

ties, 1958; small business research and management counseling (including liquidation), 1959-66; area redevelopment assistance and public facilities, 1963-67; accelerated public works, 1963 to date; educational television, 1965-66 and 1968-69; rural water and waste disposal, 1966 to date; arts and humanities activities, 1966-68; Department of Commerce State technical services, 1966-70; Appalachian assistance and regional development and law enforcement assistance, 1966 to date; economic development facilities and technical and com-

munity assistance and National Foundation on the Arts and the Humanities, 1967 to date; economic development planning and research, 1968-71 and 1973; oceanic and atmospheric research, development, and facilities, Corporation for Public Broadcasting, and preservation of historic properties, 1971 to date; intergovernmental personnel assistance, State boating safety assistance, and natural gas pipeline safety, 1972 to date; and Regional Action Planning Commission, Occupational Safety and Health Administration, and mine health and safety, 1973.

Notes and Brief Reports

General Revenue Sharing Program: A Closer Look*

The State and Local Fiscal Assistance Act of 1972 (Public Law 92-512) established a new type of Federal program to provide financial assistance to State and local governments—the general revenue sharing program. Under the provisions of the law a total of \$30.2 billion of Federal individual income tax receipts are to be distributed to the lower governmental units during the 5-year period January 1, 1972–December 31, 1976. The States and localities have wide latitude in spending their revenue sharing receipts.

Highlights of the revenue sharing program, including statistics from the first use reports of the new program, are given in the article on Federal grants, pages 00-00 of this issue. This Note examines more closely the provisions of the statute that authorizes the distribution and appropriation of the money.

PERMITTED EXPENDITURES

The State and Local Fiscal Assistance Act of 1972 sets forth permitted and prohibited uses of revenue sharing funds by the recipient governments. Regulations of the Office of Revenue Sharing of the Department of the Treasury have refined and spelled out these uses, particularly for local governments.

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State governments receive for their own uses one-third of the State's total revenue sharing allocation. They may spend their share for any purpose that their own laws permit them to spend the revenues they raise themselves. Local governments (including Indian tribes and Alaskan native villages with recognized governing bodies performing substantial government functions) together receive the remaining two-thirds of each State's allocation. Each local unit may spend its share for any capital expenditure authorized by local law and for operation and maintenance costs in any or all of eight "priority expenditure" categories.

The "capital expenditure" categories—usually spelled out by all recipient governments' own laws—generally include purchases of land and facilities, construction projects, and repairs and replacement of equipment. Purchases of ambulances and firefighting equipment, structural repairs to school buildings, parkland purchases, and road repairs are among the capital expenditures reported to the Office of Revenue Sharing.¹

The "priority expenditure" categories for local governments listed in section 103 (a) (1) of the act are the following: "Public safety (including law enforcement, fire protection, and building code enforcement), environmental protection (including sewage disposal, sanitation, and pollution abatement), public transportation (including transit systems and streets and roads), health, recreation, libraries, social services for the poor or aged, and financial administration. . . ." The Office of Revenue Sharing notes examples of other permissible expenditures under these rubrics as

¹ Priscilla R. Crane, *General Revenue Sharing—The First Planned Use Reports* (Department of the Treasury, Office of Revenue Sharing), September 24, 1973. Much of the descriptive material in this section is paraphrased from Ms. Crane's report.

including (but not limited to): Courts, corrections, crime prevention, civil defense, smoke regulation, water supply inspection, highways, bridges, grade crossings, snow and ice removal, food, clothing, shelter, day care, and job training.

Local governments are expressly prohibited from using revenue sharing receipts for operation and maintenance expenses in education, for direct welfare payments, or for general administration. Revenue sharing receipts, including any interest they may have earned, may not be used by a State or local government to match Federal funds directly or indirectly in federally funded programs requiring matching contributions. Nor may they be used for a program that excludes any persons from participation or discriminates against them.

Two restrictions apply to wages: (1) On contracted or subcontracted construction projects costing over \$2,000 of which 25 percent or more comes from revenue sharing, laborers and mechanics must be paid at least the area prevailing wage as determined by the U.S. Department of Labor under the Davis-Bacon Act; and (2) if 25 percent of the wages of a recipient government's own employees in any job category are paid all or partly from revenue sharing, those wages must not be lower than that government pays its other workers in similar jobs.

Revenue sharing funds must be used, obligated, or appropriated by the recipient governments within 24 months of the end of the entitlement period for which each Federal check was written. Thus the last of the \$30.2 billion may not be flowing into the private sector until well after 1978.

FINANCING

The State and Local Fiscal Assistance Act of 1972 appropriated a total of \$30.2 billion from Federal individual income-tax collections to be distributed to the more than 38,000 State and local governmental units in the United States during the 5 years ending December 31, 1976.

Section 105 of title I of the act created a trust fund, managed by the Secretary of the Treasury, to receive the appropriations and pay them out as scheduled. Quarterly payments occur at the beginning of each October, January, April, and

July. The schedule of appropriations by entitlement period is shown below.

| Number of period | Entitlement period | | Amount appropriated (in millions) | |
|------------------|----------------------|---------------------------------|-----------------------------------|------------|
| | Duration (in months) | Date | Per period | Cumulative |
| 1----- | 6 | Jan 1-June 30, 1972----- | \$2,650 0 | \$2,650 0 |
| 2----- | 6 | July 1-Dec. 31, 1972----- | 2,650 0 | 5,300 0 |
| 3----- | 6 | Jan 1-June 30, 1973----- | 2,987 5 | 8,287 5 |
| 4----- | 12 | July 1, 1973-June 30, 1974----- | 6,050 0 | 14,337 5 |
| 5----- | 12 | July 1, 1974-June 30, 1975----- | 6,200 0 | 20,537 5 |
| 6----- | 12 | July 1, 1975-June 30, 1976----- | 6,350 0 | 26,887 5 |
| 7----- | 6 | July 1, 1976-Dec. 31, 1976----- | 3,325 0 | 30,212 5 |

This trust fund earns no interest; its assets are not invested. Instead, section 105 (c) of the act authorizes the Secretary of the Treasury to transfer back to the general fund any trust fund moneys that he determines will not be needed to make revenue sharing payments to the lower levels of government.

Applications for general revenue sharing funds are not required from either State or local governments. Allocations among the States are made automatically according to whichever of two formulas produces the larger amount. One formula allocates funds to the States according to three factors—population, tax effort, and a relative income factor. The other formula allocates funds according to population, urban population, per capita income, income-tax collections, and general tax effort.

Each State's allocation is then subdivided: One-third of the State's total for each entitlement period goes to the State government and two-thirds is divided among the lower governmental units, according to a system of ratios set forth in the law together with maximum and minimum provisions. Recipient governments are required to put their revenue sharing receipts into a trust fund either by opening a separate bank account or by setting up a separate set of accounts on their books.

To minimize disputes, the 1970 census is used for all population data; any subsequent growth is disregarded. Income and tax data for the distribution formulas are from special compilations by the Bureau of the Census for the Office of Revenue Sharing.

Eligibility to participate in revenue sharing is limited to units of general government. "In

particular it must not be a special-purpose unit. This definition excludes school districts, special utility districts, library districts, and agencies of local governments, even though these agencies may be relatively autonomous."² Private organizations and nongovernmental agencies or such other governmental units as fire districts may request and receive revenue sharing funds from State and local governments if the laws of the latter permit such transfers.

Any recipient government may waive its right to participate in the revenue sharing program, one entitlement period at a time, on an irrevocable basis. Funds thus waived will be added to the entitlement of the next highest eligible unit of government in the State. In the unlikely event that the waiving government is a State, the funds revert to the Federal Government.

ACTUAL EXPENDITURES

Approximately 32,700 of the 38,000 governmental units receiving general revenue sharing funds reported on their actual (as opposed to planned) use of these funds through the end of fiscal year 1973. Of the \$6.6 billion disbursed in revenue sharing—including payments retroactive to January 1, 1972—States and localities reported expenditures totaling \$2.8 billion, or 42.5 percent of the total.³ Table 2 on page 28 of this issue gives a breakdown of the actual uses of the \$2.8 billion by function.

Although no permissible expenditure category was totally neglected, the bulk of the funds went for education, public safety, and public transportation, in that order. State governments alone made 65 percent of their revenue sharing expenditures in the education area.

Two-thirds of the reported expenditures were for operation and maintenance, and only one-third were for capital projects, contrary to the planned-

² Joint Committee on Internal Revenue Taxation, *General Explanation of the State and Local Fiscal Assistance Act*, February 12, 1973, page 36, as quoted from *What is General Revenue Sharing?* (Department of the Treasury, Office of Revenue Sharing), page 6.

³ All data on actual expenditures are taken from David A. Caputo and Richard L. Cole, *Revenue Sharing: The First Actual Use Reports* (prepared for the Office of Revenue Sharing, Department of the Treasury), March 1, 1974.

use reports for entitlement periods 3 and 4. State governments alone used 94 percent of their funds for operation and maintenance expenditures. New services, which accounted for 20 percent of all reported revenue sharing expenditures, were highest in education (39 percent), recreation and culture (25 percent), and financial administration (25 percent). More than 44 percent of all units of government reported that revenue sharing had reduced taxes or avoided tax increases, and one-third reported that these funds had either avoided or lessened debt increases.

The widespread use of revenue sharing funds for tax reduction does have some far-reaching implications. Under the allocation formula, States and localities that reduce taxes or reduce their tax effort receive a smaller slice of the available general revenue sharing funds. In addition, as some economists have noted, reduction of certain taxes as opposed to others can have an unfavorable effect on the objectives of revenue sharing itself: "The redistributive goal of revenue sharing can be thwarted if States and localities use the receipts to reduce their most progressive taxes. . . ."⁴

Effect of OASDI Benefit Increases, 1974*

Amendments to the Social Security Act passed in December 1973 provided for an 11-percent increase in monthly cash benefits under the old-age, survivors, disability, and health insurance program. The law specified that the increase would be payable in two parts—7 percent to be effective in March 1974 and 4 percent in June 1974.

MARCH INCREASE

The checks for the March benefit, delivered to beneficiaries during the first week of April, reflected the first installment of the increase. The monthly benefit amounts as of the end of February and those after the 7-percent increase

⁴ Edward R. Fried et al, *Setting National Priorities: The 1974 Budget*, Brookings Institution, 1973, page 276.

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