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REPORT TO THE CONGRESS

094911



BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

Revenue Sharing: An Opportunity For Improved Public Awareness Of State And Local Government Operations

Department of the Treasury

In place of the present system, followed by State and local governments in reporting uses of revenue sharing funds, recipient governments should be required by the Congress to report to residents of their jurisdictions the purposes for which total available resources, including revenue sharing, are budgeted and spent. Each recipient government should also be required to assure the Secretary of the Treasury that it will give its residents adequate opportunities to express their views on the uses made of all resources available.

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SEPT. 9, 1975



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

B-146285

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

This report describes the results of our review of the reporting system required under the Revenue Sharing Program and suggests legislative changes for consideration by the Congress.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53); the Accounting and Auditing Act of 1950 (31 U.S.C. 67); and section 123 of the State and Local Fiscal Assistance Act of 1972 (86 Stat. 932, 934).

We are sending copies of this report to the Director, Office of Management and Budget, and the Secretary of the Treasury.

A handwritten signature in black ink, appearing to read "Thomas B. Heath".

Comptroller General
of the United States

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ABBREVIATIONS

GAO	General Accounting Office
ORS	Office of Revenue Sharing

CHAPTER 1

INTRODUCTION

Title I of the State and Local Fiscal Assistance Act of 1972 (Public Law 92-512) established the General Revenue Sharing Program. The act appropriated \$30.2 billion for distribution to State and local governments, according to specified formulas, for a 5-year program beginning January 1, 1972. In considering the act, the Congress concluded that both State and local governments faced severe financial problems requiring solution if our Federal system of government was to operate successfully.

Revenue sharing is a new approach to Federal aid because State and local governments are given wide discretion in using the funds. Other Federal aid to State and local governments, although substantial, has been primarily categorical, which generally must be used for specific purposes. The Congress concluded this new approach should provide recipient governments with sufficient flexibility to use the funds for their most vital needs.

The Office of Revenue Sharing (ORS), Department of the Treasury, is responsible for administering the act. ORS makes quarterly payments to the 50 State governments and to over 38,000 units of general-purpose local government, including counties, townships, municipalities, Indian tribes, and Alaskan native villages.

In passing the legislation, the Congress was concerned about the mechanics needed to insure adequate accountability and responsibility for recipient governments' spending decisions. Some believed revenue sharing should be treated as part of a recipient's total revenues with no requirements for reporting the use of the funds other than those applicable to the recipient government's other revenues and expenditures. Others advocated that spending decisions be determined by local referendum with stringent accounting and auditing controls. The act falls between these two positions by requiring that each recipient report periodically to ORS its planned and actual uses of revenue sharing funds (see pp. 3 and 4 for report forms). The portion of

these reports showing uses of the funds must be published in the local press. The Congress intended that such reports would furnish citizens with information to hold public officials accountable and thereby ensure more responsive spending decisions.

The Revenue Sharing Act directs the Comptroller General to make necessary reviews to assist the Congress in evaluating compliance and operations under the act. In a previous report on revenue sharing (B-146285, Apr. 25, 1974), we expressed concern about the usefulness of publishing the reports. We pointed out that many services could be financed legally from revenue sharing, Federal categorical aid, State aid, or a local government's own revenues. Because of the interchangeable nature of money, we concluded that, in many cases, the effects of revenue sharing on a recipient government's budget could not be determined readily, and that the planned and actual use reports could be misleading.

For example, a government might designate its revenue sharing funds to finance environmental protection activities and would then report that the funds had been so used. The actual impact of revenue sharing on the government, however, might have been to reduce the amount of local funds required for environmental protection and thereby permit the "freed" local funds to be used to reduce tax rates, to increase expenditures in other programs, to increase surplus, to postpone borrowing, and so forth. A document reporting the funds had been used for environmental protection purposes would fail to capture the actual consequences of revenue sharing. If report users regarded the information as indicative of revenue sharing's impact on the government, such a report could mislead them.

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In testimony on June 12, 1974, before the Subcommittee *S1502* on Intergovernmental Relations, Senate Committee on Government Operations, the Comptroller General stated that we were studying alternatives to the existing revenue sharing reporting system in an effort to suggest improvements to Congress.

**GENERAL
REVENUE
SHARING**

ACTUAL USE REPORT

4

OMB NO. 048R0506

General Revenue Sharing provides federal funds directly to local and state governments. Your government must publish this report advising you how these funds have been used or obligated during the year from July 1, 1973, thru June 30, 1974. This is to inform you of your government's priorities and to encourage your participation in decisions on how future funds should be spent.

ACTUAL EXPENDITURES		
CATEGORIES (A)	CAPITAL (B)	OPERATING/ MAINTENANCE (C)
1 PUBLIC SAFETY	\$	\$
2 ENVIRONMENTAL PROTECTION	\$	\$
3 PUBLIC TRANSPORTATION	\$	\$
4 HEALTH	\$	\$
5 RECREATION	\$	\$
6 LIBRARIES	\$	\$
7 SOCIAL SERVICES FOR AGED OR POOR	\$	\$
8 FINANCIAL ADMINISTRATION	\$	\$
9 MULTIPURPOSE AND GENERAL GOVT.	\$	
10 EDUCATION	\$	
11 SOCIAL DEVELOPMENT	\$	
12 HOUSING & COMMUNITY DEVELOPMENT	\$	
13 ECONOMIC DEVELOPMENT	\$	
14 OTHER (Specify)	\$	
15 TOTALS	\$	\$

THE GOVERNMENT OF _____
has received General Revenue Sharing payments totaling _____
during the period from July 1, 1973, thru June 30, 1974.
ACCOUNT NO. _____

BEST DOCUMENT AVAILABLE

(D) TRUST FUND REPORT

- (1) Balance as of June 30, 1973 \$ _____
- (2) Revenue Sharing Funds Received from July 1, 1973 through June 30, 1974 .. \$ _____
- (3) Interest Earned \$ _____
- (4) Total Funds Available \$ _____
- (5) Total Amount Expended \$ _____
- (6) Balance as of June 30, 1974 \$ _____

NONDISCRIMINATION REQUIREMENTS HAVE BEEN MET
(E) CERTIFICATION: I certify that I am the Chief Executive Officer and, with respect to the entitlement funds reported hereon, I certify that they have not been used in violation of either the priority expenditure requirement (Section 103) or the matching funds prohibition (Section 104) of the Act.

Signature of Chief Executive _____ Date _____
Name and Title _____

(F) The news media have been advised that a complete copy of this report has been published in a local newspaper of general circulation. I have records documenting the contents of this report and they are open for public scrutiny at _____

IMPORTANT: THE UPPER HALF OF THIS PAGE MUST BE PUBLISHED (SEE INSTRUCTION H)
It is not required that the lower half of this form be published.

(G) Has the availability of Revenue Sharing funds enabled your government to:

- Prevent new taxes
- Reduce taxes
- Prevent increased taxes
- Maintain current tax levels
- Prevent new debts
- Reduce old debts

(Check as many as apply.)

(H) PUBLICATION (refer to instruction H)

The upper part of this report was published in the following newspaper on the stated date _____ at a cost of \$ _____

Name of Newspaper _____

Date Published _____

DO NOT WRITE IN THIS SPACE FOR REVENUE SHARING USE ONLY

J	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18

**THIS REPORT MUST BE RECEIVED
BEFORE SEPTEMBER 1, 1974 BY:
OFFICE OF REVENUE SHARING
1900 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20226**

ORS FORM NO. 3231 MAR 1974

ORIGINAL COPY (including card attached on back) SEND TO OFFICE OF REVENUE SHARING

SELECTION PROCEDURE
FOR 21 GOVERNMENTS

We visited 21 State and local governments throughout the United States. To review a variety of governments, we selected seven State, seven city, and seven county governments. The amount of 1974 revenue sharing funds received by the seven States ranged from \$3,885,000 to \$80,700,000. The amount received by the 14 city and county governments ranged from \$18,000 to \$21,000,000. Of the 14 local governments, 4 cities and 4 counties received \$1 million or more; 2 cities and 2 counties received between \$100,000 and \$1 million, and 1 city and 1 county received less than \$100,000.

The chart on page 6 lists the governments we visited, and also indicates the fiscal significance of revenue sharing to each of the governments. In fiscal year 1974, budgeted revenue sharing funds, as a percent of total available resources, ranged from less than 1 percent in Hawaii to about 48 percent in Jefferson County, Arkansas.

Relationship of Revenue Sharing Funds to
Total Resources for Fiscal Year 1974

<u>Name of government</u>	<u>Total budget resources</u>	<u>Revenue sharing funds</u>	
		<u>Budgeted</u>	<u>Percent of total resources</u>
Arizona:			
Maricopa County	\$ 109,359,411	\$ 6,304,277	5.76
Scottsdale	20,046,184	657,820	3.28
Arkansas:			
State of Arkansas	1,102,472,000	23,021,000	2.09
Jefferson County	2,955,392	1,417,383	47.96
Hawaii:			
State of Hawaii	922,100,000	8,500,000	.92
Honolulu	189,461,789	13,498,136	7.12
Massachusetts:			
State of Massachusetts	2,846,328,000	64,820,000	2.28
Boston (note a)	533,466,000	21,000,000	3.94
Minnesota:			
Cook County (note b)	4,543,497	85,332	1.88
Minneapolis	114,613,292	4,793,791	4.18
Ohio:			
State of Ohio	4,781,700,000	81,700,000	1.71
Cuyahoga County	383,855,000	11,364,000	2.96
Oregon:			
State of Oregon (note c)	4,368,802,231	41,068,544	.94
Malheur County	2,477,299	392,060	15.83
South Carolina:			
Hardeeville	332,242	18,112	5.45
Jasper County	1,274,456	313,066	24.56
Washington:			
State of Washington (note c)	4,726,165,992	59,490,000	1.26
King County	116,054,422	7,087,758	6.11
Seattle (note d)	85,951,184	9,332,707	10.86
Wyoming:			
State of Wyoming (note c)	491,959,092	6,876,619	1.40
Cheyenne	7,799,221	294,268	3.77

^aFiscal year 1975
^bCalendar year 1973
^c1973-1975 biennium
^dGeneral fund only

CHAPTER 2

USE REPORTS DO NOT NECESSARILY

PROVIDE MEANINGFUL INFORMATION

A fundamental tenet of a democratic society holds that governments and agencies entrusted with applying public resources must render a full accounting of their activities. This accountability is not always specifically identified by legislative provision but is inherent in the governmental process. To achieve accountability, a government's reports and statements should contain information necessary for the public to form opinions on the effectiveness of public officials' actions.

The Congress intended that State and local officials be held accountable for the expenditure of revenue sharing funds. The Congress wanted the public to know how revenue sharing funds were being used and felt each recipient government's citizens could significantly influence proper expenditure of the funds. Accordingly, section 121 of the act requires each recipient government to report periodically to ORS and the public (through publication in a local newspaper) its planned and actual uses of the funds.

Ideally, for citizens to evaluate revenue sharing, the planned and actual use reports should disclose what is being accomplished with the funds. A recipient government can designate how it plans to spend its revenue sharing funds and, through its accounting records, can document such spending. However, such designations may not, in any way, reveal the direct or indirect impact of revenue sharing on the recipient government.

VIEWS OF STATE AND LOCAL OFFICIALS

We discussed the reporting requirements of the Revenue Sharing Act with budget officials in the 21 governments. Eighteen of these budget officials did not believe the planned and actual use reports provided meaningful accountability information to the public. The most frequent reason for their dissatisfaction was that the interchangeable nature

of money renders meaningless any designation of revenue sharing funds' uses. Other less frequent reasons were that the expenditure categories of the planned and actual use reports were too general, not relevant to local nomenclature, and required data for a fiscal year which did not coincide with the local fiscal period.

Officials from three recipient governments believed the use reports provided adequate public disclosure. Officials from two of these governments said the requirement for designating revenue sharing for specific expenditure categories had helped them reject requests of special interest groups who wanted additional funds spent in other program areas.

The following illustrate comments made by State and local officials.

Cheyenne, Wyoming

For budgeting purposes, Cheyenne considered revenue sharing funds to be a resource, identical to other revenue resources. The city's budget officer stated that the act's restrictions and requirements have not given Cheyenne any particular problems, because the city recognized the interchangeable nature of money and the possibility for displacing funds from other revenue sources with revenue sharing funds. He indicated that there will always be activities within the city budget which can be financed by revenue sharing money. Consequently, city funds can always be displaced by revenue sharing dollars and thereby freed for any purpose the city may feel necessary.

The budget officer felt the planned and actual use reports were beneficial for making citizens aware that city expenditures were being partly financed by Federal funds. However, he stated that, as far as accurate disclosure of the real impact of revenue sharing on the city was concerned, the planned and actual use reports were worthless. He expressed the view that, because of the interchangeable nature of money, no one can really determine what city activities were financed by revenue sharing.

An analysis of budget documents for Cheyenne indicated how designating and reporting the specific uses of revenue

sharing could be misleading. Cheyenne anticipated receiving \$328,791 in revenue sharing funds for fiscal year 1975. Cheyenne's planned use report showed that the city would earmark the entire amount for public safety operation and maintenance expenses, which, in our opinion, could readily indicate Cheyenne was planning to increase spending for its public safety activities through revenue sharing. The city director of finance, in the Cheyenne fiscal year 1975 budget message, said that over \$420,000 of revenue sharing funds would be budgeted for police salaries. This represents an amount retained in the city's revenue sharing trust fund plus part of the anticipated fiscal year 1975 payment. As shown below, the total police budgets for Cheyenne in fiscal years 1974 and 1975 were \$729,707 and \$819,450, respectively.

Cheyenne Police Department Budget
for Fiscal Years 1974 and 1975

	<u>FY 1974</u>	<u>FY 1975</u>	<u>Change</u>
Funds other than revenue sharing earmarked for police	\$729,707	\$399,172	\$-330,535
Revenue sharing earmarked for police	<u>-</u>	<u>420,278</u>	<u>420,278</u>
Total budgeted police expenditures	<u>\$729,707</u>	<u>\$819,450</u>	<u>\$ 89,743</u>

In fiscal year 1975, about 51 percent of the police department budget was to have been funded from revenue sharing, whereas in fiscal year 1974, none of the departmental budget was funded from revenue sharing.

According to Cheyenne's fiscal year 1975 budget statement, the rise in the police department budget was due to overall salary increases and a small increase in manpower. There was no evidence of any significant new police services. Assuming the city would not have reduced its police department budget in the absence of revenue sharing, we can assume revenue sharing earmarked for police in fiscal year 1975 displaced city revenues which would have been used to finance

police department expenditures. The city could have used the displaced funds to finance other city expenditures, to increase year-end surplus, to reduce taxes, or for other purposes.

State of Massachusetts

A State official said he believed the planned and actual use reports, even though prepared in accordance with the law and ORS regulations, failed to provide useful information to the public. He explained that, for budgeting purposes, revenue sharing funds were commingled with all other revenue sources, and therefore, a document which designated how a portion of the total was used does not accurately report the real impact of the funds.

For example, Massachusetts earmarked \$28 million of its fiscal year 1974 revenue sharing funds for housing and community development. The total housing and community development budgets for fiscal years 1973 and 1974 were \$36 million and \$39 million, respectively. In fiscal year 1974, over 70 percent of the housing and community development budget was funded from revenue sharing dollars, whereas in fiscal year 1973, the budget was ostensibly funded from other State revenues.

Assuming the State would not have reduced its fiscal year 1974 budget for this program in the absence of revenue sharing, the net effect of earmarking was to free State funds for other purposes.

State officials said that, as a practical matter, it was impossible to identify the specific State activities for which revenue sharing funds were actually used.

King County, Washington

A county official expressed the opinion that the reports were misleading because citizens were likely to believe the reported uses of the funds reflected the actual impact of revenue sharing on the county. County officials stated that revenue sharing funds were considered part of total county resources and, therefore, designations of the "uses" of the funds were meaningless. In King County, we were told revenue

sharing funds were reported as being used for those program areas in which spending increases were anticipated.

State of Hawaii

Hawaii's deputy budget director cited the following example to demonstrate how the public can be misled by the limited information and format presently required by the act. He explained that Hawaii's published planned use reports showed that revenue sharing funds were earmarked for debt service. Relying on this information, one special interest group asked why the State was not spending revenue sharing funds for social programs instead of debt service. This group could not determine from the report format the extent to which the State was supporting social programs from other funds. The deputy director told the group the State had many obligations and limited resources, especially during the early days of revenue sharing, and if any person or group felt the State should be devoting more resources to social programs, the most practical approach was to influence the budget making process toward expending a larger portion of the State's resources, of which revenue sharing was a part, on those programs. The deputy director explained the State could, on paper, comply with the special interest group's desires by earmarking all revenue sharing monies for social programs. He expressed the opinion, however, that such action would only displace State funds previously earmarked for social programs, which then would be used to meet other State obligations. This type of paper transaction would only mislead the public.

State of Wyoming

In the opinion of the Wyoming budget administrator, the planned and actual use reports do not provide meaningful information for the State's citizens. He explained that the State had designated and reported its revenue sharing funds for use in areas that would avoid potential compliance problems with the act's antimatching restrictions. (This restriction provides that revenue sharing funds may not be used, under certain circumstances, either directly or indirectly, to meet the matching requirements of other Federal aid programs). He also stated that designations of the uses for the funds were made in a way which would simplify accounting and reduce paper work.

Scottsdale, Arizona

A city finance department official said the planned and actual use reports did not accurately reflect revenue sharing uses or provide useful information for the public, because earmarking the uses of revenue sharing was simply an accounting exercise.

For purposes of preparing the use reports, Scottsdale had earmarked its revenue sharing funds for street and road improvement and expansion. A city official said that the funds were actually considered a part of total resources, and revenue sharing therefore affected the entire city budget with an unidentifiable effect on any one earmarked area.

Boston, Massachusetts

In its 1974 planned use report, which is summarized below, Boston reported its intention to use almost equal amounts of revenue sharing in five areas.

Summary of Boston's Fiscal Year 1974
Planned Use Report

	<u>FY 1974</u>
Public safety	\$ 4,235,500
Environmental protection	4,235,500
Public transportation	4,235,500
Health	4,235,500
Recreation	<u>4,235,277</u>
Total	<u>\$21,177,277</u>

In Boston, we were told revenue sharing funds were considered a part of total city revenues. The city budget director said he first established total budget requirements and then determined what revenues were available to meet the requirements. Total revenues were considered along with total budget needs before appropriation determinations for city government functions were made. Accordingly, when earmarking revenue sharing funds and preparing the planned use report for fiscal year 1974, the city simply selected several expenditure areas in which use of revenue sharing funds was authorized and designated approximately equal

amounts of the funds for use in each category. It would therefore be largely coincidental if the uses shown in the planned use report accurately reflected the city programs which benefited from revenue sharing.

The budget director said he did not believe the planned and actual use reports useful or meaningful and that he had not received any public response from the reports.

State of Washington

Washington had consistently shown, in the planned use reports, its intention to use all its revenue sharing funds for education. Officials stated that, to simplify record-keeping for accounting purposes, the funds would be disbursed to only six school districts. They expressed the view revenue sharing had no more impact on the State's education program than on any other program. A more realistic assessment, they said, would be that revenue sharing funds had displaced State funds which would otherwise have been used for education, freeing these funds for use throughout the budget.

Jefferson County, Arkansas

Revenue sharing has represented a very significant part of Jefferson County's total revenues. For example, in 1974, the county received \$1.4 million in revenue sharing funds, which amounted to almost half of the total county budget of \$2.9 million.

The county had earmarked and reported that its revenue sharing funds were used primarily for capital projects such as buildings, roads, and bridges. County officials, however, felt that revenue sharing has also had a tremendous effect on the county's social services. According to county officials, without revenue sharing, the county would have had to reduce its daycare program for children of working mothers, its county mental health program, and other social welfare programs.

One official said he was not sure the planned and actual use reports informed the public or promoted public participation in the budget process. He felt the reports were of

very little value and could probably be eliminated without affecting the budget-decision process.

Hardeeville, South Carolina

The town of Hardeeville, population about 1,000, was the smallest unit of government included in our review. Its size makes it similar to the majority of governments receiving revenue sharing funds, as about 80 percent of the more than 38,000 recipient governments have populations of less than 2,500. Town officials said they did not view revenue sharing as merely a part of total local resources. They considered revenue sharing funds a special Federal subsidy separate from the town's own resources and had spent the funds on what they considered very visible capital items. The mayor stated that revenue sharing permitted Hardeeville to update its vehicles and make other major capital expenditures, including a backhoe for the water department and a metal utility building.

Town officials generally felt more certain about the net impact of revenue sharing than did officials representing larger jurisdictions. Even in Hardeeville, however, there was a degree of uncertainty, exemplified by the mayor's opinion that some of the expenditures accomplished with revenue sharing would have been made with local funds if revenue sharing had not been received.

Minneapolis, Minnesota

The finance manager for Minneapolis said he had serious reservations about the usefulness of the planned and actual use reports. He indicated that, for budgeting purposes, the city considered revenue sharing funds to be just another resource, identical to any other funds generated by other city revenue sources. Considering the multiplicity of city sources of income and the fact that one dollar is the same as another, regardless of its source, he explained that it was not possible to make an absolute determination about how a recipient government's spending had been specifically affected by revenue sharing funds. He said that the planned and actual use reports only reflect the stated or speculated use of revenue sharing advocated by the recipient government, not what was actually accomplished with the funds.

CHANGES IN SPENDING PATTERNS

In view of the difficulties involved in identifying and reporting the impact of revenue sharing, we considered whether a comparison of a recipient government's budgets over several fiscal years would show a relationship between the receipt of revenue sharing funds and changes in spending patterns. If simple comparisons showed changes which could be attributed to revenue sharing, then recipient governments could perform the same type of comparison and report the results to the public.

At each of the governments, we compared several fiscal periods' budgets, or in the absence of budget documents, its spending patterns developed from financial records. Revenue sharing funds were initially distributed to State and local governments in December 1972. Accordingly, to obtain data which reflected spending patterns before and after receipt of revenue sharing, we generally used budgets which covered the following: (1) if the recipient government had a 1-year fiscal period, we compared its budgets for fiscal periods 1971 through 1974, or (2) if the government had a 2-year fiscal period, we compared its budgets for the three bienniums, 1969-71 through 1973-75.

We felt it would be possible to make a reasonably valid interpretation of the net fiscal impact of revenue sharing, in some of the governments--particularly for the budget period in which the funds were first received, and when revenues from other sources remained relatively static. This, however, is a subjective interpretation that cannot be demonstrated conclusively.

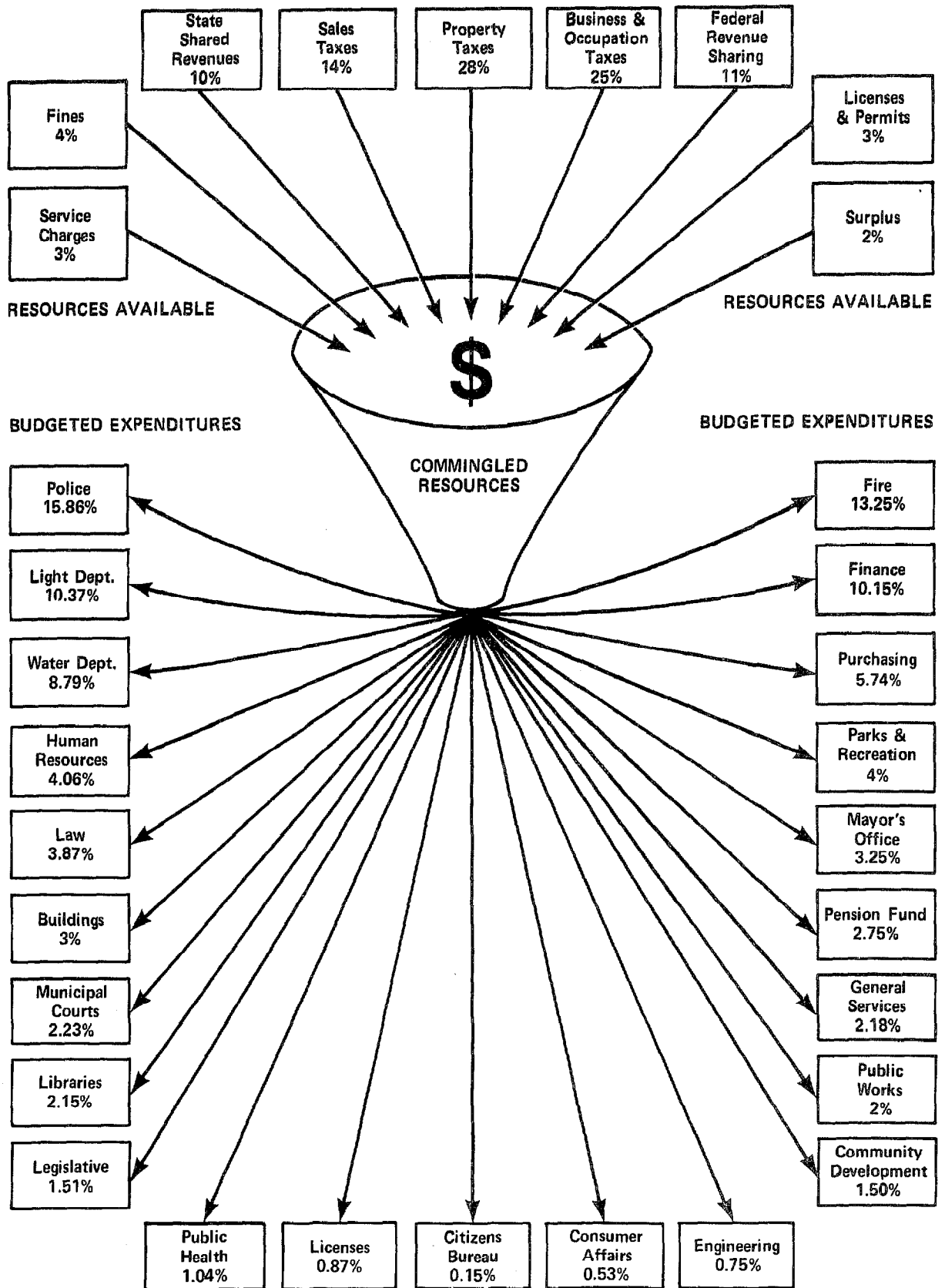
When we extended the budget comparisons beyond the budget period in which revenue sharing funds were initially received, we became less certain about even a subjective assessment concerning the funds' impact. The identification of the funds' net fiscal effect was not only complicated by the interchangeable nature of money, but also by changing priorities and needs, changing amounts of revenue from other sources, and the relatively small contribution revenue sharing made to the total resources of many governments.

Budget decisions are typically based upon total resources available to a government. As illustrated on page 17, a government can identify the amount of revenue sharing funds anticipated or received, as well as the amounts and sources of all other revenues. However, once funds from different sources are commingled for budgeting purposes, it is impossible to identify the source of the dollars that fund an expenditure category or specific expenditures such as a police car, a mayor's salary, or a street repair.

For reporting purposes, it becomes somewhat meaningless to earmark one revenue source for a specific set of expenditures and a second revenue source for a second set in circumstances where both revenue sources can be used interchangeably for the same expenditures. In such an environment, a report which purports to show uses of a specific revenue source offers no assurance of being meaningful unless the earmarking is intended to report on a fiscal requirement, such as a guarantee of minimum expenditures in a given functional area.

In our opinion, the planned and actual use reports imply a positive impact; i.e., increased spending in those programs for which revenue sharing funds are earmarked. This implication can be misleading and is the primary reason why the reports cannot serve as a key element in achieving accountability. The interchangeable nature of money can nullify the meaning of a report which relates specific expenditures to a specific source of revenue, such as revenue sharing. The real impact of revenue sharing may be in other areas.

HYPOTHETICAL GOVERNMENT



CHAPTER 3

OTHER EVALUATIONS OF THE

PLANNED AND ACTUAL USE REPORTS

The value of the planned and actual use reports in providing information to a concerned citizenry has been discussed by others who have studied the revenue sharing program.

In December, 1973, the National Planning Association hosted a conference, attended by researchers, Federal officials and representatives of interested private organizations, to discuss the revenue sharing program. In summarizing the consensus views of participants, the report on conference proceedings stated:

"Every meeting of some duration appears fated to produce at least one 'whipping boy', one issue that unfailingly prompts chuckles or knowing glances whenever it is mentioned. The whipping boy of this conference was the use reports, which are mandated by the legislation. Every jurisdiction receiving revenue sharing funds is required to file a planned use report prior to the beginning of each entitlement period and an actual use report at the end of each period. The immediate consensus of the conference was that the fungibility of revenue sharing funds would render the information contained in these reports virtually meaningless. As Professor Margolis put it in the concluding panel session, these reports should be labeled clearly 'dangerous, do not open' or 'use with caution'. But even on this issue there were some dissenting voices. The commonly expressed view was that the reports might well be of some value in the cases of smaller jurisdictions with simple budgetary processes. It is probably safe to say that most participants were willing to tolerate cautious use of the reports."

One study group at the conference hypothesized that "planned use reports and actual use reports are worse than useless since some people regard the data as indicative of the program's impact, which they are not." Some members of

the group were reported to have observed "that reported allocations have been based upon an objective to minimize compliance costs, and have borne little relationship to actual use."

In June 1974 the Subcommittee on Intergovernmental Relations of the Senate Committee on Government Operations held oversight hearings on revenue sharing. Witnesses who testified on the reporting system were generally concerned about the usefulness of the planned and actual use reports. Some of the comments made before the Subcommittee were:

--"The planned use reports and actual use reports, I think, are worse than meaningless."

--"The planned and actual use forms seem, to us, to be a tool for political expediency, and do not project a realistic statement of use."

--"The simple planned use report required by the act is by no means sufficient to satisfy the questions and concerns our citizens and public officials have about the manner in which we have allocated funds."

--"Although a given recipient government may 'attribute' shared revenue to police protection, if it does not spend any more for police than it would have anyway, then the real uses must be sought elsewhere."

--"One of the difficulties in encouraging citizen participation in the use of General Revenue Sharing funds is the fact that actual General Revenue Sharing expenditures may not reflect the ultimate uses of the General Revenue Sharing funds."

In his prepared statement for the Subcommittee, the President of the National Urban Coalition recommended that:

"In addition to submitting actual use reports, cities should be required to state how funds will affect the overall governmental budget. This is very important if citizens are to understand the consequences of the allocations."

The Advisory Commission on Intergovernmental Relations, in an October 1974 report on revenue sharing, said that:

"because revenue sharing dollars can be substituted for equal amounts of state and local revenues from their own sources, many of the conditions on the use of revenue sharing funds are largely cosmetic in character, and the Planned Use and Actual Use Reports are of little value for analysis of the ultimate impact of the program. By exercising a minimum of care, recipient governments can arrange their use of revenue sharing funds to conform to the letter, if not the spirit, of all existing requirements."

The report also noted that:

"it is virtually impossible to determine on an aggregate basis how revenue sharing funds have been spent. As revenue sharing becomes a recurring item in state and local budgets, its novelty, and hence its visibility will diminish * * * it remains questionable whether it will ever be possible to fully assess the ultimate impact of revenue sharing on state and local expenditure decisions and priorities."

The Commission suggested alternative reporting techniques but also argued that the interchangeable nature of "revenue sharing dollars and state and local own-source dollars makes all attempts to draft meaningful reporting requirements an exercise bordering on futility." It concluded that "Congress and the Administration should be constantly seeking more useful reporting techniques if Congress insists on requiring reports from revenue sharing recipients."

CHAPTER 4

CONCLUSIONS AND MATTERS FOR

CONSIDERATION BY THE CONGRESS

CONCLUSIONS

The Revenue Sharing Act required publication of the planned and actual use reports in a local newspaper to furnish citizens information necessary to hold State and local officials accountable for revenue sharing funds, thereby helping to insure wise and prudent uses of the funds.

Ideally, for public disclosure purposes, the planned and actual use reporting system should show what is being accomplished with revenue sharing funds, thereby reflecting the net fiscal impact of revenue sharing on recipient governments. However, such information would require knowledge of what a recipient government's budget and spending patterns would have been without revenue sharing funds.

Revenue sharing has become a part of the budgetary decision process of State and local governments. It is therefore very difficult, if not impossible, for State or local officials, especially those from governments with large and complex budgets, to isolate the actual fiscal impact of the funds.

Nonetheless, the planned and actual use reports, by requiring a designation for the "uses" of revenue sharing, carry an implication that the programs for which the funds were earmarked have benefited and, conversely, that those programs for which no funds were designated have not benefited from the program. Because of such misleading implications, the usefulness of the present reporting system has been questioned by various officials and other groups.

A government's financial reports should contain enough information for citizens to form opinions about the stewardship and judgment exercised by responsible public officials. For accountability purposes, citizens should know not only their government's total resources, but also how such resources are obtained, budgeted, and used. Because the revenue sharing use reports do not provide information about

other funds available to the recipient government, we believe it unrealistic to expect informed judgments to be made from the reports.

Because revenue sharing funds can be used by State governments for any purpose and by local governments for almost all functions, we believe that attempts to design a system which would assure accurate and meaningful reporting of the uses of revenue sharing--as a separate resource--would not be successful. While there is no simple solution to the reporting question, we believe that reports providing citizens with information on the planned and actual uses of all resources of the recipient government, including revenue sharing, would represent a considerable improvement over the present system.

A report summarizing the purposes for which a recipient government plans to use all its resources would provide citizens with information needed to evaluate overall budgetary priorities established by their public officials. If the report included a comparison with expenditure and revenue data for preceding fiscal periods, a citizen could formulate judgments about his government's response to changing conditions and needs.

MATTERS FOR CONSIDERATION
BY THE CONGRESS

For public disclosure purposes, we recommend that the Congress eliminate the existing requirements for reporting the planned and actual uses of revenue sharing and instead include requirements that recipient governments observe certain minimum practices designed to promote accountability to the public.

We suggest that, before the beginning of its fiscal period, each recipient government be required to prepare, in accordance with guidelines developed by the Secretary of the Treasury, a summary financial report disclosing its total financial plan for the coming fiscal period. The report, for comparative purposes, should include data showing estimated expenditures of the current fiscal period and actual expenditures of the previous period. The report should summarize all revenue and expenditure items, including

revenue sharing as a separate revenue item. Appendix I is an example of the summary report envisioned.

Each recipient government should prepare the recommended report using its own budget and accounting classifications system, rather than a federally imposed system. We believe use of local nomenclature would make the report more meaningful to local residents.

Before the start of the recipient's fiscal period, the report should be submitted to the Secretary of the Treasury and made available to the residents of each recipient government, either through publication in a local newspaper or, when such publication is not practical, by such other means as may be authorized by the Secretary.

The fundamental objective in preparing and publicizing the suggested report would not be completely met unless citizens had adequate opportunity to express their views. Accordingly, we recommend that the act require that each recipient government assure the Secretary of the Treasury it will provide notice and opportunity for its residents to voice their recommendations and views on the financial plan in a public hearing or in such other manner as the Secretary may authorize.

We recognize that many recipient governments are now following the recommended practices. Therefore, if adopted, the recommendations would have no effect on their present operations. We also recognize that publication and reporting standards authorized by the Secretary of the Treasury must be broad and flexible, to accommodate the great diversity among recipient governments.

Suggested language amending section 121 of the act to incorporate our recommendations is included as Appendix II.

CHAPTER 5

COMMENTS

A draft of this report was provided, for comment, to ORS and the 21 governments included in our review. We also discussed the report with various public interest groups representing State and local government, civil rights groups, and community action organizations. In addition to requesting comments on the report, we asked all persons reviewing it to suggest improvements for the reporting system.

In general, there was no disagreement with the findings and conclusions; however, some concern was expressed about our recommendations. The recommendations contained in the draft were as follows:

- (1) That the Congress amend the act to eliminate requirements for reporting specific planned uses of revenue sharing and require instead that recipient governments submit to the Department of the Treasury and publish in a local newspaper a summary report disclosing all anticipated revenues (clearly specifying the amount of revenue sharing included in total revenues) and budgeted expenditures.
- (2) That the Congress amend the act to require that recipient governments hold a public hearing on their total spending plan and provide advance public notice of the hearing. Recognizing that the public hearing requirement might be impractical, in some cases, the report suggested that the Secretary of the Treasury be given administrative authority to waive the public hearing requirement.
- (3) That the Congress eliminate the requirement for reporting the specific actual uses of revenue sharing and require instead that each recipient, at the conclusion of its fiscal period, submit to the Department of the Treasury and publish in a local newspaper a summary report disclosing all revenues received, including revenue sharing, and all expenditures actually accomplished during the period.

- (4) That, since many small recipient governments lack sophisticated budget and accounting systems, the Secretary of the Treasury be given administrative authority to prescribe simplified reporting and publication formats which could be used at the option of recipient governments in lieu of their own formats.

After further consideration of our draft recommendations, we concluded separate reports on planned and actual expenditures were not necessary because an expanded planned expenditure report, which included data on estimated and actual expenditures from prior fiscal periods, would accomplish the same purpose. In addition, our final recommendations were modified and clarified based on the comments of the various reviewers. The comments we received are summarized below.

RECIPIENT GOVERNMENTS

Officials representing the recipient governments included in our review generally agreed with our conclusions and recommendations. They felt they would have little trouble complying with the recommended procedures.

Officials of 5 of the 14 local governments, however, expressed concern that the recommended public hearing and publication requirements would place an unnecessary burden on many recipient governments. Many governments, they pointed out, now have open public hearings on their budgets and publish overall fiscal information. They suggested we revise the language in the report to indicate clearly that governments now holding public hearings and publishing budget data would not be required to have additional hearings or publications, if their current system meets or exceeds the recommended requirements. Officials of three State governments were concerned about our recommendation for public hearings on the budget, observing that the legislative process in approving the State budget acts in place of public hearings.

We clarified our recommendations to recognize that, in many instances, public hearings, State legislative processes, and publication policies now followed by recipient governments would satisfy the recommendations.

PUBLIC INTEREST, CIVIL RIGHTS,
AND COMMUNITY ACTION GROUPS

Officials from public interest groups representing State and local government agreed with our findings and conclusions and had no significant objections to our recommendations.

Representatives of civil rights and community action groups, while agreeing that budget and accounting designations used in the planned and actual use reports might not be meaningful, did not agree that the designations should be eliminated. In their opinion, the designations provide the public with a Federal "handle" to become involved in the State-local budget process and they suggested that our illustrative report format (see app. I) be modified to show the uses of revenue sharing funds.

As discussed throughout this report, "uses" reflected by financial records and reports have little or no relation to the actual impact of revenue sharing. Therefore, reliance on reported "uses" of revenue sharing as a "handle" could result in erroneous conclusions about a government's proposed budget.

We believe citizens should have information showing where their government's total resources are obtained and used. The report format that we suggest would show the amount of revenue sharing funds a government received, and this knowledge could be used as a "handle" for reacting to the government's plans for spending all its funds, regardless of source.

OFFICE OF REVENUE SHARING

In commenting on the draft (see app. III) the Director, ORS, said, "We agree in large part with the findings and conclusions relating to needed improvements in the reports of planned and actual uses of general revenue sharing funds required of recipient governments * * *." The Director added, however, that they did not concur in the details of the recommendations contained in the draft report, and urged that we consider rephrasing the recommendations to provide the Secretary of the Treasury discretion to accomplish the results intended without prescribing specific mechanisms. The major points raised by the Director are discussed below.

Public hearings

The Director stated he agreed with the general recommendations directed toward assuring adequate opportunity for citizen input to the budget process. He disagreed, however, that requiring public hearings was the best means to satisfy the objective. He recommended that the purpose could be better served by requiring "each recipient government (to) assure the Secretary that it will provide notice and opportunity to the residents so that they may give recommendations and views on the proposed expenditures of general revenue sharing funds in a public hearing or in such other manner as the Secretary may prescribe by regulation."

In our judgment, the suggestion that residents be given an opportunity to express their views on the proposed expenditure of revenue sharing is not sufficient. Because data on the proposed uses of revenue sharing may not be particularly meaningful, we believe that citizens should be assured of the opportunity to express their views on the total fiscal plans of their governments.

We agree with the Director's observation that requiring a formal public hearing might not be practical in all circumstances and clarified our recommendations.

Contents and value of proposed reports

Our recommendations contemplate recipient governments using their own budget and accounting classification systems and formats in preparing the reports, observing minimum standards developed by the Department of the Treasury.

The Director stated it was difficult to see how such reports could be aggregated and expressed concern that the reports would, therefore, be of sharply diminished value to the public and of even less value to the Congress or Secretary of the Treasury.

ORS has consolidated and published data from the present planned and actual use reports to provide a national overview of how recipient governments have used their revenue sharing funds. We doubt that such consolidations are any more

meaningful than the planned and actual use reports prepared by individual governments.

In framing our recommendations, we attempted to recognize the inherent futility of insuring accountability by State and local governments to the Federal Government under a program of general fiscal assistance, like revenue sharing. As one State official, who questioned the need for any reporting, put it, "The present reporting system carries with it the naive assumption that State and local governments can still be (held) accountable to the Federal Government for the use of General Revenue Sharing entitlements." In the final analysis, the degree of accountability achieved under the Revenue Sharing Program is almost exclusively dependent upon State and local government practices. Our recommendations are intended to provide some assurance to the Federal Government that all recipient governments observe certain minimum public accountability practices in their expenditure of public funds, including revenue sharing.

Relation of proposed reports to existing restrictions and requirements

The Director said our report should clarify how the proposed new reports would be related to the priority expenditure categories, the non-matching restriction, the prohibition against discrimination, and the Davis-Bacon requirements contained in the law.

There would be no relationship, nor is one necessarily needed. The original revenue sharing bill passed by the House of Representatives did not contain a requirement for reporting planned and actual uses of the funds. Section 105 of the bill required a local government to assure, to the satisfaction of the Secretary of the Treasury, its compliance with the restrictions and requirements of the act. This assurance was to be accomplished in accordance with regulations prescribed by the Secretary and subject to audit by the Secretary and Comptroller General. Assuming the Congress extends the act and retains the present requirements in the Revenue Sharing Program, ORS could look to a recipient government's financial records to identify the designated uses of revenue sharing funds and determine whether the government had complied with the restrictions.

Alternative means
of publication

The Director suggested that the Secretary of the Treasury be given authority to prescribe by regulation alternative means of publication for required reports, when the cost of newspaper publication is excessive compared to the amount of revenue sharing funds received, or where other means of publicizing the reports seem more appropriate or more effective. We agree with this suggestion, and revised our recommendation accordingly.

Administrative matters

Our recommendations envisaged recipient governments submitting their financial plans to the Department of the Treasury, publicizing their plans locally, and holding public hearings prior to the beginning of their fiscal period. Observing that fiscal periods of recipient governments vary, the Director stated that the resulting sporadic submission of non-standard reports would increase the ORS workload and cause administrative difficulties.

Our intent in suggesting that the reports be submitted to the Department of the Treasury was to provide some evidence that (1) the reports were being prepared and published and (2) reporting standards prescribed by the Department were being observed. To meet these objectives the reports need not be submitted sporadically throughout the year. If administration would be simplified, the Department could require that all reports be submitted on a certain date, and the recipient governments could still be guided by their own fiscal period in preparing and publicizing the reports. It may be that reviewing non-standard reports will increase the workload of ORS; however, any increase should be partially offset by the elimination of the present planned and actual use reports and the administrative work associated with them.

The Director also noted recipients must know how much money they will receive before any report could be prepared. He stated that ORS could provide this information only once a year and that the period covered by the revenue sharing allocation information did not, in many cases, correspond to the recipient's fiscal period. In preparing their overall

fiscal plans under the present system, recipient governments must rely on an annual notification from ORS to develop an estimate of revenue sharing receipts during their particular fiscal periods. We would expect that, where necessary, such estimates would be used to prepare the recommended reports.

CHAPTER 6

SCOPE OF REVIEW

We visited each of the 21 governments listed on page 6 and reviewed their financial records.

To determine how revenue sharing funds affected the governments' spending decisions, we obtained overall financial information, covering periods before and after the first receipt of revenue sharing funds. We analyzed this data, and interviewed budget officials, to determine if a relationship between the governments' earmarked use of revenue sharing funds and changes in budgetary and expenditure patterns could be demonstrated. In addition, we compared the revenue sharing use reports with governments' own budgets and asked budget officials to assess planned and actual use reports.

SAMPLE FINANCIAL PLAN TO BE PUBLISHEDBY REVENUE SHARING RECIPIENTSSummary of Fiscal Year 1974 Budget
City of X

	REVENUES		
	Actual fiscal year 1972	Estimated fiscal year 1973	Budgeted for fiscal year 1974
General fund			
Unencumbered beginning			
cash balance	\$ 790,000	\$ 810,000	\$ 913,000
Nonproperty taxes	2,897,000	2,950,000	3,059,000
Property taxes	615,000	620,000	534,000
Motor vehicle fees	68,000	70,000	81,000
Prior year's tax collections	1,200	3,000	2,000
Revenue sharing	-0-	283,000	294,000
Other Federal aid	120,000	100,000	140,000
Police pension fund	64,000	65,000	62,000
Sinking fund	118,000	120,000	129,000
Water fund	1,868,000	1,880,000	2,092,000
Sewer fund	408,000	410,000	430,000
Total	<u>\$6,949,200</u>	<u>\$7,311,000</u>	<u>\$7,736,000</u>
	EXPENDITURES		
	Actual fiscal year 1972	Estimated fiscal year 1973	Budgeted for fiscal year 1974
General fund			
Fire department	\$ 560,000	\$ 580,000	\$ 581,000
Police department	680,000	695,000	742,000
Airport department	173,000	180,000	135,000
City clerk	49,000	53,000	55,000
Golf course department	115,000	112,000	110,000
Park and recreation	240,000	252,000	273,000
Central shops	115,000	120,000	126,000
Sanitation department	571,000	590,000	588,000
Street/alley department	823,000	830,000	842,000
Traffic engineering	171,000	175,000	256,000
Health and hospitals	342,000	340,000	351,000
Welfare and social services	241,000	281,000	287,000
Other	1,098,000	1,128,000	1,155,000
Police pension fund	45,000	47,000	49,000
Sinking fund	51,000	53,000	53,000
Water fund	1,407,000	1,480,000	1,550,000
Sewer fund	229,000	238,000	254,000
Total city expenditures	<u>\$6,910,000</u>	<u>\$7,154,000</u>	<u>\$7,407,000</u>
Surplus or (deficit)	<u>39,200</u>	<u>157,000</u>	<u>329,000</u>
Total	<u>\$6,949,200</u>	<u>\$7,311,000</u>	<u>\$7,736,000</u>

NOTE: This was prepared by GAO for illustrative purposes only. It does reflect a departmental financial classification system used by one of the cities included in our review. Another city might have a program budget with expenditure categories such as public safety, environmental protection, social services for the aged, and so forth.

SUGGESTED NEW SECTION 121STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972

Sect. 121 Reports, Publication and Public Hearings

(a) Reports-Each unit of government which receives funds under subtitle A shall, before the beginning of its fiscal period prepare a report, in accordance with guidelines developed by the Secretary of the Treasury, summarizing all anticipated revenues and expenditures for the coming fiscal period. This report should include comparable information showing estimated and actual revenues and expenditures for the current and preceding fiscal periods, respectively.

(b) Publication-Before the start of the recipient government's fiscal period the report shall be printed in a newspaper which is published within the State and has general circulation within the geographic area of the government or, when such publication is not practicable, by such other means as may be authorized by the Secretary. A copy of this report shall be submitted to the Secretary.

(c) Public hearings-Each recipient government shall assure the Secretary it will provide notice and opportunity for its residents to voice their recommendations and views on the report required under subsection (a) in a public hearing or in such other manner as the Secretary may authorize.



OFFICE OF THE SECRETARY OF THE TREASURY



OFFICE OF REVENUE SHARING
2401 E STREET, N.W.
COLUMBIA PLAZA HIGHRISE
WASHINGTON, D.C. 20226

APR 9 1975

Dear Mr. Lowe:

Thank you for the opportunity to comment on the General Accounting Office's draft report titled "Revenue Sharing: An Opportunity for Improved Public Awareness."

We agree in large part with the findings and conclusions relating to needed improvements in the reports of planned and actual uses of general revenue sharing funds required of recipient governments by the State and Local Fiscal Assistance Act of 1972. I am glad to report that President Ford will propose amendments to the Act which would allow the required reports of the planned and actual uses to better provide information useful to the Congress and the general public; insure increased opportunity for public participation in decisions on the uses of shared revenues; and provide for meaningful local publicity using the reports.

We believe that the planned and actual use reports can best be made more informative by amending the Act to afford the Secretary of the Treasury discretion to establish the form and content of the report. We do not concur in the details of the recommendations contained in the draft report, however, for reasons that are discussed more fully below.

We are in strong agreement with the general recommendation in the draft report directed toward assuring adequate opportunity for local residents to participate in decisions on the planned use of revenue sharing funds. We do not believe that requiring public hearings (with a provision under certain circumstances for the Secretary to waive the requirement for the public hearing) is the best means to satisfy the objective. As you know, revenue sharing recipients include many small local governments, Indian tribes and Alaskan native

villages, as well as the largest state and local governments in the United States. In consideration of this diversity, we believe that the purpose may better be served by amending the Act to require that each recipient government assure the Secretary that it will provide notice and opportunity to the residents so that they may give recommendations and views on the proposed expenditures of general revenue sharing funds in a public hearing or in such other manner as the Secretary may prescribe by regulation.

In a closely related matter, we also believe that the Secretary should be authorized to prescribe by regulation alternative means to publicize the planned and actual use reports when the costs of newspaper publication are excessive in relation to the amount of the entitlement of the government, or where other means of publicizing the reports are more appropriate and may be more effective. In the past, a few governments receiving less than \$1,000 have had to spend \$100 or more for publication. In other instances, there is no newspaper circulated generally within the geographical area of the locality. In still other cases, especially for isolated local governments, Indian tribes and Alaskan native villages, it has been suggested that there are more effective ways to promulgate the information contained in the reports to the residents of the community.

Returning to the subject of the recommendations for changes in the planned and actual use reports proposed in the draft report, we have serious concern that several of the detailed provisions of the recommendations may be found undesirable or impractical.

The draft report does not clearly state at what time of the year recipient governments would submit the financial plan proposed by GAO to replace the existing report of planned uses. On page 33, the draft report says that "a summary report at the close of the recipient's fiscal period showing actual revenues and expenditures would complete the public disclosure cycle." Is it the intent of the GAO proposal that each recipient government would submit the financial plan and the summary report at the beginning and end of its own fiscal year, or is it the intent that they all would submit the reports at the same time each year as is presently required?

The timing of reporting by recipients is directly related to other provisions of the Act and to operational practicality. To complete the planned use report, or the

new report proposed by GAO, the recipient government must know the amount of revenue sharing funds which it can expect to receive in the forthcoming entitlement period (a federal fiscal year). The Office of Revenue Sharing can provide the information on the amounts the recipient governments may expect to receive only once each year, at the time the Office of Revenue Sharing computes allocations for all governments based on the most recent available data for the appropriate entitlement period. Also, the Act presently requires that reports of planned uses be received by the Office of Revenue Sharing prior to the beginning of each entitlement period.

Thus, the recipient government cannot know the amount of shared revenues to expect in the future entitlement period until that date when the Office of Revenue Sharing has computed those allocations and makes the information available. Since the recipient government must return the completed report to the Office of Revenue Sharing before the beginning of the next entitlement period, there is a single, limited period of time each year during which it is feasible for recipient governments to prepare, publicize, hold hearings on, and submit to the Secretary of the Treasury the report proposed. This time period does not and could not coincide with the beginning of the various fiscal years of all 39,000 governments.

The fiscal periods of state and local governments vary considerably. Approximately one-third of the governments use a calendar fiscal year, approximately one-third use the present federal fiscal year, and the remaining one-third have fiscal years beginning on other dates throughout the calendar year.

The actual use report, which GAO proposes to replace with a summary report at the end of the recipient's year, presently is submitted annually at the time prescribed by the Secretary rather than at a statutorily prescribed date. If GAO intends that these reports be submitted sporadically throughout the year rather than at a single time, it will be necessary for the Office of Revenue Sharing to determine on a continuing basis the ending date of the fiscal year for each of the 39,000 governments. Then, as we understand the draft report, the Office of Revenue Sharing would be obliged to continuously review the reports submitted by governments to determine

which governments have failed to submit the required report. Where the reports had not been filed on a timely basis, it follows that the Office of Revenue Sharing would necessarily give individual notice to each delinquent government and proceed thereafter as appropriate in each case. If this interpretation of the draft report is correct, we would envision a vastly increased workload as a direct consequence of the necessity of collecting and maintaining current information on the dates of the fiscal years of all governments and continuously monitoring for timely submission the reports of each government in relation to each government's own fiscal year.

It also appears that the draft GAO report intends that each state and local government would itself determine what information should be contained in the two reports and how that information should be presented both in form and in content, presumably (although not explicitly) according to criteria established by the Secretary of the Treasury through regulations. The report does state on page 34 that "...the Congress may want to consider granting the Secretary of the Treasury administrative authority to prescribe simplified reporting and publication formats which could be used at the option of recipient governments in lieu of their own formats."

If the intent of the draft report is to permit each of the 39,000 governments to design its own report, and itself be able to exercise the option of using or not using a standardized form, we are greatly concerned that the reports would be of sharply diminished value to the public and of little or no value to the Secretary of the Treasury or to the Congress.

If each government devises its own report, it would follow that unless the Treasury Department were to merely accept the reports without review for sufficiency, the staff administering the revenue sharing program would have to be expanded greatly to allow individual judgments to be made on the completeness and sufficiency of each report. Further, it is difficult to see how such reports could be aggregated to produce the information for the Secretary and Congress without adding a large professional staff to interpret and classify whatever information might be submitted on each report. If GAO intends that the Secretary of the Treasury should merely record receipt of each report as evidence of publication, then additional staff would not be required: but it is questionable

whether there would be any value in having the report submitted to the Secretary of the Treasury for this purpose alone.

If GAO intends that there should be no standardization of these reports, the diversity of the report formats and content would greatly increase the difficulty of informing interest groups and the public concerning the meaning of the reports. GAO may wish to consider obtaining the views of interest groups concerned with citizen participation and civil rights to determine their views as to the value to their members of the information that would be contained in unstandardized reports.

The draft report appears to propose that neither of the new reports should link shared revenues to any particular purpose of expenditure. Yet the draft report does not address the implications of this change in relation to the various requirements and prohibitions contained in the general revenue sharing law. At a minimum, we believe that the GAO report should clarify how the proposed new reports would be related to the priority expenditure categories, the non-matching restriction, the prohibition against discrimination, and the Davis-Bacon requirements contained in the law.

Is it intended that these requirements and prohibitions continue to apply? If so, what if any changes does GAO intend should be made in their application? Would discrimination be prohibited in all programs and activities of a recipient government, or would it continue to be prohibited in any program or activity funded in whole or in part with revenue sharing funds as the law presently prescribes?

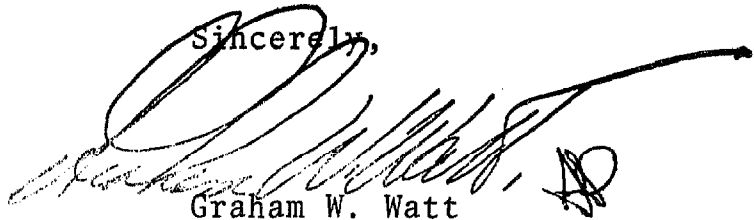
Would the limitation against the use of general revenue sharing funds as the local matching funds for federal grants be continued, or does GAO intend that it should be deleted from the law? If the non-matching limitation is continued, it is obvious that it could not apply to all revenues of a local government, but it is not clear from the draft report whether it would continue to apply to the expenditures of shared revenues. If it would continue to apply to the expenditure of shared revenues, does GAO intend that each recipient government continue to maintain separate revenue sharing appropriation accounting?

In summary, we urge that GAO expand the draft report to address the significant implications of the specific

reporting methods recommended, including both administrative feasibility at the federal as well as at the state and local levels and the relationship of the recommendations to the other major provisions of the law upon which they impact.

We urge that GAO consider rephrasing its recommendations to provide the Secretary of the Treasury discretion to accomplish the results intended by GAO without prescribing specific mechanisms. We would encourage phrasing along the general lines suggested in the early part of these comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Graham W. Watt', with a long horizontal flourish extending to the right.

Graham W. Watt
Director
Office of Revenue Sharing

Mr. Victor L. Lowe
Director
General Government Division
General Accounting Office
441 G Street, N. W.
Washington, D. C. 20548

GAO note: Page references in this appendix may not agree with page numbers in the final report.

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF THE TREASURYHAVING AN INTEREST IN
THE MATTERS IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF THE TREASURY: William E. Simon	Apr. 1974	Present
DIRECTOR, OFFICE OF REVENUE SHARING:		
John K. Parker (acting)	Aug. 1975	Present
Graham W. Watt	Feb. 1973	Aug. 1975

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