNSHIPS.

THERE IS SOME EVIDENCE TO SUPPORT A POSITION THAT THE UNILATERAL DISTRIBUTION OF FEDERAL FUNDS TO MIDWESTERN TOWNSHIPS TENDS TO INTERFERE WITH THE GENERAL DECLINE OF THESE UNITS. ON THE OTHER HAND, WE FOUND THAT SOME TOWNSHIPS ARE PROVIDING MANY SERVICES AND HAVE THE CHARACTERISTICS OF SMALL MUNICIPALITIES. WE ARE STUDYING SEVERAL ALTERNATIVES FOR THE

CONGRESS TO CONSIDER IF IT BELIEVES THE ELIGIBILITY OF MIDWESTERN TOWNSHIPS AND NEW ENGLAND COUNTIES SHOULD BE LIMITED. WE EXPECT TO ISSUE OUR REPORT ON THIS REVIEW IN JANUARY 1976.

PRIORITY EXPENDITURES

WE HAVE REPEATEDLY STATED THAT THE BASIC PROBLEM WE HAVE ENCOUNTERED IN ATTEMPTING TO ASSESS THE RESULTS OF REVENUE SHARING IS THE QUESTION OF HOW TO IDENTIFY WHAT HAS ACTUALLY HAPPENED AS A RESULT OF THE PROGRAM. A RECIPIENT GOVERNMENT CAN DESIGNATE HOW IT PLANS TO SPEND ITS REVENUE SHARING FUNDS AND THROUGH ITS ACCOUNTING RECORDS CAN DOCUMENT THAT A SPECIFIED AMOUNT OF REVENUE SHARING WAS EXPENDED AS DESIGNATED. HOWEVER, SUCH BUDGET AND ACCOUNTING DESIGNATIONS MAY NOT IN ANY WAY REFLECT THE ACTUAL IMPACT OF THE FUNDS ON THE GOVERNMENT.

FOR EXAMPLE, IN ITS ACCOUNTING RECORDS A CITY MIGHT DESIGNATE ITS REVENUE SHARING FUNDS AS HAVING BEEN USED TO PAY THE SALARIES OF SANITATION WORKERS. HOWEVER, THE NET EFFECT FROM THIS DESIGNATION COULD WELL BE THAT THE CITY WAS ABLE TO USE ITS OWN FUNDS, WHICH OTHERWISE WOULD HAVE BEEN USED TO PAY THE SALARIES, FOR SOME OTHER PURPOSE SUCH AS THE ACQUISITION OF ROAD MAINTENANCE EQUIPMENT.

TO FULLY ACHIEVE THE OBJECTIVE OF PROVIDING FISCAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS UNDER A PROGRAM WHERE THE USES OF THE FUNDS ARE DETERMINED AT THE STATE AND LOCAL LEVELS, WE SUGGEST THE ELIMINATION OF THE PRIORITY EXPENDITURE CATEGORIES AND MOST OF THE OTHER EXPENDITURE RESTRICTIONS NOW IN THE REVENUE SHARING ACT.

IT SEEMS TO US THAT EXPENDITURE RESTRICTIONS ARE NOT COMPATIBLE WITH THE REVENUE SHARING CONCEPT. FURTHER, AS WE HAVE PREVIOUSLY REPORTED, RESTRICTIONS ON THE DIRECT USES OF REVENUE SHARING FUNDS ARE NOT EFFECTIVE. BECAUSE OF THE WIDE LATITUDE RECIPIENTS HAVE IN USING REVENUE SHARING, THEY CAN ARRANGE TO USE THE FUNDS IN A FASHION AUTHORIZED BY THE ACT AND THEN USE THEIR OWN FUNDS IN THOSE AREAS WHERE COMPLIANCE PROBLEMS MIGHT BE ENCOUNTERED. GIVEN THE REALITIES OF THE SITUATION, WE DOUBT THE NECESSITY OR DESIRABILITY OF RETAINING RESTRICTIONS WHICH OFFER NO ASSURANCE OF ANYTHING SUBSTANTIVE BEING ACCOMPLISHED OTHER THAN PERHAPS MORE BOOKKEEPING DESIGNED TO CREATE THE APPEARANCE OF COMPLIANCE WITH THEM.

SOME HAVE SUGGESTED THAT THE PRIORITY CATEGORIES COULD BE GIVEN MORE MEANING IF THE ENTITLEMENT OF A RECIPIENT WERE REDUCED IF A GOVERNMENT REDUCED EXPENDITURES OF ITS OWN FUNDS IN A PRIORITY CATEGORY IN WHICH REVENUE SHARING WAS SPENT. WE DO NOT FAVOR THIS MAINTENANCE OF EFFORT CONCEPT BECAUSE IT WOULD RESTRICT THE RECIPIENT GOVERNMENT'S ABILITY TO REACT TO CHANGING PRIORITIES. FURTHER, THIS SUGGESTION WOULD MAKE IT DIFFICULT FOR A GOVERNMENT TO DECREASE ITS OVERALL BUDGET. AND IN PERIODS OF INCREASING BUDGETS, THE EFFECT OF THIS SUGGESTION COULD BE MINIMAL.

MR. CHAIRMAN, I BELIEVE THE AREAS WE HAVE DISCUSSED HERE TODAY COVER SOME OF THE MORE IMPORTANT ISSUES THAT SHOULD BE

CONSIDERED IN YOUR RENEWAL DELIBERATIONS. SOME OF THESE ISSUES CONCERN IMPROVED ADMINISTRATION AND EQUITY OF THE PROGRAM. PERHAPS MORE IMPORTANTLY, HOWEVER, I BELIEVE OUR SUGGESTIONS FOR ELIMINATING MOST OF THE EXPENDITURE RESTRICTIONS AND FOR STRENGTHENING THE CIVIL RIGHTS AND CITIZEN PARTICIPATION PROVISIONS WOULD GIVE REVENUE SHARING A CLEAR THREE-FOLD OBJECTIVE OF (1) ALLOWING RECIPIENT GOVERNMENTS TO USE THE FUNDS IN AREAS THEY CONSIDER TO HAVE THE GREATEST NEED, (2) INCREASING PUBLIC AWARENESS OF, AND OPPORTUNITIES FOR CITIZEN PARTICIPATION IN, THE DETERMINATION OF THESE NEEDS, AND (3) ASSURING THAT EVERY CITIZEN HAS AN EQUAL OPPORTUNITY TO BENEFIT FROM THE SERVICES PROVIDED TO FULFILL THESE NEEDS.

MR. CHAIRMAN, THAT CONCLUDES MY PREPARED STATEMENT. MY ASSOCIATES AND I WILL BE HAPPY TO RESPOND TO ANY QUESTIONS YOU MAY HAVE.

SUMMARY OF REVENUE SHARING REVIEWS
COMPLETED AND IN PROCESS AT
OCTOBER 29, 1975

ISSUED REPORTS

Revenue Sharing: Its Use By and Impact on State Governments
(B-146285 dated August 2, 1973)

Revenue Sharing: Its Use By and Impact on Local Governments
(B-146285 dated April 25, 1974)

Revenue Sharing and Local Government Modernization: A
Conference Report (GGD-75-60 dated April 17, 1975)

Case Studies of Revenue Sharing in 26 Local Governments
(GGD-75-77 dated July 21, 1975)

Revenue Sharing: An Opportunity for Improved Public Awareness
of State and Local Government Operations (GGD-76-2 dated
September 9, 1975)

Adjusted Taxes: An Incomplete and Inaccurate Measure for
Revenue Sharing Allocations (GGD-76-12 dated October 28, 1975)

REVIEWS IN PROCESS

Title: Review of Compliance Program of the Office of Revenue Sharing

Results to date: Report will describe number, quality, and effectiveness of compliance audits completed by the Office of Revenue Sharing, State audit groups, CPA firms, and others. The report will assess the meaningfulness of certain restrictions on the use of the funds and the value of auditing for compliance with these restrictions.

Report target date: January 1976

Title: Review of Civil Rights Enforcement Activities of the Office of Revenue Sharing (Review requested by House Committee on the Judiciary)

Results to Date: Report will analyze Office of Revenue Sharing's civil rights enforcement activities showing number, basis, origin, and disposition of cases. The Office of Revenue Sharing's criteria and processes will be compared with those of other agencies.

Report target date: December 1975

Title: Review of Effects of Revenue Sharing on Certain Townships and Counties

Results to date: Functions, revenues, and expenditures of many midwestern townships have decreased relative to other forms of local government. Revenue sharing, as a new source of revenue, may have slowed this trend. Many townships are now performing essentially one function such as road repair or poor relief. These single-purpose townships are more like special districts (which do not receive revenue sharing) than like general purpose governments. Report will probably present several alternatives for the Congress to consider as means of determining which governments should be eligible to receive revenue sharing.

Report target date: January 1976

Title: Review of Revenue Sharing Funds Received by Indian Tribes

Results to date: Report will probably recommend that allocation of revenue sharing funds be made based on tribe's share of State population rather than its share of county area's population. Report will show that requirement that tribes use funds in county from which funds are derived eliminates tribe's ability to use funds for greatest needs, and the requirement does not apply to other forms of local government. Report will recommend that this requirement be eliminated from act.

Report target date: January 1976