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ABSTRACT

The results of the G.A.O.'s State-by-State investigation of the status of the $1.7 billion distributed to 50 State governments and the District of Columbia for 1972 are reported in this pamphlet. The investigation attempted to assess the actual impact of revenue sharing in such areas as tax reduction, changes in budget priorities, and increased funding for programs. The findings reflect the subjective assessments by knowledgeable State officials of the broad fiscal impact that revenue sharing funds would have on their States. (JF)

REPORT TO THE CONGRESS

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Revenue Sharing: Its Use By And Impact On State Governments

B-146285

Department of the Treasury

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

AUG. 2, 1973

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

We are reporting on the use of revenue sharing funds by the 50 State governments and the District of Columbia.

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 the State and Local Fiscal Assistance Act of 1972 (86 Stat. 934).

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

Comptroller General
of the United States

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D I G E S T

WHY THE REVIEW WAS MADE

The Revenue Sharing Act provides for distributing approximately $30.2 billion to State and local governments for a 5-year program period beginning January 1, 1972. It directs the Comptroller General to review the work done by the Department of the Treasury, the State governments, and the local governments so that the Congress may evaluate compliance and operations under this new and fundamentally different kind of Federal aid.

This report, concerning GAO's review of the status of the $1.7 billion distributed to 50 State governments and the District of Columbia for calendar year 1972, is the first of a series of reports on revenue sharing.

FINDINGS AND CONCLUSIONS

The act gives State and local governments wide discretion in deciding how revenue sharing funds will be used.

About $5.1 billion in revenue sharing funds for 1972 was distributed in two installments--the first in December 1972 and the second in January 1973. About $3.4 billion went to local governments, and about $1.7 billion went to the States and the District of Columbia.

As of March 31 this year, the States and the District of Columbia had

--authorized the expenditure of $390.1 million and expended $242.7 million of this amount,

--developed reasonably definitive plans for using an additional $840.6 million,

--developed no specific plans for using the remaining $516.5 million, and

--earned a total of about $21 million from investing revenue sharing funds.

Of the total amount authorized or planned for expenditure, GAO identified the specific uses for about $957.9 million. About 58 percent of this amount was being directed toward education.

Function	Revenue sharing funds as of March 31, 1973 Authorized for expenditure	Planned for expenditure	Total
	—(millions)—		
Education	$ 68.8	$482.1	$550.9
Hospitals	15.2	33.8	49.0
Highways	5.0	31.1	36.1
Public safety	1.2	9.8	11.0
Public welfare and social services	1.4	16.5	17.9
Corrections	9.9	21.1	31.0
Recreation and natural resources	8.3	89.2	97.5
General control	0.2	7.7	7.9
Financial administration	0.7	12.0	12.7
General public buildings	5.2	16.5	21.7
Salary increases and employee retirement	37.3	20.6	57.9
Debt retirement and interest	11.2	5.3	16.5
Insurance benefits and repayments	-	24.4	24.4
Assistance and subsidies	-	16.8	16.8
Other	0.9	5.7	6.6
Total	$165.3	$792.6	$957.9

About $377 million, or 39 percent of the $957.9 million, was designated for capital expenditures--mainly construction and land acquisition.

Although the States generally had followed or were following their normal processes in authorizing expenditures of revenue sharing funds, restrictions on the funds and concern over discontinuance of the program had a definite impact on decisions regarding use of the funds.

Officials of 28 States said that Federal restrictions on the use of the funds had influenced their decisions. Generally, this meant that the States used or intended to use the funds in programs or activities which would simplify compliance.

Officials of 18 States, including some of the 28 discussed above, indicated that concern over the possibility that the revenue sharing program might be discontinued had resulted, or was expected to result, in the use of the funds for capital improvements or other nonrecurring expenditures.

The actual impact of revenue sharing on a State may be quite different from and more elusive than the apparent impact indicated by the use a State makes of its funds. When a State uses the funds to wholly or partially finance an activity which the State's own revenues previously financed, it becomes difficult to objectively identify the actual impact.

The actual impact would appear elsewhere because the freed funds could allow the State to

--reduce its tax rates,

--improve its overall financial position by increasing the amount of unobligated funds at yearend,

--increase the amount of funds available for another specific program,

--slightly increase funding for all State programs,

--postpone a planned tax increase, or

--achieve a combination of these.

The actual impact of revenue sharing is further complicated by such things as changing State budget priorities, changing amounts of revenues available to a State from its own sources, and the relatively insignificant contribution that revenue sharing funds make to total State revenues.

GAO asked knowledgeable State officials to subjectively assess the broad fiscal impact that revenue sharing funds would have on their States.

--Officials of 18 States said the funds would help to permit some form of tax relief.

--Officials of 16 States anticipated that the funds would postpone future tax increases.

--Officials of 14 States expected the funds to increase, at least temporarily, the yearend balance available for appropriation in the succeeding year.

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations or suggestions.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Federal Government has begun a program which involves a new and fundamentally different approach to providing aid to State and local governments. This and future GAO reports should assist the Congress in evaluating this new approach.

CHAPTER 1

INTRODUCTION

The State and Local Fiscal Assistance Act of 1972 (Public Law 92-512), commonly known as the Revenue Sharing Act, provided for distributing approximately $30.2 billion to State and local governments for a 5-year program period beginning January 1, 1972. Because the Congress, in considering the act, concluded that State and local governments faced severe financial problems, a purpose of the act was to help insure the financial soundness of such governments.

The funds provided under the act are a new and different kind of aid because the State and local governments are given wide discretion in deciding how to use the funds. Other Federal aid to State and local governments, although substantial, has been primarily categorical aid which generally must be used for defined purposes. The Congress concluded that aid made available under the act should provide recipient governments with sufficient flexibility to use the funds for their most vital needs.

The Office of Revenue Sharing, Department of the Treasury, is responsible for administering the act, 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 act.

Approximatley $5.1 billion[1] in revenue sharing funds for calendar year 1972 were distributed to recipient governments in two installments--the first in December 1972 and the second in January 1973. About $1.7 billion went to the 50 State governments and the District of Columbia, and about $3.4 billion went to local governments.

The Revenue Sharing Act directs the Comptroller General to review the work of the Treasury, the State governments,

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[1]The Revenue Sharing Act appropriated about $5.3 billion for calendar year 1972. About $200 million was temporarily withheld to make adjustments.

and the local governments so that the Congress can evaluate compliance and operations under the act. We plan to submit reports to the Congress at appropriate times during the revenue sharing program, to provide it with a periodic overview of the status, uses, and effects of the funds. This report on the status of the $1.7 billion distributed to the 50 State governments and the District of Columbia for calendar year 1972 is the first of these reports.

The final Treasury regulations governing the revenue sharing program had only recently been issued when our fieldwork was completed in April and May 1973. Also the Treasury had not prescribed the format for the States to use in reporting how they had expended revenue sharing funds, and most States had not spent any of their funds.

For these reasons, as well as our desire to provide the Congress with early information, we did not assess State government compliance with the restrictions and requirements of the act and the regulations. In future reviews we will assess compliance, as well as efforts of the Office of Revenue Sharing to insure that recipient governments comply fully with the act and the regulations.

METHOD USED TO ALLOCATE FUNDS TO STATES

Two formulas--a five factor formula and a three-factor formula--are used in allocating revenue sharing funds among States and the District of Columbia. Both formulas are used in computing tentative allocations for each State, and each State's allocation is then derived using the formula that yields the higher amount.

The five-factor formula

The factors used in this formula are (1) total population, (2) urbanized population, (3) population inversely weighted for per capita income, (4) State individual income tax collections, and (5) general tax effort. The first three factors are designed to take need into account. Population is used because it often tends to be directly related to financial needs. Urbanized population is used because the costs of providing services are generally higher in urbanized areas. The factor of population inversely weighted for per capita income is used because poorer areas generally have greater financial difficulty in providing government services.

These three factors are given equal weight in allocating two-thirds of the available funds.

The remaining two factors are intended to provide an incentive for States and localities to meet their financial needs with their own tax resources. The factor of State individual income tax collections was made separate to encourage this form of taxation. The general tax effort factor takes into account all taxes collected by the State and local governments. Both of these factors are given equal weight in allocating the remaining one-third of the funds.

The three-factor formula

This formula allocates funds on the basis of the State's population, per capita income, and tax effort in relation to that of other States. The three-factor formula tends to result in higher allocations to those States with a low per capita income and a high tax effort in relation to other States.

AMOUNTS ALLOCATED TO STATE GOVERNMENTS

The five-factor formula was used to compute the allocation for the District of Columbia and 19 States, including California, Connecticut, Hawaii, Illinois, Maryland, and New York. The three-factor formula was used for 31 States, including Alabama, Georgia, Maine, South Dakota, and West Virginia.

Approximately one-third of the allocation to a State is distributed to the State government; the remaining two-thirds is distributed among the eligible local governments. The District of Columbia is treated as a State and a local government, so it receives both the State and the local shares of the allocation.

For calendar year 1972 State governments received amounts ranging from $2.1 million for Alaska to $190.4 million for New York. On a per capita basis, Ohio received the least aid and Mississippi received the most. The average distribution on a per capita basis was $8.59. Figure 1 on page 9 shows the total and per capita amounts of funds that the 50 State governments and the District of Columbia received.

RESTRICTIONS ON USE OF FUNDS

In general, the act permits a State government to use revenue sharing funds for whatever purpose it deems appropriate if the funds are expended in accordance with the State's laws and procedures for expending its own revenues. But to receive its full allocation, a State government generally must provide its local governments with fiscal assistance that equals or exceeds such assistance prior to revenue sharing. Also, a State government may not use revenue sharing funds in a way which discriminates against race, color, sex, or national origin.

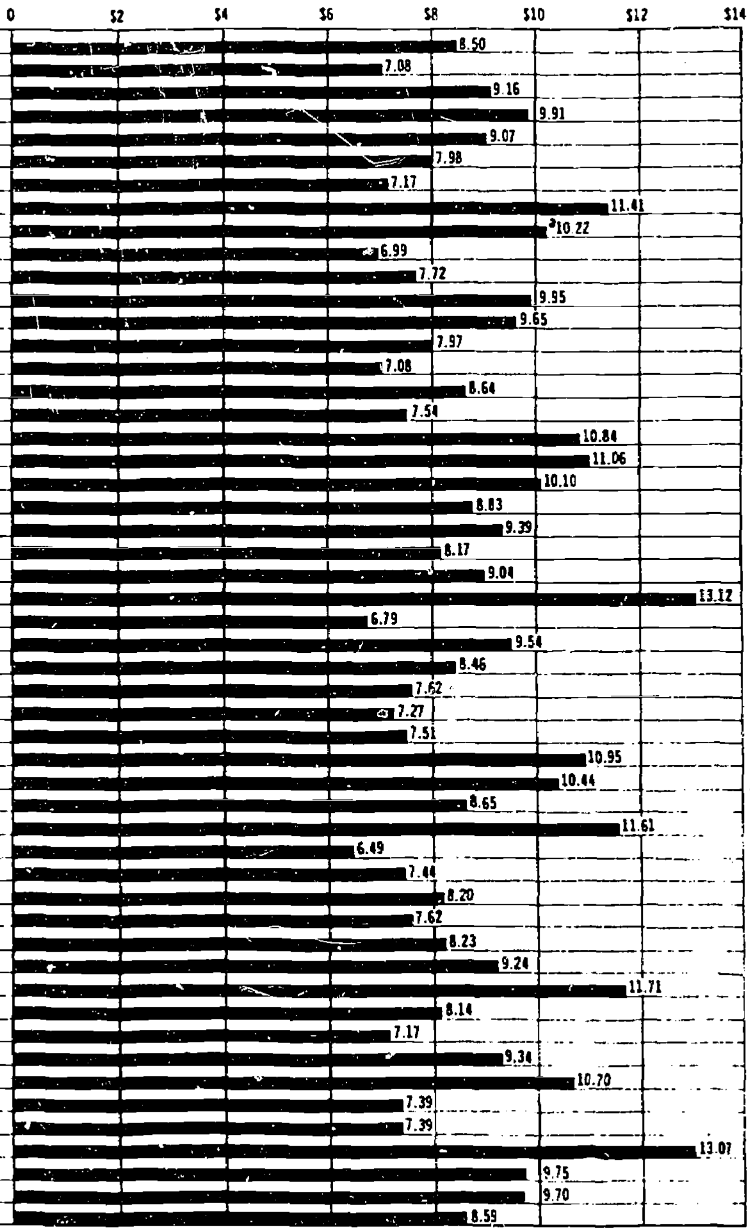
A further restriction prevents a State government from using the funds either directly or indirectly to match Federal funds under programs which make Federal aid contingent on a State contribution. The act also requires that, under certain circumstances, employees paid with the funds must be paid at least at the same wage rates as other State employees. Further, laborers and mechanics employed by contractors or subcontractors to perform work on a construction project where 25 percent or more of the project costs are paid with revenue sharing funds must be paid wages at rates not less than the prevailing rates determined by the Secretary of Labor in accordance with the Davis-Bacon Act.

To insure that revenue sharing funds are spent in accordance with the act, each State government must create a trust fund in which it must deposit all such funds received and the interest earned on them. Each State is required to follow the fiscal, accounting, and auditing guidelines established by the Office of Revenue Sharing.

Finally, each State government must submit reports to the Office of Revenue Sharing on how it used its revenue sharing funds and how it plans to use future funds. These reports must be published in the press and must be made available to other news media so that the public can be kept fully informed.

FIGURE 1

CALENDAR YEAR 1972 REVENUE SHARING FUNDS DISTRIBUTED TO THE 50 STATES AND THE DISTRICT OF COLUMBIA



	TOTAL FUNDS RECEIVED (MILLIONS)	PER CAPITA AMOUNTS RECEIVED
ALABAMA	$29.3	8.50
ALASKA	2.1	7.08
ARIZONA	16.2	9.16
ARKANSAS	19.1	9.91
CALIFORNIA	181.2	9.07
COLORADO	17.6	7.98
CONNECTICUT	21.7	7.17
DELAWARE	6.3	11.41
DISTRICT OF COLUMBIA	23.2	[a]10.22
FLORIDA	47.4	6.99
GEORGIA	35.5	7.72
HAWAII	7.7	9.95
IDAHO	6.9	9.65
ILLINOIS	88.6	7.97
INDIANA	36.8	7.08
IOWA	24.4	8.64
KANSAS	17.0	7.54
KENTUCKY	34.9	10.84
LOUISIANA	40.3	11.06
MAINE	10.0	10.10
MARYLAND	34.6	8.83
MASSACHUSETTS	53.4	9.39
MICHIGAN	72.6	8.17
MINNESOTA	34.4	9.04
MISSISSIPPI	29.1	13.12
MISSOURI	31.8	6.79
MONTANA	6.6	9.54
NEBRASKA	12.6	8.46
NEVADA	3.7	7.62
NEW HAMPSHIRE	5.4	7.27
NEW JERSEY	53.9	7.51
NEW MEXICO	11.1	10.95
NEW YORK	190.4	10.44
NORTH CAROLINA	44.0	8.65
NORTH DAKOTA	7.2	11.61
OHIO	69.2	6.49
OKLAHOMA	19.1	7.44
OREGON	17.1	8.20
PENNSYLVANIA	89.9	7.62
RHODE ISLAND	7.8	8.23
SOUTH CAROLINA	23.9	9.24
SOUTH DAKOTA	7.8	11.71
TENNESSEE	32.0	8.14
TEXAS	80.3	7.17
UTAH	9.9	9.34
VERMONT	4.8	10.70
VIRGINIA	34.4	7.39
WASHINGTON	25.2	7.39
WEST VIRGINIA	22.8	13.07
WISCONSIN	43.1	9.75
WYOMING	3.2	9.70
TOTAL	[b]$1,747.2	8.59

[a] THE DISTRICT OF COLUMBIA'S PER CAPITA AMOUNT WAS COMPUTED BY TAKING ONE-THIRD OF THE DISTRICT'S TOTAL GRANT AND DIVIDING THAT BY ITS POPULATION. OF THE $23.2 MILLION RECEIVED BY THE DISTRICT, $7.7 MILLION WAS ITS SHARE AS A STATE GOVERNMENT AND $15.5 MILLION WAS ITS SHARE AS A LOCAL GOVERNMENT.

[b] THE SUM OF THE AMOUNTS FOR ALL STATES DOES NOT EQUAL TOTAL LISTED FOR ALL STATES DUE TO ROUNDING.

CHAPTER 2

STATUS OF CALENDAR YEAR 1972 FUNDS

The 50 State governments and the District of Columbia received approximately $1.7 billion in revenue sharing funds for the first year of the revenue sharing program. The funds were a retroactive payment because they applied to calendar year 1972 but were provided in December 1972 and January 1973. The Congress concluded that funding should be retroactive because some State and local governments already had considered the aid in their budgets.

Since the act requires State governments to provide for expending the funds in accordance with the laws and procedures that apply to their own revenues, most State legislatures had to appropriate the funds.

STATUS OF FUNDS

Amounts authorized for expenditure

Most of the State legislatures were in session between January 1 and March 31, 1973; however, many had not passed legislation on the use of revenue sharing funds. As of March 31, 14 States had legally authorized the expenditure of all or part of their 1972 funds. These authorizations covered about $390.1 million of the $1.7 billion received.

Amounts expended

Of the 14 States that authorized the use of 1972 revenue sharing funds, 5 had expended a total of $242.7 million as of March 31, 1973. New York transferred all of its 1972 revenue sharing funds, $190.4 million, to its general fund and had expended the funds by March 31, 1973, the end of its fiscal year. Hawaii also had expended all of its funds--$7.7 million--and Alabama, Idaho, and Pennsylvania had spent part of their funds.

Amounts proposed for expenditure

In addition to these 14 States, 24 States and the District of Columbia had reasonably definite plans for the use of funds totaling $840.6 million. These plans were generally shown in budget proposals which the Governors sent to the State legislatures. Officials in the remaining 12 States told us that they had no definite plans as of March 31, 1973.

Figure 2 on page 12 summarizes the overall status of the 1972 revenue sharing funds as of March 31, 1973.

AMOUNTS INVESTED AND INTEREST EARNED

About $1.4 billion, or 82 percent, of the funds were invested as of March 31, 1973. Investment practices varied considerably among the States. Some States placed all of their revenue sharing funds in a single type of investment, such as U.S. Treasury bills or bank certificates of deposit. Other States placed their funds in several different types of investments. Some States commingled their revenue sharing funds with other State funds in a common investment pool.

The interest earned on investing the funds by 46 States and the District of Columbia totaled about $21.2 million as of March 31, 1973, as shown in table 1 on page 13. For 42 States and the District of Columbia, we calculated or obtained State officials' estimates of the interest that had accrued through March 31; however, the interest shown for the other four States--Arkansas, Florida, Montana, and Nevada--is the actual amount and does not include accrued interest.

FIGURE 2

STATUS OF 1972 REVENUE SHARING FUNDS DISTRIBUTED TO THE 50 STATE GOVERNMENTS AND THE DISTRICT OF COLUMBIA

MARCH 31, 1973

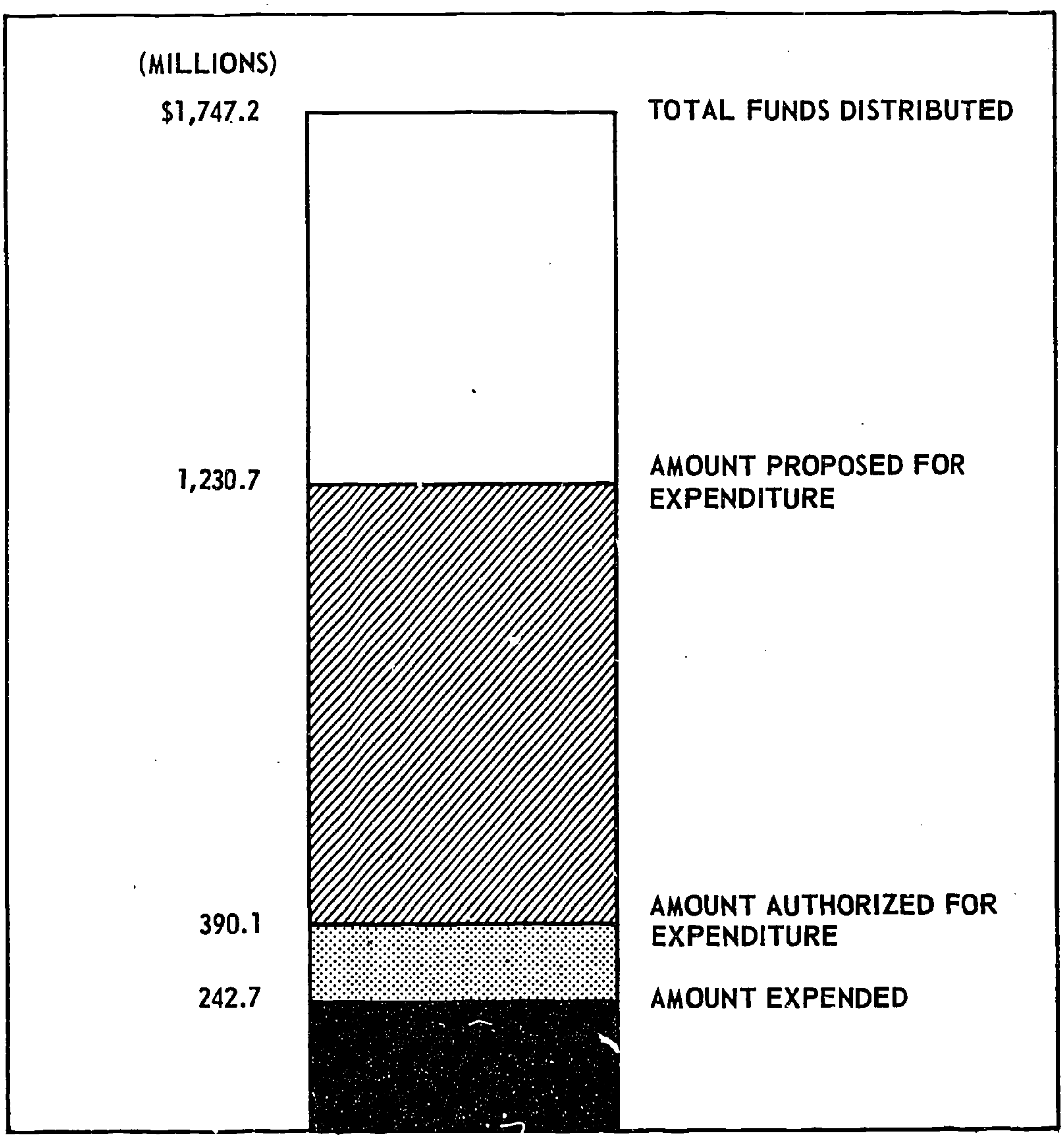


Table 1

Amount of Revenue Sharing Funds Invested

and Interest Earned as of March 31, 1973

Government	Calendar year 1972 funds Amount received	Amount invested	Amount of interest earned
	(millions)		(000 omitted)
Alabama	$ 29.3	$ 24.3	$ 371
Alaska	2.1	(a)	(a)
Arizona	16.2	16.2	232
Arkansas	19.1	19.1	[b]94
California	181.2	181.2	2,797
Colorado	17.6	17.6	265
Connecticut	21.7	21.7	296
Delaware	6.3	(a)	(a)
District of Columbia	23.2	23.2	300
Florida	47.4	47.4	[b]265
Georgia	35.5	35.5	572
Hawaii	7.7	(c)	74
Idaho	6.9	5.4	107
Illinois	88.6	88.6	1,185
Indiana	36.8	36.8	541
Iowa	24.4	24.4	348
Kansas	17.0	17.0	137
Kentucky	34.9	34.9	520
Louisiana	40.3	40.3	468
Maine	10.0	10.0	134
Maryland	34.6	34.6	467
Massachusetts	53.4	(d)	96
Michigan	72.6	72.6	(a)
Minnesota	34.4	34.4	474
Mississippi	29.1	29.1	412
Missouri	31.8	31.8	454
Montana	6.6	6.6	[b]1
Nebraska	12.6	12.6	185
Nevada	3.7	3.7	[b]11
New Hampshire	5.4	5.4	75
New Jersey	53.9	53.8	827
New Mexico	11.1	11.1	175
New York	190.4	(c)	2,735
North Carolina	44.0	40.9	643
North Dakota	7.2	7.2	94
Ohio	69.2	69.2	1,092
Oklahoma	19.1	19.1	183
Oregon	17.1	17.1	253
Pennsylvania	89.9	52.2	1,196
Rhode Island	7.8	7.8	117
South Carolina	23.9	23.9	328
South Dakota	7.8	7.8	(a)
Tennessee	32.0	32.0	450
Texas	80.3	80.3	426
Utah	9.9	9.9	150
Vermont	4.8	4.8	72
Virginia	34.4	34.4	309
Washington	25.2	25.2	385
West Virginia	22.8	22.8	229
Wisconsin	43.1	43.1	562
Wyoming	3.2	3.2	53
Total	$1,747.5	$1,440.2	$21,160

[a]Revenue sharing funds were invested with other State funds, and the accounting records did not show the interest applicable to revenue sharing funds as of March 31, 1973.

[b]The amount of interest actually received; it does not include interest accrued as of March 31, 1973.

[c]Revenue sharing funds were expended before March 31, 1973.

[d]Most of the revenue sharing funds were initially put into short-term investments. Upon maturity, all of the invested funds were placed in the State's general fund to finance ongoing State operations. In effect the funds were loaned to the State's general fund until the legislature could appropriate them.

CHAPTER 3

USES AND ANTICIPATED EFFECTS OF REVENUE SHARING

The Revenue Sharing Act gives State governments almost total freedom to determine how to use revenue sharing funds; that is, they may use their funds for any purpose that is legal and valid under State law. But the act and the related Treasury regulations contain certain requirements that tend to preclude a State from considering revenue sharing funds and its own revenues as one fund source available for expenditure among the various State programs and activities. The requirements, particularly those for reporting (see ch. 1), make it mandatory for a State to separately identify the programs or activities that it plans to finance wholly or partially with revenue sharing funds and to account for the uses actually made of the funds.

The permanent regulations published by the Treasury in April 1973 require the States to maintain accounting records in sufficient detail to permit (1) the tracing of revenue sharing funds to establish that the use of the funds did not violate the act and (2) the preparation of the required reports.

PLANNED AND ACTUAL USES OF FUNDS

Funds authorized for expenditure

As of March 31, 1973, about $390.1 million was authorized for expenditure, of which about $165.3 million was designated for specific uses.

State governments used various methods to designate the uses to be made of the funds. Most often the State legislatures appropriated the funds for particular purposes or projects. Other States, however, used different methods. The Virginia State legislature, for example, appropriated the funds but gave the Governor authority to designate their specific uses. Georgia and Indiana followed a similar procedure.

Of the $165.3 million designated for specific uses, $54.6 million was to be used for capital expenditures, including $28.8 million for construction, $4.5 million for land, $12.1 million for the improvement of existing structures, $1.5 million for equipment, and $7.2 million for the retirement of debt. In addition, the States designated about $57.1 million to be transferred to local school districts for operating and maintenance expenses.

Table 2 below shows the amount of funds authorized for expenditure by function.

Table 2

Amount Of Revenue Sharing Funds Authorized For Expenditure By Function As Of March 31, 1973

Function	For direct State use		For transfer to other government units			
	Capital outlay	Operations and maintenance	Capital outlay	Operations and maintenance	Other	Total
	(millions)					
Education:						
Higher education	$ 9.0	$ 0.5		$	$	$ 9.5
Local schools	1.1	1.0		57.1		[a]59.1
Other	.2					.2
Hospitals:						
Mental institutions	6.0	5.6				11.6
General hospitals	3.0					3.0
Other	.03	.3		.2		[a].6
Highways	5.0					5.0
Public safety	1.2					1.2
Public welfare and social services	.1	1.3				1.4
Corrections	8.5	1.4				9.9
Recreation and natural resources	8.0	.3				8.3
General control		.2				.2
Financial administration		.7				.7
Protective inspection and regulation	.1	.1				.2
General public buildings	5.2					5.2
Industrial development		.6				.6
Veterans services		.1				.1
State employee retirement		37.3				37.3
Debt retirement	7.2					7.2
Interest on debt		4.0				4.0
General support					[b]224.8	224.8
Total	$54.6	$53.4	-	$57.3	$224.8	$390.1

[a]Totals do not add due to rounding.

[b]Represents revenue sharing funds that were not designated for specific uses.

Expended funds

As of March 31, 1973, the State governments had expended revenue sharing funds totaling $242.7 million--about 62 percent of the $390.1 million authorized. We were able to identify the following purposes for which $52.3 million was expended.

Purpose	Amount
	(millions)
Aid to local schools	$38.9
Retirement of debt	3.7
Payment of interest on debt	4.0
Land acquisition for recreation	1.5
Capital improvements and equipment at hospitals	2.8
Capital improvements and equipment at educational institutions	.4
Completion of parks	.5
Miscellaneous, including prison care, foster home support, and help to the disabled	.5
Total	$52.3

New York transferred its 1972 funds totaling $190.4 million to the State general fund to help defray rising general fund expenditures. The State did not designate the specific uses of the revenue sharing funds; and because the funds were commingled with other State revenues, we could not identify the specific uses.

Revenue sharing funds were only a small part of New York's general fund, which totaled about $8.3 billion for the fiscal year ended March 31, 1973. Expenditures from the State's general fund fall into four broad categories--financial assistance to local governments; operation of departments, boards, and commissions in the executive, legislative, and judicial branches; capital construction; and debt service.

New York officials said that reports on the use of the funds could be prepared by allocating revenue sharing funds to specific general fund expenditure categories.

Planned use of funds

As of March 31, 1973, 24 States and the District of Columbia had established reasonably definitive plans for using $840.6 million of revenue sharing funds.

The plans were generally shown in budget proposals submitted by the Governors to the State legislatures. The largest amount, $482.1 million, was proposed for education, most of which would be transferred to local school districts. The second and third largest amounts, together constituting $123 million, were proposed for recreation and natural resources and for hospitals, respectively.

Table 3 on page 18 shows the amount of funds planned for expenditure by function. Although these funds were not legally authorized for expenditure, table 3 should provide an indication of the areas in which the funds are likely to be used.

Factors influencing use of funds

Although the States generally had followed or were following their normal appropriation processes, restrictions on the use of revenue sharing funds and concern over discontinuation of the program definitely affected decisions on how to use the funds.

Officials of 28 State governments told us that Federal restrictions on the use of the funds had influenced their States' decisions. These States were concerned primarily with the prohibition against using the funds either directly or indirectly for matching under other Federal aid programs. Several State officials indicated that, to avoid possible complications, they had specifically directed funds to areas which did not involve other Federal aid programs.

Table 3

Amount of Revenue Sharing Funds

Planned for Expenditure

by Function as of March 31, 1973

Function	For direct State use: Capital outlay	For direct State use: Operations and maintenance	For transfer to other governmental units: Capital outlay	For transfer to other governmental units: Operations and maintenance	Other	Total
	(millions)					
Education:						
Higher education	$ 64.3	$ 37.3	$	$ 0.3	$	[a]$101.8
Local schools	8.9	3.3	26.9	317.9		357.0
Other	22.9	.2		.1		[a]23.3
Hospitals:						
Mental institutions	23.5	.2				[a]23.8
General hospitals	8.6	.4				9.0
Other	1.0					1.0
Highways	28.6	2.5				31.1
Public safety	7.9	1.9				9.8
Public welfare and social services	3.5	12.8		.2		16.5
Corrections	14.6	6.5				21.1
Recreation and natural resources	78.5	1.7	9.0	.04		89.2
General control		7.7				7.7
Financial administration		12.0				12.0
Airports		.2	.1	.5		[a].9
Protective inspection and regulation	.3	1.2				[a]1.4
General public buildings	16.3	.2				16.5
Industrial development and promotion	1.2	.3				1.5
Housing	1.5					1.5
Veterans services		.3				.3
Salary increases		14.3				14.3
State employee retirement		6.3				6.3
Debt retirement	5.0					5.0
Interest on debt		.3				.3
Insurance benefits and repayments		8.2		16.2		24.4
Assistance and subsidy		16.8				16.8
Other miscellaneous	.06	.01				.1
General support					[b]48.0	48.0
Total	[c]$286.7	$134.6	[c]$36.0	$335.2	$ 48.0	[a]$840.6

[a]Totals do not add due to rounding.

[b]Revenue sharing funds that were not designated for specific uses.

[c]The $322.7 million *planned for capital expenditures (the sum of the first* and *third* columns) included

- --$189.4 million for construction,
- --$66.1 million for land,
- --$48.7 million for existing structures,
- --$11.0 million for equipment,
- --$6.7 million for debt retirement, and
- --$0.9 million for other capital projects.

Officials of 18 State governments, including some of the 28 discussed above, told us that concern that the program might be discontinued had resulted, or was expected to result, in the use of funds for capital improvements or other nonrecurring expenditures. Generally, these States were concerned that, if they used the funds for continuing programs and revenue sharing was discontinued, they would have to either cancel the programs or provide the necessary funding from their own revenues. Four other States decided to use their funds for nonrecurring purposes because they viewed the funds as a "windfall" since the payment was retroactive.

Other States planned to use their funds in a manner that would simplify compliance with the accounting and reporting requirements. For example, Hawaii used its funds for debt retirement and interest payments, partly for this reason.

ANTICIPATED EFFECTS OF REVENUE SHARING FUNDS

The planned, authorized, and actual uses of revenue sharing funds that are described on pages 14 through 18 are based on information in State budget documents, appropriation bills, and accounting records. However, the actual impact of revenue sharing on a State government may be quite different from and more elusive than the impact indicated by the State's financial records.

When a State uses the funds to wholly or partially finance an activity that the State's own revenues previously financed, it becomes very difficult to objectively identify the actual impact of the funds. Such use of the funds could allow the State to use its freed funds for various purposes, such as reducing tax rates, improving its overall financial position by increasing the amount of unobligated funds at yearend, increasing the amount of funds available for another specific program, slightly increasing funding for all State programs, or postponing a planned tax increase.

An objective identification of the actual impact of revenue [illegible] is further complicated by such things as

- --changing State budget priorities which may or may not be influenced by the funds,
- --changing amounts of revenues available to a State from its own revenue sources, and
- --the relatively insignificant contribution that revenue sharing funds make to total State revenues.

In other words, revenue sharing funds tend to become an indistinguishable part of the State's total revenues.

New York carried this reasoning one step further. Officials of that State told us that it is inherently impossible, except in unusual cases, to determine the actual impact of revenue sharing. They further stated that, because revenue sharing funds are a small portion of total revenues and because budgetary decisions are made on the basis of total available revenues, the designation of any particular expenditure as being made possible by revenue sharing is an "academic" exercise.

In view of these difficulties, we asked knowledgeable State officials to subjectively assess the broad fiscal impact that revenue sharing would have on their States. Specifically, we asked if they expected that revenue sharing would permit tax relief, postpone future tax increases, or improve the State's surplus position. Their assessments varied considerably.

Officials of 18 States said revenue sharing funds would help to permit some form of tax relief. Michigan officials, for example, said that the Governor had planned to propose a tax reduction in fiscal year 1974-75 but that revenue sharing had allowed him to recommend a tax cut in the fiscal year 1973-74 budget. Montana officials, although stating that the impact of revenue sharing was difficult to isolate, indicated that the funds had probably allowed a larger than planned reduction in the State's income tax surtax. Connecticut also planned to use its funds to assist in reducing or eliminating certain State taxes.

Property tax reductions were a primary goal in 14 of the 18 States which cited tax relief as an effect of revenue sharing. For example, Colorado expected a large surplus at the end of fiscal year 1973 because of generally expanding revenues coupled with the receipt of revenue sharing funds. The Governor recommended to the legislature that the surplus be used for property tax relief and suggested that this could be accomplished, in part, through increased State aid to local school districts. Accordingly, revenue sharing funds were included in the amount recommended for assistance to local school districts in the Governor's fiscal year 1973-74 budget. California, Idaho, Maine, North Dakota, and Wisconsin also anticipated using a large portion of either their 1972 revenue sharing funds or their future receipts for local school aid, with the expectation of relieving pressure on the local property tax.

In 16 States officials anticipated that revenue sharing would postpone future tax increases. For example, a New Hampshire official informed us that revenue sharing reduced the pressure for introducing a broad-based State tax. Texas officials indicated that revenue sharing had deferred the need for a $200 million tax increase over the State's next 2 fiscal years.

Officials in 14 States indicated that they expected revenue sharing to improve the overall financial situation by increasing, at least temporarily, the yearend balances available for appropriation in the next year. For example, in Michigan the surplus at the end of fiscal year 1973 was expected to be $13 million; however, revenue sharing funds and State lottery receipts were expected to increase the total to $175 million.

In other States officials either were uncertain of revenue sharing's impact or had somewhat different assessments from those described above. For example, in Alabama we were told that, because of revenue sharing, new State programs and projects were receiving funds and ongoing programs were being funded at an increased rate.

Ohio intends to use its 1972 revenue sharing funds for capital projects. Ohio officials felt that the funds represented a one-time replacement of a bond issue and thus saved future debt service payments.

New York officials told us that, approximately 9 months before the Congress authorized the revenue sharing program, the State included its 1972 funds as one of several components of a proposed plan of income increases and expenditure reductions to close a 2-year $1.5 billion budget gap. They said that it was impossible to determine whether tax increases or other measures would have been used to close the gap if the funds had not been available.

Officials in Virginia stated that they could not determine the effect of revenue sharing funds on the State's tax policy because the funds were a relatively small portion of the State's total budget and because the future funding of Federal categorical aid programs was uncertain.

CHAPTER 4

ACTIVITIES OF EACH STATE AND THE DISTRICT OF COLUMBIA

This chapter summarizes the revenue sharing activities of each of the 50 States and the District of Columbia. The summaries, presented in alphabetical order, include information that was available on actions taken before we completed our visits to each of the State capitals and the District of Columbia during April and May 1973. Therefore, some of the information in these summaries will differ from the information in chapters 2 and 3 for which the cutoff date was March 31, 1973.

ALABAMA

Alabama received $29.3 million in calendar year 1972 revenue sharing funds. Using the authority which he felt was granted to him under an Alabama statute, the Governor had, as of March 31, 1973, identified specific uses for $27.3 million. As of the same date, the state had expended $4.3 million; most of the unexpended funds had been invested in U.S. Treasury obligations and had earned $371,000 in interest.

The Governor designated $19.1 million for a variety of capital projects, including $4 million to complete existing parks, $3 million to complete two hospital research centers, $0.5 million to build medical education facilities at the University of South Alabama, and $0.7 million to provide trailers for educational space next to the hospital at the University of Alabama. State officials informed us that a major part of the funds was directed toward capital projects because of concern that the revenue sharing program might be discontinued.

The remaining $8.2 million was authorized for maintenance and operating expenditures, including $4.5 million for a transitional program for the mentally retarded; $1 million to support State programs that provide free textbooks for local schools; and $0.6 million for a pension and security program to assist elderly, mentally disabled people.

State officials told us that, because of revenue sharing, new programs and projects were receiving funds and ongoing programs were being funded at an increased rate. Therefore, they did not anticipate that revenue sharing would affect State taxes.

ALASKA

Alaska received $2.1 million in calendar year 1972 revenue sharing funds. Alaska officials said that, because the funds were commingled with the State's general fund, it was not reasonable or possible to identify any interest earned on the funds or to determine whether the funds were actually invested. In April 1973 the $2.1 million was transferred from the general fund to a separate fund which, in the future, should provide the necessary accounting to identify the funds' specific uses. A State official informed us that the funds had not been deposited in a separate account when they were received because State officials were not aware that this was required.

Alaska had no plans for expending its revenue sharing funds, and it did not plan to spend the funds in the near future. The Director of Alaska's Division of Budget and Management told us that, unless increased appropriations were needed, his office would wait until January 1974 to include its recommended uses of the funds in the annual budget proposal to the legislature.

Alaska has a very favorable surplus position, primarily due to receipts from oil leases. Its revenue sharing allocation of $2.1 million is somewhat insignificant compared with the $761 million the State had available for appropriation as of June 30, 1972.

ARIZONA

Arizona received $16.2 million in calendar year 1972 revenue sharing funds and recorded them in a revenue sharing trust fund. The funds were not authorized for expenditure as of March 31, 1973. They were invested in certificates of deposit and various short-term investments and had earned interest of about $232,000 by the end of March.

In his budget message to the legislature, the Governor recommended that the funds be used for nonrecurring expenditures due to uncertainty about the program's continuation.

A bill before the legislature provided that the funds be used for property tax relief by transferring the funds to county governments. Officials were planning to use all revenue sharing funds on hand, plus anticipated receipts through October 1973, for this purpose.

ARKANSAS

Arkansas received $19.1 million in 1972 revenue sharing funds, of which it had authorized $4.2 million for expenditure as of March 31, 1973. No funds were expended; instead, they were recorded in a trust fund account and invested in time deposits, repurchase agreements, and U.S. Treasury bills. Interest receipts totaling $94,000 were credited to the trust fund as of March 31.

The $4.2 million authorized for expenditure included (1) $3.5 million to retire debt on the Helena bridge and make the bridge toll free and (2) $700,000 to construct and furnish a physical education and sports complex at Arkansas State University. In April 1973 the legislature appropriated revenue sharing funds of $6 million for high school textbooks. The rest of the funds and all future funds expected to be received through June 30, 1973, were appropriated for capital expenditures. The specific capital projects to be financed with the funds were not identified in the legislation.

The legislature also appropriated all revenue sharing funds expected to be received after June 30, 1973. The first $18 million received each fiscal year is to be transferred to the State highway department fund for highway construction. The next $2 million received each fiscal year is to be transferred to the public school fund to support eligible school districts.

CALIFORNIA

California received $181.2 million in revenue sharing funds for calendar year 1972. The funds were included in the State's pooled investment program and had earned interest of about $2.8 million as of March 31, 1973.

The Governor's proposed budget for the fiscal year beginning July 1, 1973, recommended appropriating the funds to the general fund and later transferring them to the State school fund. The money would be apportioned to approximately 1,200 school districts. State officials could see no apparent opposition by the legislature to this plan, and they intended to recommend that future revenue sharing receipts be used in a similar manner.

Under the plan, State aid to local schools would total about $2.1 billion for the 1973-74 school year, an increase of about $0.5 billion over the previous year. Revenue sharing funds will account for about 9 percent of the total school aid package. State officials informed us that, without revenue sharing, State aid to schools probably would have been less and that revenue sharing would not affect State taxes but probably would provide some property tax relief at the local level.

COLORADO

Revenue sharing funds received by Colorado for calendar year 1972 totaled $17.6 million. The funds were invested in 360-day certificates of deposit and had earned interest of about $265,000 by the end of March 1973.

None of the funds had been appropriated as of March 31, 1973; however, the Colorado legislature was considering the Governor's budget recommendations. The Governor, in his state of the State address, announced that Colorado would have an estimated surplus of $121.6 million at the end of fiscal year 1973 because of generally expanding revenues and the receipt of revenue sharing funds. The Governor proposed that the legislature use the surplus for property tax relief. He suggested that this be accomplished, in part, through increased State aid to local school districts.

State officials informed us that the recommended amount of revenue sharing funds for assistance to local school districts had been included in the Governor's 1973-74 budget.

CONNECTICUT

Connecticut received calendar year 1972 revenue sharing funds of $21.7 million which it recorded in a custodial account and invested with other State funds. The revenue sharing funds earned an estimated $296,000 in interest through March 31, 1973.

Connecticut has recently undertaken a tax reform program. To help achieve the goals of this program, the State planned to use revenue sharing funds on hand and estimated receipts through March 31, 1974, to reduce or eliminate certain taxes during the fiscal year beginning July 1, 1973. The State sales tax will be reduced from 7 percent to 6-1/2 percent for a $34 million reduction in revenues; the corporation tax will be lowered for an $8 million reduction in revenues; and the dividend tax will be eliminated for a $29 million reduction in revenues.

To offset the reduced tax revenues, revenue sharing funds will be transferred to the State's general fund and will be expended with other State revenues to support the various State activities financed from the general fund. State officials do not plan to account for the specific general fund programs or projects for which revenue sharing funds are used, because they believe the tax reductions represent the State's actual use of the funds.

State officials said they could, through some type of arbitrary process, designate the programs or projects for which revenue sharing funds were spent; however, they felt such hypothetical designations would be meaningless.

DELAWARE

Delaware received $6.3 million in calendar year 1972 revenue sharing funds. As of March 31, 1973, the State legislature had not appropriated any of the funds. The funds will be used to finance part of the State Employees Retirement Fund if the legislature approves. State officials indicated that the funds should help reduce overall State deficits anticipated for fiscal years 1973 and 1974.

DISTRICT OF COLUMBIA

The District of Columbia received $23.2 million in calendar year 1972 revenue sharing funds. These funds were invested in U.S. Government securities and had earned approximately $300,000 in interest through March 31, 1973. A District official told us that the District planned to maintain these securities until maturity. The last security matures on December 19, 1973, when the District will have earned an estimated $965,000 in interest.

The District had proposed using $13.8 million to support supplemental requirements in fiscal year 1973. Congressional action on the 1973 supplemental request resulted in using $22.0 million in revenue sharing funds to meet (1) added costs of employee pay increases, (2) day care and other social services previously funded by Federal money, and (3) other requirements.

FLORIDA

Florida received $47.4 million in calendar year 1972 revenue sharing funds. The funds were recorded in a trust fund account and were invested in U.S. Treasury bills from which the State had received $265,000 in interest as of March 31, 1973. The State presently has three categories of funds--general, trust, and working capital. Revenue sharing was included in the trust category; however, the Governor requested in his recommended budget for fiscal year 1974 that a fourth category be created for revenue sharing to segregate these funds and facilitate compliance with the regulations.

No expenditures of revenue sharing funds were authorized. The legislature was considering the Governor's recommendations that most of the 1972 funds be used to purchase recreational lands and that the remainder be used to purchase environmentally endangered lands. The Governor also recommended that future revenue sharing funds be used to construct classrooms for elementary and secondary education. He anticipated that the legislature would approve the recommended expenditures. Concern over continuation of the revenue sharing program was a major factor in the Governor's recommendation that the funds be used for capital expenditures.

GEORGIA

Georgia received $35.5 million in calendar year 1972 revenue sharing funds. The funds were invested in 1-year certificates of deposit maturing in January 1974 and had earned interest of $572,000 as of March 31, 1973.

The Governor recommended in his fiscal year 1974 budget that the funds be used for capital expenditures because he was concerned that revenue sharing might not continue. Also, the State wanted to avoid the interest charges that would otherwise be incurred on bond financing for the capital projects.

The appropriation bill, passed by the general assembly and signed by the Governor in April 1973, authorized the fiscal year 1974 expenditure of all revenue sharing funds to be received through June 30, 1974. However, the bill did not specify how the funds would be used but rather gave the Governor authority to specify their uses. In giving the Governor this authority, the general assembly declared:

> "* * * It is the intent of this General Assembly, however, that to the greatest extent feasible, such Federal Revenue Sharing Funds be applied to capital outlay and other items of a non-recurring nature."

Late in April 1973, the Governor allocated revenue sharing funds totaling $91.5 million to specific uses. This total included the funds already received and the estimated receipts plus interest through June 30, 1974. The funds were allocated among various State departments for a variety of projects, including $25.9 million for capital outlays by the department of education, $11.5 million for capital outlays at institutions of higher education, $2 million for water and sewerage grants to local governments, $2.7 million for capital projects at recreation areas, $2 million for the purchase of recreational areas by local governments, and $4.2 million for tuition grants to students in private colleges. In addition, $3.5 million was allocated for operating mental retardation day-care centers to offset a reduction of other Federal funds.

HAWAII

Hawaii spent all of its calendar year 1972 funds--$7.7 million--for debt retirement and interest payments. The Governor expended the funds without officially consulting with, or obtaining the approval of, the Hawaii Legislature because the State attorney general believed that he was permitted to do so under Hawaii statutes.

Before the funds were expended, they were invested in short-term certificates of deposit and earned interest of about $74,000. The interest was commingled with general funds, since State officials were not aware that interest earned on the funds had to be deposited in the revenue sharing trust fund and accounted for in the same manner as the revenue sharing funds. State officials advised us that, in the future, such earnings would be deposited in and expended from the trust fund account.

State officials told us that the State had considered using revenue sharing funds for health, education, and welfare programs but had decided not to, because of a possible conflict with the prohibition against the direct or indirect use of revenue sharing funds for matching under other Federal programs. The State used most of its funds to retire debts and to pay interest, to avoid possible problems with the act's restrictions and to simplify compliance with the accounting and reporting requirements.

State officials told us that the allocation technique prescribed by the act--one-third to the State government and two-thirds to local governments--failed to recognized intergovernmental relationships in Hawaii. Unlike most States, the Hawaii State government operates and finances, on a State-wide basis, public education, judiciary, welfare, and health programs. State officials pointed out that about 80 percent of the total State and local government expenditures are State expenditures, compared with an average of 37 percent for all States. State officials contend that the allocation technique has complicated rather than alleviated the State's fiscal problems by causing an imbalance in existing State and county government fiscal relationships.

Because Hawaii has a deficit, revenue sharing probably will not help reduce taxes. But the funds may, according to State officials, indirectly limit future tax increases.

IDAHO

Idaho received $6.9 million in calendar year 1972 revenue sharing funds. As of March 31, 1973, $6.8 million had been authorized for expenditure. A total of $1.5 million was expended as partial payment for park and recreation land. Unexpended funds were invested in bank certificates of deposits and had earned about $107,000 in interest by the end of March 1973.

The major portion of 1972 and anticipated 1973 revenue sharing funds were appropriated under 13 separate appropriation bills. According to the acting director of the budget division, the 1972 funds were to be used for capital projects and other nonrecurring expenditures because the State viewed its 1972 allocation as one-time revenues.

A State official informed us that calendar year 1973 revenue sharing funds which the State expects to receive in fiscal year 1974 had been appropriated to support the public school system. This additional aid to schools was one of the factors which enabled Idaho to reduce the school district property tax ceiling from 30 mills to 27 mills.

ILLINOIS

Illinois received $88.6 million in calendar year 1972 revenue sharing funds. The funds were recorded in a trust fund account and placed in the State's general investment pool; they earned interest totaling about $1.2 million through March 31, 1973.

No funds were authorized for expenditure. State officials said that the State would not decide how to use the funds until the requirements on their use were clarified.

Officials were tentatively considering using revenue sharing funds for teachers' salaries and for general operating expenses of elementary and secondary schools. A State official indicated that revenue sharing would allow the State to continue some ongoing programs without a tax increase.

INDIANA

Indiana received $36.8 million in revenue sharing funds for calendar year 1972. The funds were invested primarily in certificates of deposit and had earned about $541,000 in interest through March 31, 1973.

In January 1973 the Governor addressed the legislature and outlined general plans for expending about $55 million of anticipated revenue sharing funds. Indiana's budget for the 2 years beginning July 1, 1973, passed by the legislature in April 1973, authorized the State budget director to use all revenue sharing funds to augment existing programs.

Specific plans for using the funds were still being developed. The funds will become eligible for use when the Governor signs the budget act.

IOWA

Iowa received $24.4 million in calendar year 1972 revenue sharing funds. The funds were recorded in a separate revenue sharing account and were invested with other State funds as part of an investment pool. State funds were invested primarily in U.S. Government securities. The revenue sharing funds earned about $348,000 in interest as of March 31, 1973.

The revenue sharing funds were not appropriated. However, the Governor had submitted to the legislature his budget proposal, which included a fiscal year 1974 appropriation of about $43.3 million in revenue sharing funds. This amount included the funds expected to be received through part of fiscal year 1974. The budget calls for the funds to be used primarily for tax relief and capital improvements. The major specific uses recommended were:

--$22.1 million for capital expenditures.

--$4 million for property tax relief for certain elderly persons.

--$4 million for personal property tax relief.

--$7 million for the State's takeover of welfare from county governments to reduce the property tax burden at the local level.

--$3 million to provide relief from the State income tax to people with low incomes.

According to the Iowa budget director, the recommendation that $7 million be used for a State takeover of welfare will be withdrawn because this use could create difficulties in complying with the prohibition against using the funds for matching under other Federal programs. He said that aid to local schools would probably be an alternative recommendation.

He also said that revenue sharing would permit the State to finance projects and implement tax reforms which were previously delayed or neglected due to the lack of funds.

KANSAS

Kansas received $17 million in calendar year 1972 revenue sharing funds. All the funds were deposited with various banks in interest-bearing accounts and, as of March 31, 1973, had earned a total of $137,000 in interest.

In April 1973 the legislature approved and the Governor signed three acts that appropriated revenue sharing funds of about $42.3 million, including all of the 1972 funds and most of the funds the State estimated it would receive through fiscal year 1974. Of the $42.3 million, $13 million was appropriated to fund property tax relief and extend relief to certain elderly or widowed persons who did not previously qualify.

Of the remaining funds, $25.3 million was appropriated to pay more than half the construction costs of expanding clinical facilities at the University of Kansas Medical Center, $2.5 million was to provide most of the funding for a chemical and industrial engineering building at Kansas State University, and $1.4 million was to construct a music and radio addition to the auditorium at Kansas State University.

State officials indicated that the possibility that the revenue sharing program would be discontinued had affected their decisions on how to use the funds. They also said that the desire to leave an easily identifiable "audit trail" for the funds had influenced their decisions.

KENTUCKY

Kentucky received $34.9 million in revenue sharing funds for calendar year 1972. The funds were recorded in a separate trust fund account and were invested in certificates of deposit in various banks throughout the State. These certificates earned about $520,000 in interest as of March 31, 1973. The State plans to place the interest income in the trust fund when it is received. Kentucky had not authorized the expenditure of any of its revenue sharing funds.

The Kentucky legislature meets every other year, and its next session will be in January 1974. Before that session the executive branch will submit to the legislature a budget which will include recommendations for spending the revenue sharing funds.

LOUISIANA

Louisiana received $40.3 million in calendar year 1972 revenue sharing funds. As of March 31, 1973, the funds were invested as part of the State's centralized investment program and had earned an estimated $468,000 in interest. No funds were authorized for expenditure.

State officials informed us that the Governor intended to use, subject to legislative approval, all of the $40.3 million for highway construction. The Governor had not submitted a formal budget to the legislature because the legislature was not scheduled to convene until May 15, 1973.

MAINE

Maine received $10 million in calendar year 1972 revenue sharing funds which it recorded in a separate trust fund account and invested in time deposits and U.S. Treasury bills. Interest earned through March 31, 1973, totaled $134,000.

No funds were authorized for expenditure as of March 31, 1973. However, the State legislature was considering the Governor's proposed budget for the 1974-75 biennium, which included all revenue sharing funds to be received through June 30, 1975, or a total of $38.6 million. The Governor proposed that the $38.6 million be appropriated for operating and maintenance expenditures, as follows:

--$8.8 million for the State's share of the teacher retirement fund.

--$28.2 million to replace the financial support for public schools that would be lost as a result of a proposed uniform property tax reduction.

--$1.6 million to reimburse local governments for revenue losses expected to result from the proposed abolition of the property tax on business inventories.

There was some opposition in the legislature to the Governor's proposal; some legislators wanted to use all the funds for property tax relief.

MARYLAND

Maryland received revenue sharing funds totaling $34.6 million for calendar year 1972. The funds were invested in various securities which yielded an estimated $467,000 in interest through March 31, 1973. The State planned to retain the securities until maturity, when they will yield an estimated $1.2 million in interest.

Maryland allocated $16 million of its funds to redeeming State bonds and paying interest. State tax revenues are usually used for these purposes; therefore, according to a State official, the State property tax rate either will not increase or will only increase slightly.

In addition, the State allocated $18.6 million to support its contributions to various State employee retirement funds. A State official said that allocating revenue sharing funds to these funds would free general funds and thereby support a higher level of expenditures than otherwise could be supported at existing tax rates.

MASSACHUSETTS

Massachusetts received $53.4 million in calendar year 1972 revenue sharing funds which it recorded in a separate trust fund account. Upon receipt, $9.5 million was transferred to the State's general fund to finance ongoing State operations. The remaining $43.9 million was invested in U.S. Treasury bills and short-term commercial paper. Because these funds were invested for a short time, only $96,000 in interest was earned. When the investments matured, the funds were transferred to the general fund account and spent. In effect, the State borrowed the funds until the legislature could appropriate them.

No revenue sharing funds were authorized for expenditure; however, the legislature was considering a plan for their use and had incorporated the funds into a special supplemental deficiency appropriation bill. According to a State official, the fiscal year 1973 general appropriation was not enough to fund the State's activities.

The legislature's plan called for $28 million for operating and maintenance expenditures, $720,000 for capital expenditures, and $24.7 million for other expenditures. The operating and maintenance expenditures included $150,000 for compensation to victims of violent crimes, $6.9 million for the State's contribution to the employees' retirement system, and $1.3 million for compensation of retired veterans. The capital expenditures included $450,000 for bond retirement and $150,000 to renovate the State house. Other expenditures included $290,000 for interest on debt and $24.4 million for insurance and retirement benefits and repayments.

A State official stated that revenue sharing would slow the rate of State tax increases.

MICHIGAN

Michigan's revenue sharing funds for calendar year 1972 totaled $72.6 million. The funds were placed in a common investment pool. Interest on the funds will be computed on the basis of the average return on the pool's investments and will be credited to the trust fund established by the State to account for its revenue sharing funds.

In April 1973 the Governor's Office sent a proposal to the legislature requesting that the funds be appropriated to the State's school aid fund to provide aid to school districts and to help provide retirement benefits to school employees. The State's revenue sharing funds would be a relatively minor part of the total State aid to schools.

Michigan officials informed us that the Governor had planned to propose a tax cut in fiscal year 1974 but that revenue sharing had allowed him to recommend a tax cut in the fiscal year 1973-74 budget.

MINNESOTA

The calendar year 1972 revenue sharing funds for Minnesota totaled $34.4 million. The funds were recorded in a special account and, with other State funds, were invested in U.S. Treasury bills. Interest earned on the funds totaled $474,000 as of March 31, 1973.

No funds were authorized for expenditure, and no plans for using the funds had been formulated.

In his budget message, the Governor mentioned that the funds were available for financing a portion of the budget. State officials told us that the Governor had not presented a plan to the legislature because of uncertainty about the regulations. The Governor did state that he would like to see the use of the funds governed by (1) small number of items, (2) ease of audit, and (3) ease of explanation.

A State official said that the funds would have been used for aid to school districts had it not been for the prohibition against directly or indirectly using the funds for matching under other Federal aid programs. Using the funds to operate State mental institutions and to provide property tax relief was also considered. State officials were awaiting a clarification of the Federal regulations before deciding how to use the funds. An official said that transferring the funds to local governments would be one of the last uses considered, because it would be impossible for the State to assure itself that the local governments did not use the funds for matching under other Federal aid programs.

MISSISSIPPI

Mississippi received about $29.1 million in calendar year 1972 revenue sharing funds which it recorded in a separate trust fund and invested in U.S. Treasury bills. The funds earned about $412,500 in interest through March 31, 1973.

The State legislature passed an appropriation bill allocating about $28.3 million to the State building commission for capital improvement projects, $57,000 for two planning studies, and $856,000 to an economic development corporation for use in generating capital for new private enterprises. The Governor signed the bill on April 17, 1973.

MISSOURI

Missouri received $31.8 million in calendar year 1972 revenue sharing funds. The funds were recorded in a separate trust fund account and invested in U.S. Treasury bills from which the State earned interest of $454,000 through March 31, 1973.

The State legislature had not appropriated any funds. In his budget message, the Governor recommended that a portion of the funds be held in reserve to finance anticipated reductions in Federal grant programs and to meet future needs. The Governor proposed appropriating $48.5 million of the $73 million that Missouri expected to receive through June 30, 1974. He proposed that $39.5 million be used for capital outlays, $1.5 million for the insurance reserve fund of the Missouri Housing Development Commission, and $7.5 million for a new mass transit assistance fund to aid local transit companies.

The budget director informed us that State officials' concern that revenue sharing might not be permanent had a definite influence on the Governor's proposals. He also mentioned that directing the funds principally toward capital projects would simplify compliance with the various restrictions. The budget director also stated that revenue sharing had helped the State's financial position considerably and would permit the State to improve the surplus in its general revenue accounts.

One State official felt the net effect of revenue sharing would be to allow the funding of projects that would otherwise not be funded, and another official stated that the funds will allow the State to slow the rate of tax increases.

MONTANA

Montana received $6.6 million in calendar year 1972 revenue sharing funds which it invested in repurchase agreements with banks and in U.S. Treasury bills. The repurchase agreements have no maturity date or fixed rate of interest; the interest will be determined when the agreements are resold to the bank. The State had received interest of $812 on the Treasury bills as of March 31, 1973.

In March 1973 the legislature authorized expenditure of the funds and the anticipated receipts through June 30, 1975. Approximately $5.9 million was authorized for capital expenditures, including $4.9 million for new construction, $150,000 for land acquisition, and $885,000 for improvements to existing structures. The new construction included educational, health, and correctional facilities.

The legislature authorized $700,000 for the operation and maintenance of State institutions, including Galen State Hospital, Montana State Prison, and Warm Springs State Hospital.

State officials said that it was difficult to determine the indirect benefits of revenue sharing but that the funds had probably allowed a larger than planned reduction in the State income tax surtax.

NEBRASKA

For calendar year 1972, Nebraska received $12.6 million in revenue sharing funds. The receipts were recorded in a separate trust fund account and invested in commercial obligations. Interest earned on the funds totaled about $185,000 through March 31, 1973.

In his January 1973 budget message, the Governor recommended that most of Nebraska's revenue sharing funds be used for tax relief. The State legislature was considering alternative proposals, one of which provided for using $30.1 million, the estimated total receipts through fiscal year 1974. This proposal suggested using $6 million to replace losses in personal property tax revenues resulting from the property tax relief bill that the legislature passed in 1972, $4.1 million to provide capital improvements at the University of Nebraska, and $20 million to reduce the sales tax.

State officials were uncertain of the final action that would be taken but believed that the legislature preferred directing a larger proportion of the funds toward capital projects.

NEVADA

Nevada received $3.7 million in calendar year 1972 revenue sharing funds. The funds were recorded in a trust fund account and invested in certificates of deposit. As of March 31, 1973, the State had received $10,800 in interest.

In April 1973 the funds were appropriated for capital improvements at the Nevada State Prison and the Nevada Mental Health Institute. State officials expect that future revenue sharing funds will be used to aid the State's 17 public school districts.

NEW HAMPSHIRE

New Hampshire received $5.4 million in calendar year 1972 revenue sharing funds. Most of the funds were invested in U.S. Treasury bills and had earned an estimated $75,000 in interest through March 31, 1973.

The Governor, in his February 1973 budget message, proposed that most of the funds be used for residential property tax relief. In May 1973 the legislature was considering the 1973-75 biennium appropriation bill. State officials told us that the final bill would earmark specific uses for the funds.

A State official informed us that revenue sharing had reduced the pressure for introducing a broad-based State tax and that the State had had a surplus for the past seve years which revenue sharing would obviously improve.

NEW JERSEY

New Jersey received $53.9 million in calendar year 1972 revenue sharing funds. The funds were recorded in a separate trust fund account and invested in certificates of deposit and U.S. Treasury bills and notes. The interest earned on these investments through March 31, 1973, was $827,000.

The general appropriation bill for fiscal year 1974 anticipated resources of $2.4 billion and appropriations of just under that amount. The $2.4 billion included revenue sharing funds of $145.8 million, which represented all expected revenue sharing receipts from inception through fiscal year 1974 and interest of $2.9 million. The bill was introduced on April 9, 1973, and was passed by the legislature. As of early May 1973, the Governor had not signed the bill.

We were told that the funds will be transferred to the State's general fund after July 1, 1973. Generally, the funds will be treated as any other State revenues and will be expended in the same manner as other general fund expenditures. General fund expenditures fall into three broad categories: operation of the State's departments, boards, commissions, and agencies in the executive, legislative, and judicial branches; State aid; and capital construction.

Of the total revenue sharing funds expected to be received through June 30, 1974, $40 million had been specifically allocated--for equalization and incentive aid for local school districts.

State officials said revenue sharing had assisted the State in presenting a balanced fiscal year 1974 budget. Without revenue sharing, the State would have had to either budget within available resources or increase taxes.

NEW MEXICO

New Mexico received $11.1 million in calendar year 1972 revenue sharing funds. The funds were invested in bank repurchase agreements and had earned about $175,000 in interest through March 31, 1973.

The legislature appropriated all the funds the State had received and expected to receive through June 30, 1974. About $4.2 million was appropriated for capital improvements, including $2.5 million for an office building in Santa Fe, $500,000 for an office building in Alamogordo, and $400,000 for replacing State police vehicles. The remainder was appropriated for distribution to New Mexico's 88 public school districts. State officials estimated that about $22.4 million of the funds would be distributed to the school districts during fiscal year 1974.

State officials informed us that revenue sharing would permit the State to improve its surplus position.

NEW YORK

New York received $190.4 million in calendar year 1972 revenue sharing funds which it recorded in a trust fund account and invested in U.S. Treasury bills and notes. Interest earned on these investments as of March 31, 1973, totaled $2.7 million.

The funds were transferred from the trust fund to the general fund on March 30, 1973, in accordance with a plan developed about 9 months before the Congress authorized the revenue sharing program. The funds were treated like other State receipts and, according to State officials, were spent the same as other funds in the general fund. Expenditures from the State's general fund fall into four broad categories: financial assistance to local governments; operation of the State's departments, boards, and commissions in the executive, legislative, and judicial branches; capital construction; and debt service.

New York officials contend (see p. 20) that it is inherently impossible to determine the actual effect of revenue sharing and that some form of allocation among expenditure categories is necessary to give a reasonably accurate picture of the use of revenue sharing funds.

State officials also noted that the division of the funds between the State and local governments failed to recognize the intergovernmental fiscal relations in New York. In fiscal year 1972-73, for example, the State collected approximately one-half of all State and local taxes and provided State aid to local governments equal to more than 60 percent of its tax collections.

NORTH CAROLINA

North Carolina received $44 million in revenue sharing funds for calendar year 1972. Ninety-three percent of the funds were invested with other State funds and earned $643,000 in interest through March 31, 1973. The North Carolina Capital Improvement Act of 1973, passed in May, appropriated revenue sharing funds on hand and estimated receipts through June 30, 1974, a total of $105.2 million. The appropriations included $3.8 million for improvements to and renovation of the Dorothea Dix Hospital; $4.5 million for library expansions, additions, and improvements at the University of North Carolina; $2.4 million for renovations and additions to Central Prison; and $14 million for the purchase of land for institutions and parks.

Some State officials feared that revenue sharing might be discontinued. But equally important, State officials wanted the funds to be used in a way that would absolutely preclude any violation of regulations and would provide an audit trail so clear that no questions could be raised. State officials believed that the safest course was to use the money for nonrecurring expenditures.

State officials told us that, because of revenue sharing, North Carolina had postponed an anticipated State tax increase for 1975 or 1976 for at least 2 years and that continued revenue sharing funds could delay a tax increase beyond 1976.

NORTH DAKOTA

North Dakota received $7.2 million in calendar year 1972 revenue sharing funds. The funds were invested in certificates of deposit, and as of March 31, 1973, the State had earned $94,000 in interest.

The State legislature had appropriated $25.3 million in 1972 and future revenue sharing funds for public education. Under the appropriation bill, the funds will be distributed to the counties which will then distribute them to local school districts.

Revenue sharing funds had a definite effect on taxes in North Dakota. The appropriation bill requires many school districts to reduce their local property tax levy. A State official estimated that these reductions would total about $18 million during the next 2 years. State officials told us that, without revenue sharing funds, the $39 million of additional aid to schools would have been reduced somewhat and the State probably would not have reduced its sales and income taxes.

OHIO

Ohio received $69.2 million in revenue sharing funds for calendar year 1972. The funds were recorded in a separate trust fund account and were invested with other State funds. The interest earned on all State investments is credited to various accounts on a prorata basis. The revenue sharing funds had earned interest of about $1.1 million as of March 31, 1973.

The Governor submitted a plan to the legislature in January 1973 which emphasized using the funds for capital projects, including $34.3 million to match local funds for constructing 17 vocational education schools.

In May 1973 the Governor signed a bill which appropriated the revenue sharing funds received for calendar year 1972 and for the first quarter of 1973. The bill was similar to the Governor's original plan except that a bus fare subsidy for the elderly and handicapped was deleted.

The State emphasized capital expenditures because of its concern that revenue sharing would not be permanent. The State does not want to have to cancel any new programs or use State funds to continue such programs if revenue sharing is discontinued.

OKLAHOMA

The calendar year 1972 revenue sharing funds for Oklahoma totaled $19.1 million. The funds were recorded in a special trust fund account and invested in bank certificates of deposit which had earned interest of about $183,000 through March 31, 1973.

As of March 31 no funds were authorized for expenditure; however, the Governor had submitted plans to the legislature for using the estimated fiscal year 1974 funds of $22.5 million for the operation and maintenance of independent local schools. The Oklahoma State constitution prevented the Governor from proposing the appropriation of any of the 1972 or first quarter 1973 funds until the cash was on hand.

Under the constitution prior-year income, surplus on hand, and expected increases from new sources of revenue to be received during the budget year could be certified as available for appropriation. On November 29, 1972, when funds for the fiscal year 1974 budget were certified, the calendar year 1972 and first quarter 1973 revenue sharing funds were not on hand and could not be certified as available surplus. However, since the estimated fiscal year 1974 revenue sharing funds were considered a new source of revenue, they were eligible for certification and inclusion in the fiscal year 1974 budget.

The legislature later limited appropriations to cash on hand and developed an alternate plan involving the revenue sharing funds for 1972 and the first quarter of 1973. The plan proposed $14.5 million for the operation and maintenance of local schools and $10.1 million for capital expenditures, including $176,000 to the department of public safety, $500,000 to the department of agriculture, $8.1 million to the highway department for the Death Trap Elimination Program, $720,000 to the capital improvement authority for tunnels and for completion of the Education Office Building, $430,000 to the board of affairs, and $200,000 to the department of libraries. State officials said apprehension that funds might be discontinued and the accounting and reporting requirements had motivated development of the alternate plan.

State officials said that revenue sharing would probably slow the rate of tax increases at the local government level.

OREGON

Oregon received $17.1 million in revenue sharing funds for calendar year 1972. The funds were invested in certificates of deposit and commercial paper and had earned interest of about $253,000 as of March 31, 1973.

The Governor submitted a budget to the legislature in which he proposed using the funds to provide property tax relief by increasing support of local school districts. State officials informed us that the funds would provide only about

6.9 percent of the total school support package and therefore would play a relatively small part in the property tax relief program.

The legislature approved the Governor's proposal; however, because it involved changes in the State tax structure and constitution, it was placed before the voters in a referendum. In May 1973, the proposal was defeated and the State legislature was considering alternative tax reform measures.

PENNSYLVANIA

Pennsylvania received $89.9 million in revenue sharing funds for calendar year 1972. The funds were invested in short-term commercial paper and had earned interest of $1.2 million as of March 31, 1973.

A total of $43 million was authorized for expenditure, of which $38.9 million was expended as of March 31, 1973. Almost all of the $43 million was for payments to school districts for educating exceptional children during the 1972-73 school year. Two bills, appropriating additional funds for use in the State's fiscal year ended June 30, 1973, were being considered at the time of our review. These bills proposed total appropriations of about $4.9 million, including $4 million for certain social services for the aged and $900,000 in grants to political subdivisions and organizations for social service programs for the poor.

In general, the State was emphasizing the use of revenue sharing funds for service programs rather than for capital projects or other nonrecurring projects. The proposed fiscal year 1974 budget indicated that the State planned to use the funds to

--assist local governments and school districts,

--continue programs which would otherwise terminate because of revisions in Federal statutes and regulations,

--improve educational and welfare programs, and

--improve the maintenance of State highways.

Most of the State's planned expenditures involved transfers to lower levels of government.

RHODE ISLAND

Rhode Island received $7.8 million in calendar year 1972 revenue sharing funds. The funds were recorded in a separate account and invested in certificates of deposit which had earned interest of $117,000 as of March 31, 1973.

No funds were expended or appropriated; however, the Governor had submitted his proposed budget which covered revenue sharing funds on hand and expected to be received through June 30, 1974--a total of $22.1 million. The budget allocated the funds on a prorata basis among State departments concerned with such areas as education, transportation, and social and rehabilitation services. However, the budget did not specifically identify the programs or projects to be financed.

State officials said that, although revenue sharing did not prevent a tax increase, the Governor and the legislature hoped that it would stabilize the State's tax structure. One State official said that revenue sharing could possibly slow down the rate of future tax increases.

SOUTH CAROLINA

South Carolina received $23.9 million in calendar year 1972 revenue sharing funds. The funds were invested in various types of U.S. Government securities and had earned about $328,000 in interest through March 31, 1973.

No funds were appropriated, but the legislature was considering the recommendations of the budget and control board. The board concluded that the initial revenue sharing funds, because they were retroactive in relation to the State's budget cycle, should be considered as nonrecurring "windfall" income and that it would be unwise to direct the funds to recurring programs. Accordingly, the board recommended that the funds for January 1, 1972, to June 30, 1973 (an estimated total of $34.9 million), be used for capital projects or nonrecurring expenditures, including $8.4 million to construct a new auditorium at the University of South Carolina, $6 million to construct a continuing education center at Clemson University, and $2.75 million to construct an educational facility at the School for the Deaf and the Blind.

A State official told us that the State presently intended to propose that future revenue sharing funds, those beginning July 1, 1973, be used to finance the State's contributions to its employees' retirement fund.

SOUTH DAKOTA

South Dakota received $7.8 million in calendar year 1972 revenue sharing funds, all of which were invested as part of the State's pooled investment program. Interest on the investment pool is prorated each year on June 30 and December 31 to the funds in the pool. As of March 31, 1973, there had been no proration involving revenue sharing funds and thus the amount of interest earned on these funds was not known.

A State official told us that the legislature, in appropriating funds for fiscal year 1974, had considered the total resources, including revenue sharing funds, that would be available to the State. However, neither the general appropriation bill nor any special appropriation bills designated revenue sharing as a funding source. A committee of the legislature, scheduled to meet in June 1973, was expected to decide which State programs and activities would receive the funds.

TENNESSEE

Tennessee received $32 million in calendar year 1972 revenue sharing funds which it recorded in a separate revenue account in the State's general fund and invested in certificates of deposit. Interest earnings on the funds totaled $450,000 through March 31, 1973.

The Governor submitted his proposed budget and related appropriation bill for fiscal year 1974 to the State legislature, but it had not been passed. The budget reflected the concern that revenue sharing might not be permanent and recommended that the funds be used for capital outlays rather than for recurring expenditures. The budget included the State's 1972 funds and the first quarterly payment of its 1973 funds--a total of $42 million.

The Governor's plans for using the funds included $19 million for constructing highways, $4 million for constructing a clinical science building at the University of Tennessee, $1 million for constructing a vocational technical school in Sumner County, and $0.2 million for renovating the Alumni Building at Tennessee State University.

TEXAS

Texas received $80.3 million in calendar year 1972 revenue sharing funds. The funds were placed in bank time deposits and had earned about $426,000 in interest through March 31, 1973. No funds were authorized for expenditure.

The budgetary process in Texas is somewhat unique. Both the Governor and the legislative budget board, chaired by the Lieutenant Governor, submit recommended budgets to the legislature. These recommendations are reviewed by a committee of each house of the legislature.

As of March 31, 1973, the committees from each house had not submitted their recommendations for use of the State's revenue sharing funds. The legislative budget board's recommendations, dated January 1973, covered the revenue sharing funds on hand and expected to be received through August 31, 1975--a total of $316 million. In making its recommendations, the board had the following objectives.

--Make maximum use of the revenue sharing funds.

--Use as much of the funds as possible for nonrecurring capital improvements.

--Avoid any allocations that could possibly be used for matching other Federal funds.

For the fiscal year beginning on September 1, 1973, the legislative budget board recommended that $128.7 million in the funds be used for operating and maintenance expenditures and that $47 million be used for capital expenditures. The recommended capital expenditures included $18.4 million for educational facilities, $15.3 million for mental institutions, $4.5 million for correctional institutions, and $7 million for general public buildings. The recommended operating and maintenance expenditures included $10.2 million for the judicial system, $77.4 million for State and public institutions of higher education, $10.9 million for corrections, and $20.5 million for financial administration.

State officials said that revenue sharing had postponed the need to increase State taxes.

UTAH

Utah received $9.9 million in calendar year 1972 revenue sharing funds which it recorded in a trust fund account and invested in certificates of deposit. Interest earned on the certificates through March 31, 1973, totaled $150,000. No funds had been expended; however, the Utah legislature had authorized expenditure of the $9.9 million as well as $3 million that the State received in April 1973.

The legislature appropriated $3 million for the Provo-Jordan River Parkway Authority, whose purpose is to establish and coordinate programs for developing recreational areas, water conservation, flood control, and wildlife resources of the Provo and Jordan Rivers. The remaining funds were appropriated to the Utah State Building Board to be used for acquiring, constructing, altering, and repairing State grounds, buildings, and facilities.

State officials said that the revenue sharing funds and the State's surplus position would permit a reduction in the State's property tax rate.

VERMONT

Vermont received $4.8 million in calendar year 1972 revenue sharing funds. The funds were recorded in a separate revenue sharing account and, as of March 31, 1973, had earned about $72,000 in interest primarily from U.S. Treasury notes and bonds.

The State estimated that, from January 1, 1972, through June 30, 1974, it would receive approximately $11 million in revenue sharing funds. In his budget submission, the Governor recommended $6 million for capital improvement projects and $5 million for property tax relief. The legislature, however, passed two bills which appropriated the funds for somewhat different purposes.

On April 23, 1973, the Governor signed a bill that appropriated $3 million of the funds received in fiscal year 1973. The bill also appropriated all future revenue sharing funds to a trust fund for partial funding of property tax relief. The bill provided that no relief may be paid in any fiscal year in which revenue sharing funds are not received.

The Governor later signed a bill which authorized all revenue sharing funds received during fiscal year 1973 that were "not otherwise appropriated" to be used for debt service.

A State official said that, if the State had not received revenue sharing funds, it would have reduced other programs to achieve the property tax relief.

VIRGINIA

Virginia received $34.4 million in calendar year 1972 revenue sharing funds. After being recorded in a separate trust fund account, the funds were commingled and invested with other State funds. The trust fund account is credited monthly with a proportionate share of total investment earnings. Interest earned on the funds through March 31, 1973, totaled $309,000. The State legislature had approved the expenditure of the funds; however, no funds had been expended as of March 31, 1973.

The Governor combined the funds received for 1972 with those expected to be received in the future and those available from the State's surplus and submitted a special budget for $109 million to the 1973 general assembly. Revenue sharing funds accounted for about $85 million of this budget. The legislature reduced the Governor's budget to $72 million, of which about $52 million was revenue sharing funds.

The legislature did not identify specific uses for the funds. Because the funds were considered to be another source of revenue, they were combined with other revenues in the general revenue fund. State officials pointed out that the Governor has the authority to designate the uses of the funds.

State officials said that the effect of revenue sharing on the State's surplus position would depend on the future funding levels of Federal categorical aid programs. The approximately $30 million that the legislature withheld from appropriation could be part of a 1974 surplus unless the 1974 session appropriates it for use in the current biennium.

WASHINGTON

Washington received $25.2 million in calendar year 1972 revenue sharing funds, recorded them in a separate trust fund account, and invested them in Federal National Mortgage Association discount notes. As of March 31, 1973, the State had earned interest of $385,000.

In his January 1973 budget, the Governor proposed allocating the funds to local school districts as part of the State's program to supplement local school resources. This allocation was intended, in part, to offset reductions in tax revenues of local school districts that resulted from a property tax relief measure approved by the voters in November 1972. Revenue sharing was cited as one of the factors that made the property tax relief measure possible.

In April 1973 the Washington legislature approved the Governor's proposal and appropriated $105.5 million of the estimated revenue sharing receipts through June 30, 1975, to the superintendent of public education. The funds, which represented only a part of the total State school aid package, will be used for the operation and maintenance of selected local school districts.

WEST VIRGINIA

West Virginia received $22.8 million in revenue sharing funds for calendar year 1972. The Governor invested the funds in certificates of deposit; he did not place the funds in the State treasury because he believed that he was personally responsible for them. The matter was being considered by the State supreme court. The funds earned about $229,000 in interest through March 31, 1973.

The Governor's budget for fiscal year 1974 included plans for the $59.4 million of revenue sharing funds expected to be received through June 30, 1974, plus the estimated interest. Two-thirds of the funds were to be spent on capital projects, and the remainder was to be used to assist incorporated communities with facility improvements and other programs. The Governor recommended that the funds not be used for projects which would require continuing State or local funding in case the revenue sharing program was ended.

The legislature passed an appropriation act in April 1973 which included $29.6 million of revenue sharing funds and anticipated interest of $800,000. Most of this money was appropriated for capital projects, including $20.2 million for a special bridge replacement fund.

WISCONSIN

Wisconsin received $43.1 million in calendar year 1972 revenue sharing funds. The funds were recorded in a special account in the State's general fund and were invested with other State funds. Most of the investments were in U.S. Government securities, and as of March 31, 1973, the State had earned an estimated $562,000 on its investment of the funds. No funds were authorized for expenditure.

In late April 1973 the legislature was considering the Governor's 1973-75 budget. The budget called for using $169.9 million of revenue sharing funds to aid local school districts. In addition, the Governor proposed an amendment to existing legislation to require that all future revenue sharing funds be used for education. State officials feel that, if the Governor's proposals are passed, personal and real property tax will be reduced because property taxes are the local school districts' primary revenue source.

WYOMING

Wyoming received $3.2 million in calendar year 1972 revenue sharing funds which it recorded in a separate trust fund account and invested in bank time deposits earning interest of about $53,000 through March 31, 1973. The funds were appropriated and authorized for expenditure beginning July 1, 1973.

The State estimated that $10.5 million in revenue sharing funds would be available for expenditure during the 1973-75 biennium. The legislature authorized $6.4 million to be spent for operation and maintenance expenses and $4.1 million for capital expenditures. The authorized expenditures for operation and maintenance included $1.1 million for State institutions of higher education, $0.8 million for the Wyoming Sanitarium, and $0.5 million for probation and parole activities.

The revenue sharing funds authorized for capital expenditures included $1.5 million for constructing and furnishing a corrective psychiatry building at a State mental hospital and $1.8 million for a variety of projects at the State capitol complex.

State officials said that the Governor had been planning a tax relief program before the Revenue Sharing Act was passed and that revenue sharing would enhance the State's surplus position.

CHAPTER 5

SCOPE OF REVIEW

We visited each of the 50 State capitals and the District of Columbia and met with various State officials. We also examined State budget documents and accounting records to determine the actual and planned programs being financed by the States with revenue sharing funds.

We obtained State officials' views on a variety of matters, including the factors influencing the States' decisions on the use of the funds, any indirect effects of revenue sharing, and any administrative problems encountered in implementing revenue sharing. With the assistance of State officials, we identified the financial status, as of March 31, 1973, of each State government's calendar year 1972 revenue sharing funds.

Our review did not assess State government compliance with the restrictions and requirements of the act and the regulations. In future reviews we will assess compliance, as well as the efforts of the Office of Revenue Sharing to insure that recipient governments comply fully with the act and the regulations.

We provided a draft of this report to the Office of Revenue Sharing, the 50 State governments, and the District of Columbia for their review. Their comments were considered in preparing this report.

APPENDIX

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF THE TREASURY

HAVING AN INTEREST IN

THE MATTERS DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF THE TREASURY:		
George P. Schultz	June 1972	Present
DIRECTOR, OFFICE OF REVENUE SHARING:		
Graham W. Watt	Feb. 1973	Present

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