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# LOCAL GOVERNMENT FISCAL ASSISTANCE AMENDMENTS OF 1983

JULY 20 (legislative day, JULY 18, 1983.—Ordered to be printed

Mr. DOLE, from the Committee on Finance, submitted the following

## REPORT

[To accompany S. 1426]

The Committee on Finance, to which was referred the bill (S. 1426) to extend and amend the revenue sharing law as codified by 31 U.S code chapter 67, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

### SUMMARY

To strengthen our Federal system of government, the Committee recommends the continued provision of unrestricted fiscal assistance to units of local government on a continuing and certain basis. The Committee believes that providing local governments Federal funds with few limitations helps them more effectively meet the diverse needs and priorities of the nation. The bill, as amended by the Committee, extends the revenue sharing program to achieve this result. The Committee also has made certain technical changes to clarify the law governing the general revenue sharing program. In addition, the Committee proposes, on a contingent basis, certain changes in the formula for allocating revenue sharing funds to localities that the Committee believes can contribute to more efficient targeting of those funds.

*Extension, funding, and amounts*

The Committee amendment to S. 1426 continues general revenue sharing entitlements to units of local government for three more

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years. Entitlement payments of $4.6 billion per year are provided to units of local government for fiscal years 1984 through 1986. Payments to State governments continue to be authorized, subject to appropriation, in the amount of $2.3 billion per year for fiscal years 1984 through 1986; however, the appropriation of funds for payments to State governments would remain subject to the present law requirement that the State government forego an equivalent amount in other categorical grant funds in exchange for receiving revenue sharing funds.

*Distribution of funds*

With respect to the $4.6 billion entitlement payments to local governments, the Committee continues the present provisions governing the distribution of funds. Distribution of funds to the States will remain based on one of two formulas: one based on population, tax effort, and need (inverse per capita income); the other based on population, urbanization, need, relative use of income taxes, and tax effort.

State governments will receive funds only when a State share is funded by appropriation and subject to the requirement that they forego an equivalent amount in other categorical grant funds. Entitlement funds will be distributed among the counties, cities, and other units of local government within each State generally on the basis of population, tax effort, and need.

The Committee amendment provides for changes in the formula for distributing revenue sharing funds that would take effect only if funds are authorized for revenue sharing payments to local governments in excess of the $4.6 billion ($4,566.7 million) that is authorized under present law. To the extent that funds are authorized in excess of that amount, those funds would be distributed to the States under the existing formulas. However, changes would be made in the formula for distributing the funds to units of local government within each State, subject to the condition that no government that receives revenue sharing funds would receive less funds as a result of the formula changes than it now does.

The changes in the formula that would be made under this contingent plan would be to eliminate the county area allocation so that all local governments in a State compete directly with each other for funds; raise the maximum per capita allocation constraint from 145 to 160 percent of the average State payment, except for jurisdictions whose per capita taxes are more than 2.5 times the State average for similar types of jurisdictions; reduce the minimum per capita grant from 20 percent to 15 percent of the State per capita grant; and replace the budget constraint with a tax constraint that would preclude a government from receiving payments as a percentage of its taxes greater than 2.5 times the percent revenue sharing represents of local taxes statewide.

## REASONS FOR THE BILL

In recent years multiple recessions and slow economic growth have affected the public sector as well as the private sector. The tendency of State and local governments to rely on relatively inelastic revenue sources, such as local property taxes, has limited

their flexibility in responding to fiscal problems. To assist local governments in meeting the needs of their communities in a time of fiscal stringency, the Committee amendment extends the general revenue sharing program for 3 years.

At the same time, the Federal Government is suffering from a serious fiscal imbalance, aggravated by recession and the difficulty of reaching agreement on priorities in the budget. The Committee, to contribute to the effort to restrain the Federal deficit, has chosen not to increase the authorized funding level for general revenue sharing at this time. However, the Committee also concludes that if Congress chooses to increase funding for revenue sharing, the increase should be used to make the system for distributing revenue sharing funds more effective. Accordingly, the Committee amendment provides for changes in the allocation formula should any additional revenue sharing funds be authorized.

## GENERAL EXPLANATION

### *Extension, funding, and amounts*

The general revenue sharing program was established under the authority of the State and Local Fiscal Assistance Act of 1972 (Public Law 92-512) and was extended with changes to the nondiscrimination, audit, and public participation requirements by the State and Local Fiscal Assistance Amendments of 1976 (Public Law 94-488). A further extension was approved in 1980, with new conditions imposed on the participation of State governments in the program and the elimination of the noncontiguous State adjustment, under the State and Local Fiscal Assistance Amendments of 1980 (Public Law 96-604).

The 1972 Act appropriated $30.2 billion for aid to State and local governments covering the period January 1, 1972, through December 31, 1976. The 1976 amendments extended the program through September 30, 1980, and earmarked $25.6 billion for payments during the 3¾ years of the extension. The 1980 amendments authorized $13.7 billion for payments to local governments over a three-year period; those payments terminate at the end of fiscal year 1983.

To insure a stable source of funds from the Federal Government to recipient governments over the term of the revenue sharing program, a trust fund was created and a commitment made to appropriate the funds each fiscal year. This assurance that funds will be paid to localities at the full authorization level enables recipient governments to plan their budgets in a realistic manner. As a technical matter revenue sharing funds must be appropriated each fiscal year, but this has generally been regarded as a pro forma requirement: the Federal Government has pledged to pay the money authorized for the duration of the program, and the use of an entitlement procedure has guaranteed the provision of the funds at the stipulated amounts.

In proposing the extension of revenue sharing the Committee has sought both periodic review and control over the program and sufficient certainty for local governments to budget and use revenue sharing funds most effectively. The three-year renewal of the local entitlement assures local governments stable funding while at the

same time giving Congress an opportunity to review the program before considering its further extension. The extension of revenue sharing provided under the Committee amendment covers fiscal year 1984 through 1986, and is effective for entitlement periods beginning on or after October 1, 1983.

*Distribution of funds*

*1. Interstate allocation.*—Under present law funds available for State areas are allocated by the "five-factor" or "three-factor" formula, whichever yields the higher amount, as adjusted proportionately based on the amount authorized for the entitlement period. The "five-factor" formula is based in part on the need of States and localities, measured by taking into account population, urbanization, and extent of relative poverty (population inversely weighted by relative per capita income). The additional factors in this formula, individual income taxes and general tax effort, are designed to encourage recipient governments to best utilize their own revenue sources.

The "three-factor" formula is based on population weighted by general tax effort and by inverse relative per capita income. This formula places more emphasis on relative need and fiscal capacity. It further differs from the "five-factor" formula by not distinguishing income taxes from other taxes in measuring tax effort. General tax effort, rather than urbanization, is used to direct funds to States in which large cities are located.

*2. Intrastate allocation.*—Amounts allocated to a State under current law are then divided among local governments within that State. First an allocation is made to county areas [1] on the basis of the three-factor formula: population, multiplied by general tax effort, then further multiplied by inverse relative per capita income. Inverse per capita income is the ratio of the larger geographic unit's per capita income to that of the jurisdiction for which an allocation is being computed. For a county area allocation the ratio is State per capita income to the per capita income of the county in question.

For county areas population is the population of the county area and tax effort is the adjusted taxes [2] raised by all units of general government in the county area divided by the total income of the residents in the county area.

Once the county area allocation is determined, a further allocation is made among units of government in the county area. If there are any Indian tribes or Alaskan Native villages that perform substantial governmental functions, an allocation is first made on the basis of total tribal population as a percentage of county area population. The remainder is then divided into three parts based on the relative size of the adjusted taxes of the county government, all township governments, and all other governments in the county area. The first of these three parts is the allocation to the county government. The second and and third parts are di-

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[1] For any part of the State where there is no county, the next unit of local government below the State level is treated as a county. This allocation to county areas is intended to cover the entire geographic area of the State, whether or not there are active county governments.

[2] "Adjusted taxes" means all tax revenues minus the amount attributable to financing education

vided among township governments and among other governments in the county on the basis of population, tax effort and per capita income.

These local government allocation are subject to adjustment based on certain statutory constraints which are discussed in more detail below.

Special rules treat the office of the sheriff for each of the Louisiana parishes, except the parish of Orleans, as a unit of government eligible to receive revenue sharing funds. The office of the sheriff receives 13.5 percent of the entitlement that otherwise goes to the parish government. The entitlement of the parish government is then reduced by that amount.

In addition, a State may by law alter its intrastate allocation formula once during the program. Instead of the three-factor formula, a State may use an average of population times tax effort and population times inverse per capita income. The change must be made for the entire State, and the maximum and minimum limitations may not be changed. To date no State has elected to modify the formula as provided by the Act.

In reviewing the formulas for allocating funds under present law, the Committee determined that by and large the formulas have worked well in distributing the funds currently authorized. However, the Committee also believes that any additional funds that may be authorized for revenue sharing should be applied to making certain adjustments in the formula that can result in a more equitable distribution of the funds, while protecting all recipient governments from any reduction in their allocation as a result of the formula changes. Under the Committee amendment the following formula changes would be made should Congress increase authorized revenue sharing funds above the present level of $4,566.7 million. No change would be made in the formulas for allocating funds to States.

*County areas.*—The separate allocation to county areas would be eliminated, so that counties and all other units of local government would compete on an equal basis for their share of the State allocation, based on population, general tax effort, and inverse relative per capita income.

*Maximum constraint.*—The maximum constraint on the allocation that any recipient government in a State may receive would be raised from 145 percent of the statewide per capita average allocation to 160 percent of the statewide per capita average allocation. The constraint would remain at 145 percent for jurisdictions whose per capita taxes are more than 2.5 times the per capita taxes of similar types of jurisdictions in the State.

*Minimum constraint.*—The minimum constraint on the allocation that any recipient government in the State may receive would be changed from 20 percent to the statewide per capita average allocation to 15 percent of the statewide per capita average allocation.

*Budget constraint.*—The limit for recipient governments to a revenue sharing payment that does not exceed 50 percent of that government's total taxes and intergovernmental transfers would be changed to a new budget constraint limiting a recipient government's revenue sharing payments to a percentage of its taxes no

greater than 2.5 times the percentage revenue sharing represents of local taxes statewide.

*Explanation of provision*

Under the Committee amendment, the four formula changes are to be implemented only if funds are authorized for revenue sharing in excess of the present funding level of $4,566.7 million. These additional funds (the difference between the funding level actually authorized and $4,566.7 million) would then be used to implement the formula changes but only to the extent possible after guaranteeing that no recipient government would experience a reduction in revenue sharing payments from current law levels as a result of the formula changes. This 'hold harmless' feature of the Committee amendment means that the formula changes could be put into effect only to the extent that the additional funds authorized for revenue sharing are sufficient to prevent a loss to any recipient government. To the extent that additional funds are less than is necessary to hold every jurisdiction harmless, the formula changes would be less than fully implemented. In addition, to the extent the additional funding level exceeds the amount needed to carry out the hold harmless provision, jurisdictions other than those benefitting from the formula changes could also receive an increase in revenue sharing funds.

Because the Committee amendment leaves the formula for interstate allocation of revenue sharing funds unchanged, the hold harmless provision would be carried out by determining the allocation that would be made under the existing revenue sharing formula, and comparing that with the allocation that would be made under the revised formula specified by the Committee amendment. Each unit of general local government would be entitled to receive the greater of its allocation under the old formula, or its allocation under the revised formula as adjusted by the hold harmless provision.

The hold harmless adjustment would work in the following way. The Secretary of the Treasury would be required to ensure that no entitlement for any unit of general local government would be less than its entitlement as determined under the old formula. To guarantee this result the Secretary would determine which units of local government would receive a higher revenue sharing allocation under the revised formula, and which would receive a lower allocation under the revised formula. To the extent necessary to restore the governments with a lower allocation to the level of allocation they are entitled to under the old formula, the Secretary would then proportionately reduce the amount of increase that would be enjoyed by units of local government under the revised formula. In other words, the amount of gain that units of local government could receive under the revised formula would be reduced proportionately in order to guarantee that no unit of local government would receive less in revenue sharing funds than they would have received under the old formula.

For example, suppose that in State A the Secretary determines that 20 jurisdictions will gain, in the aggregate, $10 million in additional revenue sharing funds under the revised formula as compared with the old formula. At the same time the Secretary deter-

mines that 10 jurisdictions in State A would lose $3 million in the aggregate. The Secretary would then reduce the amount of increase allocated to each of the gaining jurisdictions by 30 percent in order to pick up the $3 million needed to maintain the other 10 jurisdictions at a constant funding level.

The contingent formula changes under the Committee amendment are designed to distribute revenue sharing funds more equitably.

*County areas.*—Under present law once funds are allocated to county areas by the three-factor formula, a further allocation is made to types of local government in the county area based on adjusted taxes alone. (Allocations are further made among governments of each type (i.e., townships and municipalities) under the three-factor formula). Failure to take into account per capita income in making this allocation among types of governments can tend to work to the disadvantage of units of government whose average income is lower than others. Accordingly, the Committee amendment would eliminate the separate allocation to county areas, and allocate revenue sharing funds to all units of local government within the State based on population, general tax effort, and inverse relative per capita income. Allocations to tribal governments and Alaskan Native villages within the State would be made directly from the State allocation, based on their total population as a percentage of State population. The office of the sheriff for each of the Louisiana parishes (other than the parish of Orleans) would continue to receive 13.5 percent of the entitlement that would otherwise go to the parish government.

*Maximum constraint.*—Under present law no recipient government in a State may receive revenue sharing funds in excess of 145 percent of the average statewide per capita allocation. This restriction tends to limit allocations to governments that have unusually high tax efforts or unusually low per capita incomes. In some cases these are governments that must provide an unusually high level of services because, for example, no services are provided by an overlying county government. This constraint also affects so-called "tax enclaves"—units of government that have a high tax effort because of a concentrated tax base relative to population, such as a shopping center or a power plant. The Committee amendment would change the maximum constraint to 160 percent of the average statewide per capita allocation, except with respect to tax enclaves. For purposes of the constraint tax enclaves would be defined as jurisdictions whose per capita taxes are more than 2.5 times the per capita taxes of similar types of jurisdictions in the State. Tax enclaves would continue to be held to the constraint at 145 percent.

*Minimum constraint.*—Under present law no recipient government in a State may receive revenue sharing funds in an amount less than 20 percent of the statewide average per capita allocation. This constraint can tend to increase revenue sharing payments to limited service jurisdictions that have relatively few fiscal obligations. Accordingly, the Committee amendment would change the minimum constraint to 15 percent of the statewide average per capita allocation.

*Budget constraint.*—Under present law no recipient government can receive a revenue sharing payment that exceeds 50 percent of that government's total taxes and intergovernmental transfers. The inclusion of intergovernmental transfers in this determination can tend to cause revenue sharing payments to exceed a recipient government's total tax collections, and cause anomalies in payments due to abrupt changes in the level of transfer payments. The Committee amendment would change the budget constraint to a new formula. The new budget constraint would limit a recipient government's revenue sharing payment to a percentage of its taxes that does not exceed 2.5 times the percentage revenue sharing represents of local taxes on a statewide basis.

## TECHNICAL AMENDMENTS

The Committee amendment incorporates a number of technical changes in the revenue sharing law as codified in 31 U.S.C. Chapter 67. These technical amendments are designed to clarify the law or to modify provisions of the law that have in practice proved to be redundant or unnecessary.

Local governments straddling two or more counties would have their revenue sharing allocations computed on the basis of their proportion of population in each county. This change conforms the law to the actual administrative practice of the Office of Revenue Sharing. In addition, the definition of "District of Columbia" would be conformed to administrative practice by treating it as the sole unit of general government in a county area.

A misreference in the audit provision of the revenue sharing law would be corrected to eliminate references to use reports, and additional assurances would be required from recipient governments, to the effect that they will comply with the public participation and audit requirements of the law. These changes conform the law to administrative practice.

The requirement that a State allocation be reduced if that State reduces its own payments to local governments is repealed.

The definition of "urbanized population" would be clarified to incorporate updates in the definition used by the Census Bureau. This simply continues the practice of using the Census Bureau definition by incorporating that definition by reference.

It would be made clear that States would continue to have available the limited option that exists under present law to use alternative formulas for allocating revenue sharing funds among units of local government in the State.

It would be made clear that revenue sharing allocations would based on the most recent data available before the beginning of the entitlement period.

The requirement for two public hearings on a recipient government's use of revenue sharing funds would be changed to a requirement for one public hearing.

With regard to procedures concerning discrimination complaints, it would be made clear that time for the recipient government to act, runs from receipt of notice of the complaint rather than from issuance of the notice.

The requirement for annual use reports would be eliminated.

*Adjusted definition of local tax effort for the State of Massachusetts*

Under the Committee amendment special allowance would be made for units of local government in Massachusetts to include certain taxes in adjusted taxes for revenue sharing purposes with respect to the entitlement period beginning October 1, 1983. The taxes covered by this allowance are property taxes levied for fiscal year 1982 but actually collected in fiscal year 1983 due to an order of the State Supreme Judicial Court in Massachusetts changing the method by which municipalities value property. The Committee amendment precludes crediting any taxes covered by this special allowance to any other fiscal year. In addition, the allowance is contingent on the Governor of Massachusetts certifying to the Secretary, by August 1, 1983, or 20 months after enactment of the Act (whichever is later) that all units of general local government in Massachusetts will be required to prepare financial statements in accord with generally accepted accounting principles.

*Effective date*

The provisions of the Committee amendment would be effective for entitlement periods beginning on or after October 1, 1983.

## REGULATORY IMPACT OF THE BILL

In compliance with paragraph 11(b) of rule XXVI of the Standing Rules of the Senate the following evaluation is made of the regulatory impact that would be associated with carrying out the bill.

The bill represents a continuation of the general revenue sharing program as codified in the U.S. Code, Title 31, Chapter 67. This program does not involve the regulation of businesses or individuals. While the bill provides for some changes in the formulas for providing fiscal assistance to local governments, contingent on funding levels, the Committee does not anticipate that there will be any significant change in the paperwork requirements related to claiming grants under the program. The bill does, however, clarify certain regulatory requirements and eliminate certain unnecessary reports and requirements so that the overall impact of the bill should be to reduce paperwork. The bill has no impact on privacy and no direct economic impact on individuals or businesses. Indirectly, however, it should benefit individuals and businesses by enabling localities to maintain a healthier economic climate.

## BUDGETARY IMPACT OF THE BILL

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
*Washington, D.C., July 20, 1983.*

Hon. ROBERT DOLE,
*Chairman, Committee on Finance,*
*U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: Pursuant to Section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has prepared the attached cost estimate for S. 1426, the Local Government Fiscal Assistance Amendments of 1983.

Should the Committee so desire, we would be pleased to provide further details on this estimate.

Sincerely,

ALICE M. RIVLIN, *Director.*

CONGRESSIONAL BUDGET OFFICE—COST ESTIMATE

1. Bill number: S. 1426.
2. Bill title: Local Government Fiscal Assistance Amendments of 1983.
3. Bill status: As ordered reported by the Senate Committee on Finance, June 29, 1983.
4. Bill purpose: This bill extends the authorization of the general revenue sharing program for five years, from fiscal year 1984 through 1988. The bill authorizes the appropriation of $2.3 billion in each year to be allocated to state governments. An entitlement of $4.6 billion per year for allocation to units of general local government is also provided. The bill also includes a provision to change the allocation formula if more than $4.6 billion is authorized to be appropriated for grants to local governments.
5. Estimated cost to the Federal Government:

[By fiscal years, in billions of dollars]

| | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|
| Authorization level | 2 3 | 2.3 | 2 3 | 2.3 | 2 3 |
| Required budget authority | 4.6 | 4 6 | 4 6 | 4 6 | 4 6 |
| Estimated outlays | 5.2 | 6.9 | 6.9 | 6 9 | 6.9 |

Including outlays from prior years' appropriations to date, total outlays in 1984 would be $6.3 billion, assuming appropriation of the authorized amount.

This bill would result in additional future federal liabilities through an extension of an existing entitlement but requires subsequent appropriation action to provide the necessary budget authority. The figures shown as "Required Budget Authority" represent the budget authority needed to fund the specific payments to local governments mandated in the bill.

The costs of this bill fall within budget function 850.

*Basis of estimates*

This estimate assumes that the amount authorized will be appropriated. The estimate of outlays is based on the requirement that the fourth quarter payment for each year be made within the first five days of the succeeding year. The cost of administering this program is approximately $7 million per year.

6. Estimated cost to State and local governments: The bill provides for $6.9 billion in payments to state and local governments. This represents an increase of $2.3 billion over the 1983 level, with the increase specified for state governments. Funds would be allocated based on a formula taking into account population, per capita income, and tax effort.
7. Estimate comparison: None.
8. Previous CBO estimate: None.

9. Estimate prepared by: Judy Walker and Mary Ann Curtin.
10. Estimate approved by: James L. Blum, Assistant Director for Budget Analysis.

## VOTE OF THE COMMITTEE IN REPORTING THE BILL

In compliance with paragraph 7(c) of rule XXVI of the Standing Rules of the Senate, the Committee states that the bill was ordered favorably reported by a vote of 17 ayes and 2 nays.

## CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In the opinion of the Committee it is necessary, in order to expedite the business of the Senate, to dispense with the requirements of paragraph 12 of rule XXVI of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill, S. 1426).

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