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Report to the Congress; by Elmer B. Staats, Comptroller General.

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Title II of the Public Works Employment Act of 1976 established a program to provide State and local governments with antirecession assistance payments. The program sought to reduce the need for these governments to take budgetary actions which would counteract Federal efforts to stimulate economic recovery, such as employee layoffs, tax increases, and reductions in services. Findings/Conclusions: Twelve of the 15 States visited took one or more of these counterproductive actions. Although the effects of antirecession payments could not be conclusively assessed, the following effects were noted: in five States, antirecession funds were used to help balance the budget; in four States, the funds were used to maintain or augment surpluses; in four States, the funds were used to increase the authorized expenditure levels; and in two States, the funds were used to increase the authorized level of expenditures, and remaining funds were retained in surplus. Antirecession funds reportedly had a favorable effect on employment in 11 States. The 13 States receiving payments in November 1976 appropriated essentially all of their first payments within 6 months, as required by the act, and had disbursed over 70%. Most of the States made budgetary adjustments during the recession, but these adjustments were not always attributed to the recession. Increases in expenditures were usually attributed to inflation. "Excess unemployment" was not considered a reliable indicator of a recession's effect, and the Secretary of the Treasury was directed to investigate other data for allocating payments. (HTW)

5470

REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Impact Of Antirecession Assistance On 15 State Governments

This report discusses in detail the impact anti recession assistance had on selected State governments and provides information on the effects of the 1974-75 recession on their operations.

GGD-77-69

FEBRUARY 22, 1978

B-146285

To the President of the Senate and the
Speaker of the House of Representatives

The Federal antirecession assistance program was established to help stabilize the national economy during recessionary periods by helping State and local governments maintain levels of services. A summary report on this subject was issued on July 20, 1977. This report discusses in detail the impact assistance payments had on State budgets and provides information on the effects of the 1974-75 recession on their operations.

This report was prepared pursuant to section 215(a), title II, Public Law 94-369, requiring the Comptroller General to investigate the impact antirecession assistance payments had on State and local government operations. Two other reports dealing with the impact on county and city governments are also being issued today.

We are sending copies of all three reports to the Secretary of the Treasury.

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

IMPACT OF ANTIRECESSION ASSISTANCE ON 15 STATE GOVERNMENTS

D I G E S T

Section 215(a) of the Public Works Employment Act of 1976 (Public Law 94-369) required GAO to investigate the impact antirecession assistance payments had on State and local government operations. On July 20, 1977, GAO issued a summary report on this subject. This report discusses the impact that payments had on 15 State governments as of April 30, 1977. Two other GAO reports issued concurrently describe how the assistance affected 21 city and 16 county governments. GAO is presently assessing the impact that antirecession assistance had on these 52 governments as of October 31, 1977.

The antirecession assistance program was designed to target emergency aid to State and local governments substantially affected by the recession--i.e., experiencing revenue shortfalls or increased demands for services. Its objective is to reduce the occurrence of State and local budgetary actions which counteract Federal efforts to stimulate economic recovery. Counterproductive steps include employee layoffs, tax increases, and reductions in services.

Twelve of the 15 States GAO visited took one or more counterproductive actions. More often than not, however, these actions were attributed to factors other than the recession. Since antirecession funds provide an additional revenue source, they have a favorable impact on the States' operations. GAO found, however, a number of variations in the way antirecession funds were used by the States.

EFFECT OF PAYMENTS ON STATE BUDGETS

GAO could not measure whether or when the funds provided to the 15 States might achieve the program's objective of deterring counterproductive steps. The interchangeable nature of moneys, shifting priorities and needs, changing revenue amounts from various sources, and the relatively small contribution antirecession payments made to the States' resources impaired analysis of the actual effect on State budgets.

Although these factors precluded any conclusive assessment, GAO found the following effects:

--Five States' revenue collections were falling short of meeting expenditures. Antirecession funds were used to help balance the budget and possibly avoid counterproductive steps.

--Four States were collecting sufficient revenues to meet budgeted expenditures and expenditure levels were not increased. In effect, antirecession funds were used to maintain or augment surpluses. Consequently, little or no impact will occur until subsequent fiscal periods.

--Four States were collecting enough revenues to meet budgeted expenditures, and antirecession funds were used to increase authorized expenditure levels. It is very difficult to gage exactly what would have occurred without the funds, because the States may have funded the expenditures by using surpluses or by taking counterproductive actions, or they may not have made these expenditures.

--Two States were collecting sufficient revenues to meet budgeted expenditures and part of the antirecession funds were used to increase the authorized level of expenditures. The remaining funds were retained in surplus. As indicated above the funds retained in surplus will have little or no impact until subsequent fiscal periods. Also, it is difficult to gage what action the States would have taken without the funds used to increase expenditures.

Antirecession funds reportedly had a favorable effect on employment in 11 States. New hires and rehires were reported and layoffs were prevented in several States. Some funds were also substituted to pay for positions normally funded by other revenues.

These are reported uses as shown in financial records or as described to GAO. Because of the interchangeable nature of State resources, however, these reported uses may have little or no relation to their actual impact.

STATUS OF ANTIRECESSION FUNDS

The act requires that the funds be spent within 6 months of receipt. Department of the Treasury regulations interpret this requirement to mean that the funds must be appropriated. The 13 States receiving payments in November 1976 appropriated essentially all of their first payments within 6 months and had disbursed over 70 percent. (See p. 17.)

EFFECTS OF THE RECESSION ON STATE BUDGETS

National economic conditions have affected some States' capability to raise adequate revenues to meet increasing expenditures without taking budgetary actions which undermine Federal efforts to stimulate the economy. Most of the States GAO visited made one or more budgetary adjustments during the recessionary period. In four States these adjustments were directly attributed to the recession. The adjustments made by several other States, however, were attributed to factors such as reorganizations, programmatic changes, inflation, and to offset tax relief.

All States experienced an increase in expenditures as well as an increased demand for recession-related services. The increases in expenditures, however, were attributed by most States to inflation rather than the increased demand for recession-related services.

Fourteen of the 15 States visited were able to handle the increased demand for services although several States did make some budgetary adjustments. In New Jersey, however, funding levels were not keeping pace with rising demands for services and many of the State's needs were not being met.

Intergovernmental revenues as a percentage of State funds remained about the same from 1972 through 1975. Most of the States expressed concern about Federal funding of certain programs. As Federal funding decreases, the States must either increase State funding or reduce or eliminate programs.

"EXCESS UNEMPLOYMENT" NOT A RELIABLE MEASURE OF STATES' NEEDS

"Excess unemployment," as defined in current legislation, is not a reliable indicator of a recession's effect on governments and has resulted in some anomalies. Some States with high unemployment were in good financial condition but received large antirecession payments. Conversely, some States with low unemployment experienced financial difficulty, took actions that countered Federal efforts to stimulate the economy, but received less per capita antirecession assistance.

This problem was recognized by the Congress, which enacted Public Law 95-30, extending the program until September 30, 1978. The Secretary of the Treasury was directed to investigate other data for allocating payments which may be better measures of true economic conditions. Results are due to the Congress by March 1, 1978. GAO concluded in its summary report on antirecession assistance that a better distribution formula would make the program more effective. GAO discussed certain alternative "triggering" and distribution statistics in its November 29, 1977, report to the Congress entitled "Antirecession Assistance--An Evaluation," PAD-78-20.

GAO discussed this report with representatives of the National Governors' Association and the Office of Revenue Sharing and considered their comments in its final preparation.

Contents

CHAPTER 1

INTRODUCTION

Title II of the Public Works Employment Act of 1976, Public Law 94-369, established a program to provide State and local governments with antirecession assistance payments. Title II was to provide a means for strengthening the Federal Government's ability to stabilize the national economy by promoting greater coordination, during times of economic downturn, between national economic policy--as articulated at the Federal level--and budgetary actions of State and local governments.

To accomplish this goal, title II was to provide emergency Federal financial assistance to State and local governments hard hit by recessionary pressures to reduce the need for these governments to take budgetary actions which run counter to Federal efforts to stimulate speedier economic recovery. The assistance was designed to

--go quickly into the economy, with as little administrative delay as possible;

--be selectively targeted, by means of a formula, to go to only those governments substantially affected by the recession; and

--phase itself out as the economy improves.

A fundamental premise underlying title II was that the amount and quality of government services at the State and local levels should not be determined by national economic conditions over which State and local governments have no control.

Recipient governments were expected to use antirecession assistance payments to maintain basic services customarily provided by their jurisdictions.

Initially, the Congress authorized $1.25 billion to be paid State and local governments for the five quarters ending September 30, 1977. Public Law 95-30 renewed the program for an additional year, raised the authorized level by $2.25 billion, and extended the program through September 30, 1978. As of April 7, 1977, $1.18 billion was paid to recipient governments.

The Office of Revenue Sharing, Department of the Treasury, is responsible for administering the antirecession program, including distributing funds to State and local governments; establishing overall regulations for the program; and providing such accounting and auditing procedures, evaluations, and reviews as necessary to insure that recipient governments comply fully with the law.

METHOD AND BASIS FOR ALLOCATING FUNDS

Moneys are authorized to be paid out under the anti-recession program as long as the national unemployment rate exceeds 6 percent. 1/ Specifically, section 202(d) of title II states that

> "No amount is authorized to be appropriated * * *for any calendar quarter if (1) the average rate of national unemployment during the most recent calendar quarter which ended three months before the beginning of such calendar quarter did not exceed 6 percent, or (2) the rate of national unemployment for the last month of the most recent calendar quarter which ended three months before the beginning of such calendar quarter did not exceed 6 percent."

One-third of the available funds are distributed to State governments and two-thirds to locals. Individual amounts are based on assigned unemployment rates and revenue sharing amounts. Unemployment rates are used as a measure of how severely the recession affected a particular government and the revenue sharing amount is used to measure the size of the jurisdiction. No government receives funds if its unemployment rate is below 4.5 percent, or if its computed allocation is less than $100 for a quarter. For the first four quarters beginning July 1, 1976, $394 million were distributed to State governments throughout the United States.

SCOPE OF REVIEW

Several major factors which affect State and local government budgets were evident during 1974-75. Recession reached its depth. Unemployment rose in 1975 to the highest levels since 1941. Inflation soared. Major population shifts continued.

In addition, governments' priorities and needs have changed as have revenues from other sources. Also,

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1/ Appendix I lists the 1976 average unemployment rates for the 15 States reviewed.

revenues a government receives often can be used interchangeably.

The interaction of the above factors made it difficult, if not impossible, to isolate and measure the specific effect or impact of any one economic factor or one type of Federal aid on a government's operations. However, to assist the Congress in determining the effectiveness of the antirecession program in meeting its stated objectives, we

--evaluated, to the extent practicable, the impact of antirecession assistance on the operations of 15 selected States and

--evaluated whether the States were adversely affected by 1974-75 recessionary problems by examining trends in the States' financial conditions from 1972 through 1976, by discussing with officials what they perceived to be the major factors influencing their fiscal health, and by eliciting from them the rationale employed in making budgetary adjustments.

We selected 10 States at random and chose an additional 5 to provide a geographical distribution across the country and a wide range of unemployment rates. The States were:

Alabama	Maryland
California	Michigan
Colorado	Missouri
Connecticut	New Jersey
Florida	New York
Iowa	Oklahoma
Louisiana	Virginia
	Washington

Comments were requested and received from the Department of the Treasury and the National Governors' Association. These comments were considered, and changes were made or data added where considered necessary.

In addition to this report, we are issuing two other reports concurrently (GGD-77-60 and GGD-77-70) which describe how the program affected 16 county and 21 city governments. Our overall observations based on the information contained in these three reports were summarized in a report to the Congress on July 20, 1977 (GGD-77-76). A future report will describe the impact that antirecession assistance had on these 52 governments as of October 31, 1977.

CHAPTER 2

EFFECTS OF THE RECESSION ON STATE BUDGETS

The principal objective of title II is to selectively target Federal assistance to those governments substantially affected by the recession, and thereby reduce the need for these governments to take budgetary actions which run counter to Federal efforts to stimulate the economy. The antirecession assistance program was proposed because national economic problems were thought to have imposed considerable hardships on State and local government budgets, particularly revenue shortfalls and increased demand for certain services due to the recession. Also, because of recession-related difficulties, some governments were being forced to take budgetary actions, such as tax increases, layoffs, and cuts in basic services, all of which can undermine Federal efforts to stimulate the economy.

Although all 15 States felt some effects of the recession, many were not forced by the recession to take budgetary actions as referred to above. A synopsis of each State government's financial condition is included in appendix III. Unless otherwise specified the data in appendix III is fiscal year data.

Ten of the 15 States studied indicated their major tax bases were sensitive to recession, and all but 1 of the 10 either raised major taxes, 1/ laid off employees, or reduced basic services during fiscal years 1974-76. In all, 12 of the 15 States we visited made at least one such adjustment. Six raised major taxes, 10 laid off employees, and 1 cut basic services. The 10 States with recession-sensitive tax bases made 14 of the 17 adjustments. Quite frequently, however, the adjustments were made for reasons other than the recession.

Officials in all 15 States agreed the recession created increased demand for certain services, but most States indicated inflation rather than recession as the primary cause of increased levels of expenditures.

1/ A listing of other changes and adjustments to the States' taxes is shown in appendix II.

RECESSION-SENSITIVE TAXES HAVE PROMPTED SOME BUDGETARY ADJUSTMENTS

The major revenue generating taxes in the 10 States having recession-sensitive taxes generally consisted of sales and/or income taxes. Although revenues from sales and income taxes for these 10 States generally rose during the recessionary period, the rates of increase tended to decline. One of the 10 States experienced a drop in revenue from sales and income taxes between 1973 and 1974, and two States experienced decreases between 1974 and 1975. In discussing the sensitivity of sales and income taxes, officials from several States explained that as unemployment increases, income declines, causing revenues from income taxes to decline as well as reducing revenues from sales taxes due to reduced spending levels.

The 10 States with recession-sensitive major taxes made 14 budgetary adjustments during the recession:

--5 increased major taxes.

--8 laid off employees.

--1 cut basic services.

Seven of these adjustments were attributed to factors such as reorganizations, programmatic changes, inflation in construction costs, and to offset tax relief. One adjustment was attributed to a combination of factors including the recession.

The remaining six adjustments, made by three States, were attributed directly to the recession.

--in 1975 Connecticut raised its sales tax rates from 6 percent to 7 percent and during the recessionary period, laid off 500 employees to eliminate projected budget deficits. The sales tax rate had been lowered in fiscal year 1974 from 7 percent to 6 percent but the recession's effect on revenues forced the tax rate back to 1973 levels.

--New York laid off employees in all areas except State police, nurses, corrections, and drug-related agencies, to help eliminate operating deficits. Furthermore, a personal income tax surcharge of 2.5 percent was imposed in 1975 and 1976. Corporate tax rates were also increased in 1975 from 9 to 10 percent and a 1-year, 20-percent surcharge was imposed on business tax liability.

These taxes were raised to meet increased recession-related expenditures.

--New Jersey raised the corporate business tax in 1975 from 5-1/2 percent to 7-1/2 percent to compensate for revenues declining because of the recession. New Jersey also cut basic services. (See p. 43.)

--The State of Florida laid off 790 employees mostly due to reorganizations and grant expirations, although the recession was also a factor. State officials said that most of the employees were reemployed in other State agencies.

Five States attributed their adjustments to other factors.

--Michigan laid off employees because of a reorganization of its liquor stores' operations and State efforts to control the size of individual departments. In 1975 it raised its income tax from 3.9 percent to 4.6 percent to compensate for repeal of the sales tax on take-home food and drugs.

--California raised its sales tax from 5 percent to 6 percent in April 1974 to finance local school district operations. It also raised bank and corporate taxes from 7.6 percent to 9.0 percent in fiscal year 1974 in order to offset State action providing property tax relief to homeowners. Furthermore, the State laid off about 2,000 employees in the highway functions because of increased highway construction costs, reduced funds from gasoline sales tax due to higher gasoline prices, and completion of most State highways.

--Maryland laid off 100 employees mostly due to programmatic changes. These employees were placed in other positions when possible.

--Virginia laid off some employees although the layoffs were no more significant than normal.

--Alabama laid off about 266 employees during the recessionary period. Most of these were highway employees laid off because of declining Federal highway programs in the State and the inability of State revenues to keep pace with the rapidly rising operating costs for highway activities.

One State--Colorado--did not raise taxes, lay off employees, or cut basic services.

The remaining five States indicated that their major taxes were generally not sensitive to the recession. Four--Iowa, Oklahoma, Louisiana, and Missouri--believed that the effects of the recession were limited because the States' economies were at least partially oriented toward agriculture and/or natural resources. In the State of Washington, an official cited the application of a sales tax to items such as food, rising levels of employment and personal income, and the impact of inflation on State revenues as reasons for the insensitivity of its major taxes.

Three of the above five States made budget adjustments. Missouri laid off 100 probationary employees in 1975 when the State was experiencing the worst effects of the recession. Officials said some of these employees were rehired in 1976. In 1974 Louisiana changed its method of assessment on oil and increased its severance tax (tax on natural resources) rate because its resources are being gradually depleted. Washington laid off employees because they wished to control the size of the State bureaucracy. Also, highway employment was reduced as construction funds declined and projects were completed.

Not all budgetary adjustments made during fiscal years 1974 through 1976 were counter to Federal stimulative efforts. Connecticut, as mentioned previously, lowered its sales tax rate from 7 to 6 percent in 1974. California instituted a 20- to 35-percent personal income tax rebate in 1974. In 1975, Iowa provided property tax credits to taxpayers and exempted food and drugs from the sales tax.

INTERGOVERNMENTAL REVENUES HAD VARIED EFFECTS ON STATE OPERATIONS

Intergovernmental revenues represent a significant portion of State resources. The amount of these revenues provided to States increased each year from 1972 through 1975. Intergovernmental revenues as a percentage of total State revenues remained about the same from 1972 through 1975, ranging from 18 to 31 percent, and averaging about 25 percent.

While total intergovernmental revenues for each State varied no more than 5 percent during this period, officials from 10 States indicated changes in levels of Federal funding for individual programs generally caused them to either increase State funding or reduce or eliminate the program. The States often felt required to assume the costs of certain programs when Federal funding decreased.

For example:

--In Iowa, the Federal government has reduced grants for education and research by $2 million to $[illegible] million, resulting in similar increased costs to the State.

--Connecticut incurred $2 million in additional costs to maintain the jobs of employees hired under the Comprehensive Employment and Training Act program. State officials told us some Training Act employees had to be picked up because the State felt morally required to continue their employment.

--Oklahoma hired 150 probation and parole officers with Federal assistance. Federal funding for the program ceased in 1977, and the State had to replace $1.5 million of Federal funds in order to continue the program.

--In Washington, some programs were eliminated when Federal funds ceased to support the programs. More often, however, Federal programs developed their own constituents, and the State was under pressure to continue program support with its own funds.

--Alabama had to reduce highway employment because Federal funding was cut and State revenues earmarked for highways were insufficient to keep up with rising operating costs.

It should be noted that the States generally had a choice in involvement in these programs. In this regard, at least two States, Iowa and Washington, have indicated they intend to look closely at any new Federal programs before they accept any future funding.

RECESSION WAS A FACTOR, BUT INFLATION WAS THE MAJOR CAUSE FOR EXPENDITURE INCREASES

Expenditures in the 15 States we visited increased from $54.1 billion in 1973 to $68.9 billion in 1975, or about 27 percent, while revenues increased from $57.2 billion to $66.5 billion, or about 16 percent. State officials said that although the recession increased the demand for certain services, inflation was the major cause for the increase in expenditures. For example:

--Colorado officials said inflation, especially in personnel costs, had been the main cause for the increase in the level of expenditures. Seventy percent of the fiscal year 1978 budget increase was attributed to inflation.

--Louisiana's State budget had increased by almost $1 billion since 1972, and the State Budget Director attributed 70 percent of the increase to inflation.

--Maryland officials told us inflation had a greater impact on expenditures than recession. One official stated inflation had a catastrophic effect on Maryland expenditures for education, medical assistance, and employee fringe benefits.

--Iowa officials said that inflation, primarily due to wage and salary cost increases, had more of an impact than a recession-related loss of revenues.

--In Virginia, the impact of inflation on expenditures was severe. Officials told us that the skyrocketing costs of fuels, postage, food, and utilities necessitated a $15 million supplemental appropriation between 1974 and 1976. Inflation also escalated State employee salaries and fringe benefits.

Most State officials indicated demand for services increased in the areas of

--unemployment compensation,

--public assistance programs such as welfare and food stamps,

--corrections, and

--education.

However, neither inflation nor recession apparently precluded States from meeting recession-related demands for increased services. All States except New Jersey said they were able to adequately handle increased demand although some adjustments were necessary. New Jersey's Controller informed us that the State is unable to handle recession-related problems without financial support from the Federal Government. Funding levels have not kept pace with rising demands for services and many of the State's needs are not being met.

Three States also reduced certain aid to local governments as a result of a revenue shortfall.

--New Jersey stopped the distribution of sales and inheritance taxes to local governments.

--Virginia reduced aid to local governments by about $20 million.

--New York reduced its support to local governments for halfway houses and mental hygiene programs.

Four other States made expenditure reductions in some programs, but officials said State services were generally maintained. Maryland's Governor established a program in 1975 to improve the management of State operations. The program included (1) efforts to increase worker productivity so that basic services would not be affected by work force reduction through attrition; (2) limitations on overtime, training, and travel to conferences, workshops, and seminars; (3) postponement of equipment replacement; and (4) restrictions on the use of consultants.

Washington officials, while noting that the effect of the recession on services is difficult to ascertain, told us that basic services had probably not been affected. They explained that some frills had been removed and that worker productivity may have increased.

Florida officials stated that the recession had caused reduced expenditures from the General Revenue Fund averaging 4.7 percent ($119.6 million) in 1975 and 2 percent ($44.6 million) in 1976. Also, in 1975, the State used the Working Capital Fund balance of $105.1 million and eliminated a previously anticipated surplus of $7.6 million. Officials believed the reductions had not resulted in major deterioration of State services, but represented a healthy purging of a budget that had grown 60 percent between 1972 and 1975.

An official in the State of Michigan said the Governor issued an executive order in the spring of 1976 revising program priorities and reducing planned expenditures by $123.7 million. Also, the fiscal year was extended 3 months to capture additional revenues, and loans were obtained from other State funds. These actions actually resulted in a surplus of $28.3 million in the General Fund-General Purpose budget for 1975-1976. Further, the State balanced its budget without necessitating tax increases and without adversely affecting basic services.

USE OF UNEMPLOYMENT RATES TO DISTRIBUTE ASSISTANCE RESULTS IN SOME ANOMALIES

Officials for 13 of the 15 States said there was a correlation between unemployment rates and financial problems. As unemployment rates increase, States experience a reduced revenue base at the same time there is an increased demand for public services. Reduced revenues result from the loss of income taxes due to reduced employment and loss of sales and business taxes due to reduced economic activity. Simultaneously, there is an increased demand for services in such areas as welfare, unemployment, education, and corrections.

Despite the relationship of unemployment rates to the impact of recession, and the fact that States with high unemployment made more budgetary adjustments than States with lower unemployment, antirecession assistance funds were not always effectively channeled to States with the greatest recession-related needs.

For example, California had an average unemployment rate of 9.5 percent, received an average of $3.06 per capita for the four quarters ending June 1977, but appeared much less affected by the recession than Virginia, which received an average per capita allocation of $0.51, and had an average unemployment rate of 5.5 percent. Despite its high unemployment, California was not forced by the recession to raise taxes, cut expenditures or basic services, lay off employees, spend surpluses, or take other adverse actions. The State's revenues have increased in recent years by $1 billion to $2 billion annually. While expenditures have also increased, the general fund surplus has exceeded $0.5 billion since 1972. Budgetary actions, including a 20- to 35-percent income tax rebate, have been taken during the recession to use some of the surplus. In fiscal year 1976, the State reported an $832 million surplus.

Virginia, on the other hand, anticipated a deficit of about $82 million for the 1977 fiscal year. The State's financial condition is viewed by the budget director as a short-term problem attributable to slow economic recovery from the recession. In response to this deficit, the State was forced to make several budgetary adjustments, including expenditure cuts and surplus fund reductions.

Other States can be contrasted in similar fashion. Washington, which had an average unemployment rate of 8.8 percent, received about $2.21 per capita, compared to $1.14

for Maryland, whose unemployment rate averaged about 6.4 percent. Washington made no adverse budgetary adjustments which were attributed to the recession, projected a surplus without antirecession funds, and is using the payments in current fiscal year 1977 to increase the size of this surplus. Although Maryland's unemployment rate is lower than the national average, the State is recovering from the recession more slowly than the Nation as a whole, and the Governor has proposed tax increases to balance the fiscal year 1978 budget.

Officials in both California and Washington cited chronic problems which tend to keep unemployment rates high and bear little relation to the recession. In California, chronic factors influencing unemployment include (1) seasonal industries, such as agriculture, (2) immigration to the State, and (3) a high labor force participation rate, especially among youths, women, and older residents. An official in Washington cited seasonal and aerospace unemployment as the State's principal chronic economic problems. This situation will not be alleviated, in his opinion, until the State's economy becomes more diversified.

Accordingly, we believe "excess unemployment," as defined in the current legislation is not a reliable indicator of the recession's impact. We recognize, however, that sufficient analysis has not been made to identify more precise indicators. We discuss alternative "triggering" and distribution statistics in our November 29, 1977, report to the Congress entitled "Antirecession Assistance--An Evaluation," PAD-78-20.

This problem was recognized by the Congress in enacting Public Law 95-30, which extended the program until September 30, 1978. The Secretary of the Treasury was directed to investigate the extent to which funds could be allocated according to better measures of true economic conditions. The results are due by March 1, 1978. Our findings discussed in this report confirm the necessity of such a study. An improved formula for distribution is essential for the antirecession program to more effectively meet its objectives.

CONCLUSIONS

National economic conditions have caused some States to take budgetary actions which undermine Federal efforts to stimulate the economy. Many budgetary actions taken by the States we visited, however, were attributed to factors other than the recession. Six of the 15 States we visited raised major taxes and 10 laid off employees. Of these actions, three tax increases and three incidences of layoffs were attributed to the recession, primarily by three States--Connecticut, New Jersey, and New York--whose major tax bases were sensitive to recessionary pressures.

The remaining budgetary adjustments were taken for a variety of reasons, such as

--inflated highway construction costs,

--establishment of new programs,

--maintenance of revenue from dwindling natural resources,

--reorganizations,

--control of bureaucracy size, and

--financing local school district operations.

Recession increased the demand for certain basic services in all the States we visited, but officials in most States attributed expenditure increases primarily to inflation. Basic services were reduced because of national economic problems in 1 State, but the remaining 14 experienced no material deterioration of services.

Officials of 13 States believed that there was a direct relationship between the unemployment rate and their State's financial condition. However, distribution of program funds on the basis of unemployment rates resulted in some anomalies and did not always differentiate between various degrees of fiscal stress. Some States which took no budgetary actions because of recession received higher antirecession payments per capita than States more seriously affected by recession. Accordingly, we believe "excess unemployment" as defined in the current legislation is not a reliable indicator of the recession's impact.

CHAPTER 3

IMPACT OF ANTIRECESSION ASSISTANCE

ON STATE OPERATIONS

Because antirecession assistance represents an addition to total available revenues, the funds will have a favorable impact on State operations. Attempts to measure the actual effect as well as when the impact will occur, are impaired by the interchangeable nature of moneys, shifting needs and priorities, changing amounts from other revenue sources, and the relatively small contribution antirecession assistance makes to the total State resources--less than 1 percent of 1975 general revenues for each of the 15 States we visited. Although these limitations preclude any conclusive evaluation of the impact of antirecession payments the funds will probably fill a budgetary void for some States, increase the level of expenditures in others, and help some increase or maintain surpluses for fiscal year 1977.

As of February 28, 1977, 16 percent of the $184 million in antirecession assistance available to the 15 States we visited had been disbursed, and an additional 24 percent had been appropriated. The funds were being allocated for expenditure in several functional areas, with over 50 percent of the appropriated funds being used to fund debt interest and expenditures in State correctional programs.

Although 11 States plan to use some portion of the funds for salaries, 3 of these States will substitute the funds to pay for positions which would have been funded from other sources. Some layoffs may have been prevented in three States, new employment was anticipated in four, and some employees previously laid off will be rehired in another.

IMPACT OF ANTIRECESSION ASSISTANCE IS NOT READILY IDENTIFIABLE

A recipient government can identify the amount of antirecession assistance funds received, as well as the amounts and sources of all other revenues. However, once funds from different sources are commingled, it is impossible to identify the dollars that fund a single expenditure category or specific item. Antirecession assistance, revenue sharing, Federal categorical aid, and a State government's own revenues are frequently used interchangeably to provide the same service.

The way the State of Missouri handled its antirecession assistance funds demonstrates their interchangeable nature. The antirecession assistance funds were recorded in a separate administrative fund, but commingled with general revenue funds. State officials reported that they planned to use the antirecession assistance funds to maintain nursing care under the State's Aged, Blind, and Disabled Program. Although the antirecession assistance is being used to fund this program's increased caseload, State officials said the funds for this program would have come from general revenue if antirecession funds had not been available.

In addition to the evaluation problems related to the interchangeable nature of funds, difficulties in analyzing the impact of specific funds arise when they are used to displace previously budgeted funds. If a government uses its antirecession assistance payments for previously budgeted items which were to be funded from other revenue sources, the funds freed may be used in other program areas to increase expenditures or compensate for revenue shortfalls, or to increase yearend surplus fund balances. For example, Washington plans to use its antirecession assistance funds to pay previously obligated interest on public debt. The freed funds are being retained as an unappropriated reserve.

Reported uses of antirecession assistance

The uses of antirecession assistance described here are those reflected by the governments' financial records or described to us. As previously discussed here and pointed out in our earlier reports 1/ on the revenue sharing program, the uses of the funds as reflected in the financial records are solely accounting designations and may have little or no relation to the ultimate use or impact of the funds.

For the first three calendar quarters of the antirecession assistance program, the 15 states we visited received about $183 million. Most States received their first payment, which covered the first two quarters, in

1/ "Revenue Sharing: Its Use by and Impact on State Governments," B-146285, Aug. 2, 1973; "Revenue Sharing: Its Use By And Impact on Local Governments," B-146285, Apr. 25, 1974; "Case Studies of Revenue Sharing in 26 Local Governments," GGD-75-77, July 21, 1975; and "Revenue Sharing: An Opportunity for Improved Public Awareness of State and Local Government Operations," GGD-76-2, Sept. 9, 1975.

November 1976. Connecticut and Oklahoma, however, received their first payment in December 1976 and January 1977, respectively. Each State received its third quarter payment in January 1977, and the fourth quarter payment was made in April 1977. As of February 28, 1977

--5 States had appropriated and disbursed some of the funds,

--2 States had appropriated but not disbursed any of the funds, and

--8 States had not appropriated or disbursed any of the funds.

The following table summarizes the status of the antirecession assistance funds recieved by the 15 States for the first three quarters.

Status of Antirecession Assistance Payments In 15 Selected States as of February 28, 1977

	Amount	Percent of total available
	(000 omitted)	
Funds received	$182,951	99.5
Interest earned	1,001	0.5
Total available	$183,952	100.0
Disbursed	$29,491	16.0
Appropriated but not disbursed	44,087	24.0
Appropriated	73,578	40.0
Unappropriated	110,374	60.0
Total available	$183,952	100.0

The Public Works Employment Act of 1976 requires that the funds be spent within 6 months of receipt. Department of the Treasury regulations interpret this requirement to mean appropriated. The 13 States we visited which had received payments totaling $108.1 million in November 1976 appropriated most of these funds within 6 months. As shown in the following table 70.5 percent of those funds had been disbursed and another 25.9 percent obligated within the 6-month period.

Accounting Status of First Antirecession Assistance Payments Received in November 1976 as of May 31, 1977 (note a)

	Amount (000 omitted)	Percent of total available
Funds Received	$108,138	99.2
Interest earned	844	0.8
Total available	$108,982	100.0
Disbursed	76,839	70.5
Obligated	28,246	25.9
Unobligated	2,460	2.3
Unappropriated	1,437	1.3
Total available	$108,982	100.0

a/ Estimated as of May 9, 1977.

As shown in the following table, the States which had appropriated some or all of their first three antirecession assistance payments as of February 28, 1977, reported using the funds for a wide variety of activities.

Use of Antirecession Funds by Function of

15 Selected State Governments

as of February 28, 1977

Function	Number of governments	Amount disbursed	Amount appropriated but not disbursed	Total appropriated
Education	2	$ 1,370,187	$ 85,271	$ 1,455,458
Public welfare	2	121,982	6,979,905	7,101,887
Health	2	3,329,310	5,818,626	9,147,936
Police protection	1	-	6,500,000	6,500,000
Natural resources	1	39,621	1,087,132	1,126,753
Corrections	3	4,832,328	12,182,479	17,014,807
Financial administration	1	100,000	-	100,000
General control	2	676,999	108,001	785,000
Debt interest	2	19,020,695	6,680,485	25,701,180
Other	1		4,645,000	4,645,000
Total		$29,491,122	$44,086,899	$73,578,021

As of February 28, 1977, $110 million had not been appropriated. State officials, however, indicated they had definite plans for using most of these funds. The specific amounts, by function, were indeterminable because many States combined their first three quarters antirecession payments with anticipated future payments in developing their plans. Although specific amounts could not be identified, it did appear the major functions receiving funds would be the social service programs and public safety and corrections.

Reported impact of antirecession assistance

In conjunction with our efforts to evaluate the impact of the antirecession assistance, we discussed with State officials how the current-year budgets would be modified to include these funds and what they felt the impact would be on the States' financial conditions and public employment. We found that

--5 States used the funds to fill a gap between actual revenue collections and budgeted projections;

--4 States used the funds to increase the authorized levels of expenditures;

--4 States were collecting sufficient revenues to meet budgeted expenditures and used the funds to displace other revenues which were then held as unappropriated reserves, or were not to be used until the following year; and

--2 States used part of the funds to increase current-year expenditures and retained the balance of the funds as reserves for use in the next fiscal year.

Officials of 11 States indicated that some or all of the funds would be used to support personnel costs, either to prevent layoffs, supplement salaries of existing personnel, rehire employees previously laid off, or to fund new positons.

Five States used their antirecession assistance funds to fill a gap between actual revenue collections and budgeted projections. Because of a lull in sales tax collections and inconsistancies between revenue estimating and collection procedures, Florida officials expected fiscal year 1977 revenues to fall $22 million short of projections. In January 1977, the State appropriated the antirecession funds it had received in order to maintain the originally budgeted service level of the Department of Offender Rehabilitation.

Projections in early 1977 indicated that Michigan's expenditures would have exceeded revenues if the State had not received antirecession assistance. In January 1977, the legislature appropriated the funds for its general fund debt service and had spent about $19 million of the money by February 28, 1977. We were subsequently advised in October 1977, that Michigan reappropriated its antirecession funds for mental health programs.

In January 1977, New York revenues were predicted to fall $75 million short of budgeted levels for fiscal year 1977. A State official told us the antirecession assistance reduced New York's need to raise additional revenue through tax anticipation notes.

We were told Virginia's anticipated revenues were falling short of projections for fiscal year 1977 and that the antirecession assistance would help reduce this shortage. The State's antirecession assistance will be designated to meet existing appropriations for corrections.

Fiscal year 1977 revenue estimates made by Colorado officials in early 1976 were revised downward by about $18 million in December 1976. In May 1977, the Governor allocated the State's antirecession assistance for use in offsetting some of this shortfall, and officials indicated this would probably prevent some layoffs and help continue current State services and operations.

Four States used all of their antirecession assistance funds to finance activities or programs which were not included in the current year's budgets. This increased the authorized levels of expenditures, either through the provision of new or expanded services, or by funding unbudgeted increased costs in established or legally mandated programs.

California created 1,365 public service jobs primarily to provide services to the developmentally disabled. State officials noted the jobs would not have been provided without the antirecession assistance funds. Connecticut transferred most of its funds from the first three antirecession assistance payments to local governments, but also allocated about $1.6 million to expand a home winterization program. Alabama increased the authorized level of expenditures for medicaid services and the salaries and fringe benefits of corrections personnel. Iowa obligated its antirecession assistance for use as medicaid matching funds because the original appropriation was insufficient.

Four of the States we visited were collecting sufficient revenues to meet budgeted expenditures and did not use their antirecession assistance to increase their current-year budgets. Two States used the assistance to displace State funds and increase unappropriated reserves, and the other two States planned to budget the funds in the next fiscal year.

The first antirecession assistance payment received by Washington was appropriated to pay interest on the State's public debt, and the Governor has proposed using subsequent payments for the same purpose. The State had budgeted for the debt expense prior to receiving the funds, and an official told us the effect of the antirecession assistance has been to increase the surplus funds available to finance State activities in the next fiscal biennium.

Antirecession assistance funds received by Missouri in November 1976, were used to finance a nursing care program. State officials agreed that if antirecession funds were not available the program would have been funded from general revenue. The freed funds are being held as a reserve.

Louisiana did not use its antirecession assistance in fiscal year 1977, but the fiscal year 1978 budget proposes that the funds be used to hire about 900 employees to comply with a Federal court order requiring the State to upgrade its correctional institutions. Louisiana's budget director noted that if antirecession funds were not available, the State would have funded these positions by cutting budget appropriations in social service programs.

Oklahoma plans to appropriate its antirecession assistance funds for use in fiscal year 1978. The funds will be used for personal services and supplies in the Departments of Health, Mental Health, and Transportation.

Two States planned to fund current-year expenditures with part of their antirecession assistance funds and to use some of the funds in future fiscal years.

--Upon the legislature's approval of the Governor's proposal, Maryland will use its antirecession assistance to fund 755 positions for 3 months in the current fiscal year (189 full-time equivalent positions), and 175 positions during fiscal year 1978. Of the 755 positions, 67 represent an increase in the employment level--23 vacant and 44 new positions.

--New Jersey appropriated most of its antirecession assistance for programs which were cut back in balancing the fiscal year 1977 budget. These funds helped pay fiscal year 1977 salaries for 879 full-time public service employees and utility costs. The State has included the balance of its antirecession assistance funds in its proposed fiscal year 1978 budget.

Eleven States, including Maryland and New Jersey which are discussed above, have used or plan to use antirecession assistance funds to support personnel costs. Expenditures will be to prevent layoffs, fund new positions, rehire previously laid off employees, or supplement salaries for current positions.

--Florida used its antirecession assistance to help pay salaries for about 5,500 full-time employees. State officials indicated the funds may have prevented some layoffs.

--Virginia planned to use some of its antirecession assistance to pay salaries for staff members in the Department of Corrections. Officials indicated some staff members might have been laid off if the State had not received the funds.

--California has hired 1,365 persons with its antirecession assistance, primarily as part of a project to provide services for the developmentally disabled. Without these funds the State would not have undertaken the project.

--Connecticut planned to hire and train 130 carpenters to expand its home winterization program, and may hire 270 additional employees later.

--Louisiana planned to hire 900 corrections employees in fiscal year 1978 to comply with a Federal court order.

--Colorado planned to hire 19 new employees and reinstate four others with its antirecession assistance. By executive order, Colorado's Governor required the funds be used to prevent layoffs and maintain normal service levels.

--Alabama used $500,000 of its antirecession assistance to pay about 1 month's salary for 400 to 500 corrections employees already on the

State's payroll.

--New York and Oklahoma plan to use their antirecession assistance to finance agency operations, including salaries and wages.

CONCLUSION

Since antirecession funds represent an additional revenue source they should have a favorable impact on the States' operations. Attempts to gage the effect of the funds, as well as assess when such impact will occur, however, are impaired by the interchangeable nature of moneys variances in when and how the funds are spent, and the relatively small contribution antirecession payments make to the total resources of the States. Although these limitations precluded any objective assessment of the impact of antirecession payments, our analysis and discussions with officials revealed that antirecession payments most likely will

--compensate for a current year revenue gap in five States;

--increase current year expenditures in six States; and

--help four States maintain or increase surpluses in the current year.

The antirecession funds appeared to relieve some States from making budgetary adjustments in the current year, while other States would probably have financed programs with other available funds. To this extent, it is difficult to even subjectively gage the actual impact of antirecession funds since we can only speculate what States would have done without them. Antirecession funds helped the remaining States maintain or increase surplus. Consequently, little or no impact was felt in the current fiscal year, but will rather occur in subsequent fiscal periods.

Because the above-listed limitations severely limited the analysis of the actual impact of antirecession funds, the effect on State employment was difficult to assess. Most States plan to use some or all of the funds for salaries, but some will substitute the payments for positions normally funded by other revenues. While in some cases, layoffs may have been prevented, most States reported little new employment.

UNEMPLOYMENT RATES FOR THE 15 SELECTED STATES

State	1976 unemployment rate (note a)
Virginia	5.5
Iowa	b/5.7
Missouri	5.7
Colorado	5.9
Maryland	6.4
Alabama	6.8
Oklahoma	6.9
Louisiana	7.3
Washington	8.8
Connecticut	9.4
California	9.5
New York	9.5
New Jersey	9.6
Florida	9.8
Michigan	9.9

a/ Arithmetic average of four quarterly rates for 1976.

b/ Iowa received allocations for only two quarters as its unemployment rate fell below 4.5 percent.

OTHER CHANGES AND ADJUSTMENTS AFFECTING STATE TAXES--

JULY 1, 1973 TO JUNE 30, 1976

State--Tax Change	Year
Alabama:	
Exempted from property tax the homes of totally disabled persons, or persons over 65 with incomes of $5,000 or less.	1974
Colorado:	
Income tax--a one-time $21 per person food tax credit--normally it's $7 per person	1974
Income tax--a one-time $9 credit per claimed exemption against individual's 1975 State income tax return.	1976
Connecticut:	
Sales tax--public utility billings were exempted from tax ($10 had previously been exempted); exemptions for materials used in production changed to include tools, dies, and other materials used directly in the production process; a credit for trade-in on boat purchases was allowed; and automobile dealers were granted the same trade-in allowance applicable to other motor vehicles sales.	1974
Sales tax--the sale of horses except for those racing at a commercial racetrack in Connecticut were exempted, as were items sold from one cent vending machines.	1975
Sales tax--coverage extended to include rentals, leases, and some business services. The sale of certain ambulance-type motor vehicles and the sale of tangible personal property acquired for construction of low and moderate income housing were exempted.	1976
Louisiana:	
Income tax--Federal taxes allowed as an itemized deduction on State taxes.	1974
Sales tax--food and drug items exempted.	1974

State--Tax Change	Year
Maryland:	
Business and corporate tax--included the excess of long-term capital gains over short-term capital losses in the tax base and allowed deduction for operating losses.	1975
Business and corporate tax--certain nonbusiness interest and dividend income included in the tax base. Corporations also required to file quarterly estimated tax payments.	1976
Tobacco tax--increased from 6 cents to 10 cents per package.	1976
Michigan:	
Sales tax--take-home food and prescription drugs exempted from 4 percent tax.	1975
Oklahoma:	
Severance tax:	
--oil excise increased from seven thirty-seconds to eight thirty-seconds of 1 cent per barrel and	1975
--gas excise increased from 4/100 to 5/100 of 1 cent per 1,000 cubic feet produced.	1975
Washington:	
Sales tax--drugs exempted.	1974
Retail sales tax--increased from 4.5 to 4.6 percent.	1976
Business and occupation tax 6-percent surtax imposed.	1976

SYNOPSES OF FINANCIAL CONDITION OF 15 SELECTED STATE GOVERNMENTS

ALABAMA

Recent and continued rapid industrial growth and the State's diversified tax base contributed to Alabama's resiliency and ability to withstand the recession. Revenues increased every year from fiscal year 1972 to 1975, growing from $1.71 billion to $2.32 billion, or about 36 percent over the period. This growth occurred despite the fact that no increases were made in individual income, general sales, corporate income, or State property tax rates during the 4 years. In 1973 increased exemptions were allowed on the property tax.

Expenditures, meanwhile, grew at a faster rate (40 percent) from fiscal year 1972 to 1975. In fiscal year 1975, total expenditures exceeded total revenues. Primarily because of high inflation rates affecting service costs in every aspect of State operations, many sectors of government were required to economize. The recession did not significantly affect the provision of normal levels of basic services, and the State had not been forced to cut or limit needed increases in basic services due to lack of funds.

Increased demand was experienced in employment-related services, such as unemployment compensation and, to a lesser extent, in Medicaid and Aid to Families with Dependent Children. Additional administrative burdens were experienced in welfare and unemployment-related areas during the recession.

State public employment increased 16.5 percent from fiscal years 1972 to 1975. Court orders required increases in mental health institutions and facilities and in corrections. Employment increased in welfare areas as well.

With the exception of 190 highway employees laid off in 1975, layoffs of State employees have been minor since 1972, being less than three one-hundreths of 1 percent for 1972-1974, and around fourteen one hundreths of 1 percent in 1976. Employee reductions in the Highway Department were related to a reduction of the Federal highway construction program and the inability of State revenues used to finance highway activities to keep pace with rapidly rising operating costs.

State balances for the two largest funds, special trust and general fund, were fairly stable in fiscal years 1973 to 1975 and then drawn down markedly in fiscal year 1976. Special education trust funds were over $100 million for 1973, 1974, and 1975 and $38.3 million in fiscal year 1976. The general fund was over $10 million for fiscal years 1972 through 1975 and $3.6 million in 1976. Balances of all funds totalled over $300 million for fiscal years 1973 through 1976.

Alabama's outstanding bonded indebtedness has increased from about $819 million to $861 million for fiscal years 1972 through 1975. The bond rating by Moody's Investment Service was "A-1" from 1972 until March 1976 when it was upgraded to "Aa."

The State's major long-term problems included financing the increased costs for highway and Medicaid programs, and complying with Federal court orders to improve and expand mental health and corrections programs.

CALIFORNIA

California's financial condition was basically sound, and the recession had little effect on State provided basic services. Revenues increased annually from $13.7 billion in 1972 to $18.8 billion in 1975. California's two major taxes are the general sales tax and the income tax. The sales tax rate was increased in fiscal year 1974 to provide funds for local school districts following a court decision that property could not provide the sole tax base for school district revenues. Sales taxes collected in 1974 and 1975 exceeded expectations. Personal income tax revenues increased annually except for 1974 when the State provided a 20- to 35-percent rebate to return revenue which exceeded State needs. No other changes in these taxes have been instituted since 1974. Bank and corporate tax revenues were expected to decline in 1976 because of the recession, but they actually increased. This was the most recession-sensitive of California's major taxes and one official said the revenue increase indicates a faster than expected economic recovery.

Expenditures grew from about $11 billion in 1972 to about $15.3 billion in 1975. The largest increases were in 1973 and 1974, when general expenditures increased by $2.2 billion and $1.5 billion respectively. The recession did not affect most State programs but could have contributed to reduced funding for streets and highways. However, highway construction was largely completed and some reductions would have occurred anyway.

Public welfare caseload costs increased for programs involving mental health, rehabilitation, and the developmentally disabled. Inflation was cited as the primary cause for this problem. Expenditures for unemployment claims also increased during the recession. However, welfare applications and payments did not similarly increase.

Public employment increased annually in proportion to the State's population growth. Full-time equivalent employment in 1975 was above 1972 levels in all functions except streets and highways.

California's governmental cost fund surplus has exceeded $500 million since 1972. The surplus increased between 1972 and 1977 and at the end of fiscal year 1977 was $1.8 billion. The surplus declined only once during the period, in 1974, because the State provided a personal income tax rebate.

California's bonded indebtedness generally rose between 1972 and 1975, with a slight decline in 1973. Moody's bond rating service rates California's bonds "Aaa," the highest possible credit rating.

COLORADO

Colorado's officials believe the State has been financially able to meet recession-related problems without any adverse impact on basic services or levels of public employment.

The financial condition of the State has declined from a healthy position in fiscal years 1972 through 1974, to a tolerable position because (1) inflation has exceeded the increase in revenues; (2) surplus balances in the general fund have declined; and (3) slower growth has occurred, especially in construction.

Total revenues rose from $1.3 billion in fiscal year 1972 to $1.9 billion in fiscal year 1975. Colorado's revenues from sales, individual income, and corporate income taxes have grown rapidly without rate increases from fiscal year 1972 ($398.5 million) to fiscal year 1976 ($693.7 million).

In 1975 the Federal Tax Reduction Act decreased 1975 Federal tax liability which increased the State's collections because Federal income tax is deductible for State tax purposes in Colorado. The recession somewhat affected tax collections by markedly reducing the revenue growth rate during fiscal years 1974 to 1976. The State experienced an $11 million revenue shortfall in fiscal year 1976 due to a decline in projected revenues from sales and income tax amounting to $5 million, and a $6 million decline in interest income due to declines in surplus balances and interest rates.

From fiscal year 1972 through 1975 total general expenditures grew from about $1.1 billion to $1.6 billion. Inflation, especially in personnel costs, was primarily responsible for this growth.

There was an increase in demand for social services with a corresponding growth in the administrative burden for social services, welfare, food stamps, and unemployment programs because of the recession. General revenue sharing and surplus funds were used to maintain funding levels for basic services.

Public employment increased by about 4,000 full-time equivalent employees between October 1972 and October 1975. In anticipation of the fiscal year 1976 revenue shortfall, the Governor imposed a hiring freeze from August to November 1975. The shortfall, however, did not result in any major layoffs. Where personnel reductions were required, employees were either reassigned to other departments or vacant positions remained unfilled.

Colorado's unrestricted fund balances decreased from $122.7 million in fiscal year 1973 to $51.5 million in fiscal year 1976. The State's long-term debt outstanding has ranged upward from $108.3 million in fiscal year 1972 to $116.4 million in fiscal year 1975. The State does not suffer from hard core unemployment; and industry, except for construction, is fairly stable. Long-term or chronic problems which could affect the State's financial condition were identified as

--continued high-energy costs which will affect growth in the State,

--mineral development and water conservation, and

--the State's relationship to local governments whereby more of the State's budget is being used to fund local government programs.

CONNECTICUT

The State Budget Director said the State's financial condition was healthy and it was able to overcome recession-related problems, which were substantial.

Total revenues generally increased from $1.6 billion in 1972 to $2.0 billion in 1975. Intergovernmental revenues accounted for a large part of this increase. The major tax source is the general sales tax. Sales tax revenues fluctuated from fiscal years 1972 to 1976. For fiscal years 1974 through 1976, the revenues were $807 million, $785.5 and $933.9 million, respectively. The sales tax rate has been adjusted upward or downward each fiscal year from 1972 to 1975. In fiscal year 1974, the rate was lowered from 7 percent to 6.5 percent, and then to 6 percent. The following year it was raised back to 7 percent. When the State has needed money, its past practice has been to raise the sales tax rate. When there has been a surplus, the rate has been decreased. For fiscal year 1977, a $70 million surplus was predicted.

Expenditures rose from $1.8 billion in 1972 to $2.3 billion in 1975. The largest annual increase, 13.7 percent, occurred between 1974 and 1975. Increases were primarily in public welfare, corrections, and capital outlays. Normal levels of basic services were maintained, and there were growing demands for administrative services resulting from larger welfare cases and unemployment. Officials believed that recession had a greater impact than inflation on expenditures.

About 500 employees were laid off to help reduce a projected 1976 deficit which did not materialize. Also, 1,589 vacancies were left unfilled from 1975 through 1976.

This had no effect on basic services provided. Layoffs were countered by increased productivity.

Connecticut sustained a general fund surplus from fiscal years 1972 through 1974 and incurred a $71 million deficit in fiscal year 1975. They ended with a $34.7 million surplus in fiscal year 1976, of which $33.7 million was transferred to the Bond Retirement Fund.

Connecticut's net indebtedness has grown gradually from $2.1 billion in fiscal year 1972 to $2.3 billion in fiscal year 1975. Moody's bond rating was "Aaa" for 1972 through October 1975, but was reduced to "Aa" in December 1975, then "A" in March, 1976, as a result of Connecticut's reported deficit in 1975, and a projected deficit for 1976. As noted above, however, the projected 1976 deficit did not materialize.

FLORIDA

The 1974-1975 recession was quite severe for Florida. Unemployment averaged 10.7 percent in 1975 compared to the national average of 8.5 percent. The general economic slowdown and the State's heavy reliance on petroleum for the tourist industry and construction contributed to the recession's severity.

Although Florida has had no major tax rate changes since 1972, its total revenue increased annually from 1972 through 1975. In 1975, however, the increase was due mainly to a large increase in Federal intergovernmental revenue. Growth of tax receipts used to fund a major part of Florida's operating expenses was virtually eliminated in 1975 and remained depressed in 1976. Florida's major revenue source, the sales tax, is very sensitive to recession because the State exempts many essential items such as groceries and medicines.

Florida's motor fuel tax receipts fell in calendar year 1974, and although receipts began to recover in calendar year 1975, motor fuel tax receipts still lagged behind calendar year 1973 collections. State officials attributed the reduced motor fuel sales to the oil embargo and the recession.

From fiscal year 1972 through 1975, Florida's total expenditures increased about 20 percent a year. Preliminary figures for 1976, however, indicate a sharp decline in expenditure growth. The State has experienced two midyear budget cutbacks due to general revenue shortfalls. In fiscal year 1975, the State projected a revenue shortfall of about $232 million, and to assure a deficit would not occur, the State

--used the working capital fund balance of $105.1 million;

--eliminated a previously expected end-of-year surplus of $7.6 million; and

--reduced agency budgets by $119.6 million or 4.7 percent of appropriations.

In fiscal year 1976, the State projected a $42.5 million revenue shortfall because of a revision in the sales tax estimate and reduced most agency budgets by 2 percent or about $44.6 million.

Demand for services increased during the recession. The primary services affected were unemployment compensation, welfare payments, tourism and economic development stimulation, prisons, and community colleges. State officials said that the reduced revenues required general economizing but did not cause any major deterioration of services. Two officials said services are now more efficient because of the recession's "healthy purging" of the budget.

The number of State employees increased from 1972 through 1976. The rate of growth, however, declined in 1975 and 1976 primarily because of the recession. In addition, State officials said the legislature began taking a closer look at the costs of government, including the number of employees. State officials said that 790 employees were laid off during the 1974-1976 recessionary period. Most of the layoffs were due to reorganizations or grant expirations, and most of the employees were placed elsewhere in the State government.

The Florida constitution forbids borrowing to pay operating expenses, and Florida does not use borrowed money to repay borrowed money.

Florida's long-term debt increased from $1.1 billion in fiscal year 1972, to $1.6 billion in 1975. State officials said Florida has not had any problems obtaining long-term financing. High-interest rates caused some concern, but did not preclude obtaining adequate financing. In fiscal year 1975, the State's short-term debt amounted to $18 million. Moody's has rated Florida's full faith and credit bonds as "Aa" since 1972.

Overall, Florida officials believed the State can meet normal recession-related problems, and, despite the recent recession's serious impact on the State, Florida is in good financial condition. Florida built up a sizable surplus in fiscal years 1972 through 1974, and used this surplus to help combat the recession. The State is heavily dependent upon the tourist industry. Changes in tourism have a heavy impact.

IOWA

Iowa's financial condition remained fairly stable throughout the recession. The State's revenue, expenditure, and general fund balances have not been affected, and State officials have not had to cut basic services. The economy hinges on agriculture and agriculturally related manufacturing which were not affected as greatly as other segments of the national economy.

Total revenues increased from $1.4 billion in 1972 to $2.0 billion in 1975. Officials believe that Iowa's tax revenue is not significantly sensitive to national economic conditions. The primary tax is the individual income tax, providing roughly 40 percent of gross fiscal year 1976 tax receipts. The other major taxes are the sales and use tax and the corporate income tax, both used for general purposes. In 1974, food and drugs were exempted from the sales tax, thereby reducing revenues by $45 million, and in 1975 the individual income tax was revised to make it more progressive, but this had little impact on revenue. Actual recessionary impact on tax revenue has been small. The growth rate was 10 percent in fiscal year 1975 and 11 percent in fiscal year 1976.

Total expenditures for the State increased from $1.4 billion in fiscal year 1972 to $1.9 billion in fiscal year 1975. Iowa has not cut any basic service programs although the current budget has been very tight because of a desire to reduce the general fund surplus which peaked in 1975.

Since 1972 the State has increasingly assumed significant local government program costs, such as school aid, social service programs, and property tax replacement. Roughly 69 percent of the State budget was financial aid to local governments. These program costs were not necessarily recession related, because some of the programs were taken over prior to the recession.

Iowa's costs for Aid to Dependent Children of Unemployed Fathers and Medicaid have increased due to larger case loads, and inflation has been responsible for most of the increased costs. From December 1975 to December 1976, medical assistance costs grew 51 percent while the number of participants dropped 2 percent. The demand for services also increased for corrections and social service programs.

Inflation's impact has been much greater than recession even though the effects are inseparable. State officials said wage and salary cost increases are more damaging than a recessionary loss of revenues or an increase in basic services caseloads.

The State's employment increased during 1975, largely because Federal manpower programs provided funds to local governments to hire unemployed workers. State government employment increased slightly during 1975 and 1976 at a normal rate. No State employees were laid off, although there have been two hiring freezes to reduce staff size. Neither was due to the recession.

Iowa's general fund surplus rose dramatically from fiscal year 1972 ($11.2 million) to fiscal year 1975 ($260.7 million) when a conscious effort was made to reduce it (to 207.3 million) in 1976. Officials plan to continue reducing the surplus through fiscal year 1978, because they believe the State needs only a $30 million or $40 million surplus.

Iowa has no current outstanding general obligation debt or short-term debt but does have about $134.7 million outstanding for two issues of revenue bonds which carry Moody bond ratings of "Aa" and "A."

LOUISIANA

With an energy-oriented economy, Louisiana did not experience abnormal financial problems because of the recession. Revenues from its own sources were affected little, if at all, by the recession. Total revenues increased from $2.1 billion in 1972 to $2.9 billion in 1975. The more significant State revenue-producing items showed substantial increases. Severence taxes, the major revenue source, showed a healthy growth rate of 128 percent, primarily due to a rate increase in 1974. Sales and motor fuel taxes increased each year with overall increases of about 52 and 23 percent, respectively. Individual income tax revenues increased 12 percent overall during the period. A decrease in 1974 resulted from the State allowing deduction of Federal income tax in determining State income taxes. Sales, motor fuels, and income tax rates remained constant from 1972 to 1976. Food and drugs were exempted from sales taxes at the end of 1973.

Total expenditures increased from $2.1 billion to 2.8 billion (34 percent) from fiscal years 1972 to 1975. Inflation had a major impact on these expenditures as well as other factors such as expanded programs, rules and regulation changes, and a Federal court order to upgrade the State prison system. Inflation caused 70 percent of the budget increase over the 1972-1975 period, according to the Budget Director. Normal levels of services were maintained, and the State was not forced to curtail any services. Increased demand for services showed up in corrections, education, hospitals, and social service programs. Additional administrative burdens were created in welfare, the charity hospital program, and corrections resulting from recent periods of high unemployment.

Public employment increased by 7,533 employees from 1972 to 1975 with the largest annual increase in 1975. Federally funded programs were responsible for some of the increased employment. The State does not anticipate any major layoffs.

The State general fund balance showed rapid growth from 1972 through 1974 rising from $4.8 million to $152.2 million. It remained stable in 1975 and declined to $84.3 million in 1976.

Louisiana's total outstanding debt increased from $1.1 billion in fiscal year 1972 to $1.2 billion in fiscal year 1975. The State has not had any problems in obtaining long-term or short-term financing. The State can use long-term debt to pay operating expenses, but it has not done this since 1960. The State has not had to resort to any short-term financing because a liquid cash flow has been maintained. General obligation bonds were upgraded from "A1" in 1974 to "Aa" by Moody's Investors Service in 1975 and 1976.

MARYLAND

The recession adversely affected Maryland's revenues and operating expenditures. In order to raise required revenues, Maryland implemented a number of administrative and legislative changes which led to one-time-only revenue collections, enabling the State to balance its budget. Total revenues increased from $2.1 billion in fiscal year 1972 to $3.1 billion in fiscal year 1975. Maryland's primary revenue sources are its sales tax and the income tax. The sensitivity of these taxes was most evident in Maryland's construction industry which was hard hit by the recession. Overall, however, the effect of the recession on Maryland's revenues was limited because of the large number of residents employed by the Federal Government. For example, about 23 percent of the State's individual income tax revenues comes from Federal employees. The State has not raised its income tax rate since 1967, nor the sales tax rate since 1969.

Although the recession also affected the level of expenditures by the State, Maryland officials said that inflation had a greater impact on expenditures. Expenditures increased at a faster rate than revenues, climbing from $2.24 billion in fiscal year 1972 to $3.41 billion in 1975. One official cited inflation as having a "catastrophic" effect on education, medical assistance, and fringe benefits to employees, including health insurance and retirement.

State officials said Maryland has attempted to maintain the same levels of services by tightening the administration of programs. The State has not laid off any employees because of the recession but did curtail hiring for vacated positions. State officials said that the demand for services increased in some areas, such as education and corrections, and that administrative burdens for certain programs also increased.

In order to reduce expenditures, the Governor, in May 1975, initiated a management improvement program consisting of the following:

--Reduction of State employment through attrition unless there was a critical need to fill a position.

--Reduction of overtime.

--More efficient use of State vehicles and equipment.

--Reduced travel and training expenditures.

--More cost effective use of consultants.

State officials believed that the above measures enabled them to meet recessionary problems. In addition, the State did not initiate any major new programs and delayed some construction activities.

Public service employment increased by about 17,500 between fiscal years 1972 and 1976, mostly due to the establishment of new programs or the expansion of existing programs. The State laid off about 100 employees during the recessionary period as a result of programmatic changes. These employees were reinstated in other government positions when possible. None of the layoffs were the result of the recession.

The State's long-term debt increased from $1.4 billion in fiscal year 1972 to $2.0 billion in fiscal year 1975. Maryland has no short-term debt, nor has it issued any tax anticipation notes. Moody's has rated the State's general obligation bonds as "Aaa" since 1972.

MICHIGAN

Overall, Michigan's financial condition is improving, but it is still serious due to current and projected cash flow problems. The recession resulted in substantial cost increases in public assistance and unemployment compensation, but prompt action by State officials enabled them to balance the budget without raising taxes.

Total revenues increased from $5.47 billion in 1972 to $6.94 billion in 1975, or about 27 percent. Revenues from the sales tax, its major tax source, declined in 1975 because of the recession, but the decline was slight because an increase in resident's transfer income (i.e., public assistance and unemployment compensation) enabled people to continue buying. The second major source of tax revenues, the income tax, was more severely affected by the recession, declining sharply by about $159 million in 1975. A $221 million increase in revenues from the Federal Government more than offset the decline in tax revenues.

Expenditures increased at a greater rate than revenues, rising 49 percent from $5.15 billion in 1972 to $7.69 billion in 1975. Officials believed the demand for recession-sensitive services had a greater impact than inflation on the increase in expenditures. Expenditures for public welfare increased about $245 million from 1974 to 1975 and expenditures by the Employment Security Administration increased about $15.5 million. To help Detroit--the State's largest city--balance its budget, the State has started paying for certain services previously provided by Detroit. About $27.8 million is planned for fiscal year 1977.

The State encountered problems but managed to balance its budget as required by the State constitution. For fiscal year 1976, expenditures were reduced by $123.7 million, and loans totaling $160 million were taken from the Veteran's Trust Fund and the Motor Vehicle Accident Claims Fund. Officials, however, do not believe that the actions had an adverse impact on the provision of essential State government services.

The number of State employees is steadily increasing. About 38 percent of the over 13,000 increase in employees over the last several years was in the areas of public welfare and employment security which are normally sensitive to recession. The State laid off some employees because of a reorganization of its liquor stores operation and other efforts to control the size of individual departments. These layoffs had no effect on State services.

The State's operating fund accounts had a $1.35 billion surplus for 1974 of which $207 million applied to the general fund. This surplus decreased to $908 million for

1975 of which only $1.6 million applied to the general fund.

From 1972 to 1975, long-term debt rose from $1.4 billion to $1.7 billion. There was no short-term debt. Although there is no legal limit on long-term debt, voters must approve long-term bond issues. Michigan's Standard and Poor's bond rating was dropped from "AAA" to "AA" in September 1976 because of cash flow problems. The seriousness of the cash flow problem is indicated by the negative cash balance--$272 million--in the combined General and School Aid Funds as of October 31, 1976. Unfunded pension liabilities total about $3 billion and are expected to become a very significant problem within 3 to 4 years.

MISSOURI

State officials stated generally that although Missouri was affected by a downturn in auto production--Missouri is second to Michigan in the number of auto workers employed--as well as difficulties experienced in the shoe, garment, and construction industries, the State was financially able to meet recession related problems, and its financial condition is healthy. An official said the State has no long-term or chronic problems, and that short-term problems normally result from adverse weather conditions for farming and downturns in auto productions.

Missouri's total revenue steadily increased from fiscal year 1972 to 1975 from $1.89 billion to $2.42 billion, or about 28.4 percent. Taxes represent the largest source of revenue to Missouri, with three major taxes--general sales and gross receipts, individual income, and motor fuel taxes--combining for about 75 percent of the State's 1975 tax revenue. There were no tax rate increases to any of the three taxes during the recessionary period. The only major tax rate change during the fiscal years 1972-76 time frame occurred in August 1972 when the motor fuel tax was increased from 5 to 7 cents per gallon, because tax revenues were not keeping pace with the rise in construction and maintenance costs.

State officials said their major tax bases were insensitive to a recession. The State's actual general revenue receipts have consistently exceeded revenue estimates for each fiscal year since 1972.

Missouri's total expenditures increased from $1.79 billion to $2.45 billion, or about 36.9 percent from fiscal years 1972 through 1975. Expenditures for education, highways, public welfare, and unemployment insurance represented about 76.2 percent of the total fiscal year 1975 expenditures.

Officials from these departments believed that the recession has affected their operations. An official with the education department stated that part of the increase in college enrollment was caused by the recession. Overall, however, inflation has had more of an impact on education expenditures than recession.

An official from the highway department stated that the recession has been a burden to the department, but inflation has had a greater impact. Also, fuel shortages and energy conservation have been a problem to the department.

Officials from the welfare department stated that the recession has caused an increase in welfare caseloads and, therefore, an increase in demand for services. The recession was partly responsible for dropping a child abuse prevention program. On the other hand, inflation was responsible for a large increase in expenditures by the Medicaid program.

Officials with the Division of Employment Security believed the recession had a greater impact on them than did inflation. They said the recession created an expanded workload in many areas and increased the number of claims. Inflation, however, raised expenditures for supplies, communications, travel, and equipment purchases and rentals.

Missouri's total full-time equivalent employees increased from 55,139 in October 1972 to 61,728 in October, 1975, or about 11.9 percent primarily because of increased demand for services, some of which were directly related to the recession, i.e., employment security, public welfare, and education. An official stated that the only employee layoff during fiscal years 1972 through 1975 occurred in December 1975 when Missouri was experiencing the worst effects of the recession. The layoff was caused by budget cuts and involved less than 100 probationary employees in the mental health area. Some of these employees were rehired in 1976 but exact numbers were not available.

Missouri's general revenue fund had a surplus balance in each fiscal year from 1972 through 1975. The balance decreased during fiscal years 1974 and 1975 from $92.1 million to $35.6 million, but increased to $48.1 million in fiscal year 1976.

Missouri's net long-term general obligation debt increased from $23.9 million in 1972 to $52.8 million in 1975, or about 121 percent. Missouri has no short-term debt. State officials stated they have not experienced any difficulties in obtaining long-term financing nor have they attempted to secure short-term financing. The officials attribute the Moody's "Aaa" rating to the State's conservative approach toward indebtedness. An official said that borrowed funds have never been used to pay operating expenses, nor to repay borrowed money.

NEW JERSEY

State officials believe New Jersey's financial condition has been affected by a series of economic developments--stagnant economy, inflation, and recession--which are prevalent in the Northeastern portion of the country.

Total revenues increased from $3.5 billion to $4.8 billion during 1972 through 1975. The State's major revenue generating tax is the general sales and gross receipts tax which accounted for about 29 percent of total revenues in fiscal year 1975. Revenues from the sales tax increased each year from 1972 through 1975, and the tax rate remained unchanged during that time. The State enacted a personal income tax in fiscal year 1977. The State will not realize any proceeds from this tax, however, since all revenues will be used to provide property tax relief and funds for local education systems, and to replace revenues lost by repealing several business taxes.

Total expenditures for the State increased from $3.6 billion in fiscal year 1972 to $5.2 billion in fiscal year 1975. State officials believe the recession was principally responsible for increasing the level of State expenditures and adding administrative burdens, primarily for welfare and unemployment compensation, to the State government. While inflation has affected the cost of fuel, utilities, and food, officials believe the recession has had a greater impact on the State's economy.

The State has not been able to keep pace with the increased demand for services, and has eliminated State aid for health and the distribution inheritance tax, sales tax, and bank stock tax collections to municipalities. In addition, the State has reduced aid for libraries, building maintenance, roads, and the community affairs program.

Public employment increased steadily between 1972 and 1974. In 1975, however, public employment decreased by 2,322 employees, or about 3.3 percent. All facets of public employment decreased except public welfare, health, and employment security. State officials stated that during recent years the State has deferred hiring. Agencies were forced to economize and reductions in the work force were experienced through attrition.

The State constitution prohibits New Jersey from financing its operations by means of a deficit. Therefore, an annual surplus balance is usual. The State's unrestricted surplus was at a 10-year high of $382 million in fiscal year 1974, and stood at $95.8 million at the end of fiscal year 1976.

The State's long-term debt amounted to $1.36 billion in fiscal year 1976. The State is not permitted to borrow for short-term financing, and has not issued tax, bond, or revenue anticipation notes since the State constitution was adopted in 1947. Moody's rated the State's general obligation bonds "Aaa" until June 30, 1975, when they were lowered to "Aa."

NEW YORK

New York State has a diversified revenue structure which includes taxes on personal income, retail sales, general business corporations, banks and insurance companies, motor fuel, cigarette, alcoholic beverage consumption, and various other sources. In addition, the State receives intergovernmental revenues from its municipalities and from the Federal Government. The State's total revenues increased by about 34.5 percent from fiscal year 1972 through 1975, from $12.8 billion to $17.2 billion.

New York State's major taxes are the personal income tax, sales and use tax, and the corporation tax. Together these taxes comprised over 44 percent of the State's revenues in each fiscal year from 1972 through 1975. All three of these taxes were changed during the recessionary period to meet increased expenditures. A 2.5 percent surcharge to the income tax was reimposed for fiscal years 1975 and 1976. The surcharge was originally imposed in fiscal year 1972 to be effective for 5 years, but was suspended during fiscal years 1973 and 1974. The sales and use tax was changed in fiscal year 1976 to require certain vendors to remit tax collections on a monthly basis, rather than quarterly. Further, leglislation enacted in fiscal year 1976 raised the corporate tax rate from 9 percent to 10 percent, increased the minimum tax from $125 to $250, and imposed a 20 percent 1-year surcharge on business tax liability.

The State incurred deficits of $18.5 million in fiscal year 1975, $446.8 million in fiscal year 1976, and is projecting a deficit of $158.5 million for fiscal year 1977.

Expenditures for the State have increased from $13.6 billion in 1972 to $17.4 billion in 1975. State officials believe that the recession, more so than inflation, has had a heavy impact on New York by increasing welfare costs and increasing the number of unemployed. The recession has not caused the State to reduce normal levels of basic services, although some support to localities for half-way houses and mental hygiene was eliminated. The largest demand for services was for public welfare. Many people entered the rolls after their unemployment insurance benefits expired.

The State has reduced the number of public employees by 10,000 since 1975. This reduction is the result of budget cuts made in 1975 and 1976. Employees in every State function except police, nurses, corrections, and drug programs having direct contact with patients were affected.

New York State's long-term debt increased from $1.73 billion in 1972 to about $2.5 billion in 1975 but short-term debt decreased from $2.74 billion to $2.0 billion. Long-term debt cannot be used to meet operating expenses.

The State has had serious problems selling its securities because New York City's financial crisis has precluded the State from the long-term market. Proposed bond issues were advertised, but no bids were received. The State's general obligation bond rating was lowered by Moody from "Aa" to "A" in 1976. The State, during fiscal years 1974 through 1976, was in poor financial condition. The problem of inflation coupled with recessionary cycles caused the State's expenses to increase while the tax base was eroding. As more unemployed workers requested unemployment benefits and welfare, the expenses increased. At the same time, employers were reinvesting their money in other States and sometimes moving the entire plant, thereby causing the loss of both personal income and corporate tax.

OKLAHOMA

Oklahoma was financially able to meet recession-related problems. While the State government was probably affected by the recession, the extent of this effect could not be measured. Unemployment rose from 4.6 percent in July 1974 to 7.3 percent in December 1975, and welfare applications were about 5.8 percent higher in calendar year 1975 than they were in calendar year 1974. The State Comptroller believes that since the major employers in the State are agriculture, petroleum-related production, and the Federal Government, the State's economy may be less sensitive and slower to reflect recessionary trends.

Total available revenues grew annually from $1.3 billion in fiscal year 1972 to $1.7 billion in 1975. During this time the State did not raise any major taxes other than the severance taxes. The oil excise tax was raised one thirty-second of 1 cent per barrel and the gas excise tax went up one one-hundreth of 1 cent per 1,000 cubic feet produced. The increase was made in 1975 to provide additional funding for Oklahoma's Oil Conservation Program.

The State's expenditures increased, rising from $1.3 billion in fiscal year 1972 to $1.6 billion in fiscal year 1975, but did not grow as rapidly as revenues. Basic services were maintained at normal levels due to a 1971 tax increase. Although war veterans and mental health patients had required more services, officials believe it was not recession related.

Inflation played a role by increasing costs of petroleum products, steel, gravel, and other items used by the Department of Highways. The Director of Finance said that inflation may have had more impact than the recession on State expenditures.

Oklahoma's full-time equivalent employees increased from fiscal years 1972 to 1975, mostly in education and welfare. The State established five new junior colleges and two new medical facilities and bolstered staff levels in welfare by 1,250 personnel.

Oklahoma maintained ever-increasing surpluses in the general revenue fund balance from fiscal years 1972 through 1975. In 1975, a State Supreme Court decision changed the method of handling the funds which now are available each year for appropriation. The net surplus in 1976 was down from $170.1 million in 1975 to $52.2 million. The legislature had appropriated the entire $170.1 million in 1975 and 1976, and the new surplus had been accumulated in 1976.

The State's net outstanding debt has decreased since 1974 from $193.7 million to $181 million in 1976 and Moody's raised the bond quality rating from "Aa" in 1974 to "Aaa" in 1975 and 1976.

The State is precluded by its constitution from using long-term debt to finance operating expenses. In addition, there has been no short-term financing for such expenses.

VIRGINIA

Virginia experienced some recessionary problems and made some expenditure cuts to offset estimated revenue shortfalls. Officials believe, however, that the State has been financially able to meet these recession-related problems.

The State's revenues steadily grew from $2.2 billion in fiscal year 1972 to $3.3 billion in fiscal year 1975 without any rate change in the three major tax rates since the 1972 tax year, when individual income and corporate income tax rates were raised. An official from the Department of Taxation believed that individual income and sales taxes are recession-sensitive and although collections for both did increase, the growth rate declined. Due to an erroneous estimation of unemployment rates, fiscal year 1977 revenue collections were $82 million short of estimates.

Total expenditures increased faster than revenues, growing from about $2.1 billion in 1972 to $3.4 billion in 1975. Cutbacks in expenditures were made to offset revenue shortfalls. Functions cut included Medicaid ($25 million reduction), vocational rehabilitation, maintenance and improvements, institutions of higher learning, highways, and a $20 million reduction in aid to localities.

There were no significant curtailments of services, or layoffs, in the human resources area. However, due to the recession, there were no improvements in required services. Crime increased due to drug problems and unemployment thereby placing a heavier burden on the Department of Corrections. Administrative burdens for processing unemployment claims also increased.

Inflation affected expenditures, especially through increased costs of fuel, food, and utilities, employee pay raises, and a 9 to 21 percent increase in retirement benefits.

Public employment increased by more than 10,000 full-time equivalent employees during the 1972 to 1975 time frame. While there were some layoffs in public employment, an official believed they were insignificant and not recession related, and had no effect on any services. Out of a full-time employee work force of over 80,000 in 1975, 532 employees were laid off. There was also a general hiring freeze by the State in line with the Governor's request to cut expenditures.

The State's Combined Fund steadily increased from about $1.2 billion in fiscal year 1972 to $1.5 billion in fiscal year 1976, but the General Fund declined over the same period from $121 million to $18 million. Meanwhile, total debt outstanding more than doubled during the time period growing from $93 million in fiscal year 1972 to $204 million in fiscal year 1974 and closing at $202 million in fiscal year 1976. Long-term debt cannot be used to pay for operating expenses. Moody's bond rating has been an excellent "Aaa" for the past 5 years.

WASHINGTON

The recent recession did not significantly affect the State of Washington's revenue-raising capacity. Several factors reduce the sensitivity of the State's tax base to recession: (1) sales tax is applicable to food items, (2) rising levels of employment and personal income have offset unemployment, and (3) State revenues have increased due to inflation. Total revenues increased from $2.37 billion in 1972 to $3.31 billion in 1975.

Washington's principal tax is the sales tax. This tax was unchanged from 1972 to June 1, 1976, when it was temporarily increased (13 months) by one-tenth of 1 percent from 4.5 percent to 4.6 percent. The increase was necessary to pay basic education costs after it became apparent that local tax levies were insufficient.

Expenditures for the State increased at about the same rate as revenues, climbing from $2.29 billion in fiscal year 1972 to $3.20 billion in fiscal year 1975. While the demand for certain services--primarily education and employment security--increased due to the recession, inflation rather than the recession had the greater impact on State expenditures.

State employment increased from 1972 through 1975. The only significant reductions in State employment have been in the Department of Social and Health Services and the Highway Department. The reductions in the Department of Social and Health Services were not recession related, but were the result of a legislative action to control department size. Reductions in the Highway Department were caused by a drop in construction funds and the completion of projects. About 1,000 positions were eliminated through attrition and less than 100 employees were laid off.

The State's general fund surplus, which stood at a 5-year high of $78.6 million in 1974 decreased to $49.8 million at the end of fiscal year 1976. Long-term debt

APPENDIX III

increased between fiscal years 1972 and 1975. While the State could use long-term debt to pay operating expenses, it has never done so. Nor does the State borrow in anticipation of tax receipts or to "roll-over" maturing long-term debt. In fiscal years 1973 and 1974, however, the State issued long-term general obligation bonds totaling $79 million to refund short-term bond anticipation notes which had been issued to cover construction in process. The State's bonds have been rated "Aa" by Moody's every year from 1972 through 1976.

The State was in good financial condition, and has been able to meet recession-related problems. The State's major problems were chronic seasonal unemployment and the size and volatility of aerospace employment.