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THE WHITE HOUSE
WASHINGTON

ACTION

April 14, 1975

MEMORANDUM FOR: THE PRESIDENT
FROM: JIM CANNON
SUBJECT: Renewal of General Revenue Sharing

Attached for your consideration are letters for your signature (Tab A) and a Message to the Congress (Tab B) which have been prepared to transmit a draft bill to extend and revise the General Revenue Sharing Legislation.

Consistent with your decisions this proposed legislation would:

- Retain the present formula.
- Authorize funds for five and three-quarter years.
- Continue the annual stair-step increases of \$150 million.
- Ease the existing per capita constraint over a period of five years allowing some cities to increase their shares.
- Strengthen the Civil Rights protections by providing three alternative remedies:
 - . Authorize the withholding of all (present law) or part (new) of a government's funds; and two additional new remedies;
 - . authorize termination of one or more payments to a government in violation; and, or
 - . require repayment of funds used in a discriminatory way.
- Strengthen public participation by requiring a procedure to assure citizen participation.



- Permit a more flexible system of reports.
- Require renewal consideration two years prior to expiration.

For your information several additional tabs are provided:

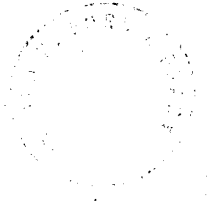
- White House "Fact Sheet" Tab C.
- Press Booklet (to be printed) Tab D.
- Draft Bill, Analysis and Comparative Type (to be printed) Tab E.

In addition to Treasury and OMB, Jack Marsh, Bill Seidman, Max Friedersdorf and your Counsel's office have cleared this legislative package. The Message and letters have been cleared by Paul Theis.

RECOMMENDATIONS

That you sign the transmittal letters to the President of the Senate and the Speaker of the House at Tab A and that you approve and sign the Message to the Congress at Tab B.

Note: The material at Tab E to be printed by Treasury will accompany these letters.



THE WHITE HOUSE

WASHINGTON

Dear Mr. President:

Enclosed is a draft of a bill, "To extend and revise the State and Local Fiscal Assistance Act of 1972."

The State and Local Fiscal Assistance Act of 1972 has provided vitally needed funding to States and over 38,000 local governments. While there appears to be no need for substantial changes, some amendments to the Act are considered desirable based upon our experience in administering the general revenue sharing program for the past two and one-half years.

The draft bill would make such amendments. In addition to extending the Act through the fiscal year beginning October 1, 1981, the amendments clarify certain provisions of the Act, require that residents within the recipient government's jurisdiction be provided an opportunity to give their views on how revenue sharing funds should be spent, and facilitate the administration of the Act from a management point of view. The inflationary impact of this draft bill has been carefully considered.

There is also enclosed a section-by-section analysis of the draft bill and a comparative type showing the changes that would be made in the existing Act.

I urge you to bring this proposed legislation to the attention of the Senate at your earliest convenience. An identical draft bill has been transmitted to the Speaker of the House of Representatives.

Sincerely,

The Honorable Nelson A. Rockefeller
President of the Senate
Washington, D.C. 20510

Enclosures (3)

THE WHITE HOUSE
WASHINGTON

Dear Mr. Speaker:

Enclosed is a draft of a bill, "To extend and revise the State and Local Fiscal Assistance Act of 1972."

The State and Local Fiscal Assistance Act of 1972 has provided vitally needed funding to States and over 38,000 local governments. While there appears to be no need for substantial changes, some amendments to the Act are considered desirable based upon our experience in administering the general revenue sharing program for the past two and one-half years.

The draft bill would make such amendments. In addition to extending the Act through the fiscal year beginning October 1, 1981, the amendments clarify certain provisions of the Act, require that residents within the recipient government's jurisdiction be provided an opportunity to give their views on how revenue sharing funds should be spent, and facilitate the administration of the Act from a management point of view. The inflationary impact of this draft bill has been carefully considered.

There is also enclosed a section-by-section analysis of the draft bill and a comparative type showing the changes that would be made in the existing Act.

I urge you to bring this proposed legislation to the attention of the House of Representatives at your earliest convenience. An identical draft bill has been transmitted to the President of the Senate.

Sincerely,

The Honorable Carl Albert
Speaker of the House of Representatives
Washington, D.C. 20515

Enclosures (3)

B

PRESIDENTIAL MESSAGE ON GENERAL REVENUE SHARING RENEWAL
LEGISLATION

To the Congress of the United States:

I am today transmitting to the Congress proposed legislation to extend and revise the State and Local Fiscal Assistance Act of 1972. The act, and the General Revenue Sharing program which it authorizes, expires on December 31, 1976. I strongly recommend that the Congress act to continue this highly successful and important new element of American Federalism well in advance of the expiration date, in order that State and local governments can make sound fiscal plans.

The Value of Federalism

The genius of American government is the Federal system of shared sovereignty. This system permits and promotes creativity and freedom of action simultaneously at three levels of government. Federalism enables our people to approach their problems through the governments closest to them, rather than looking to an all-powerful central bureaucracy for every answer.

With the Federal Government heavily committed to international affairs, the Nation's defense, the state of the economy and the energy problem, we need strong, effective State and local governments to meet the everyday needs of our people-- for good police and fire protection, education, transportation, sanitation, and the basic services of a well-governed society.

In 1972, when General Revenue Sharing was passed, the Federal partnership was in trouble. The Federal Government, with its highly efficient taxing system, then collected some two-thirds of the Nation's total tax revenues. Federal revenues, particularly because of the income tax, grew with the economy. However, State and local revenues are more dependent on real property taxes and sales taxes. These governments had to meet rising demands for services and costs through endless rounds of tax increases. Simply stated, revenues had grown fastest at the Federal level, while needs were growing fastest at the State and local levels.

The Federal Government, then as now, sought to help States and communities meet their needs through Federal aid. For the most part, this aid is in the form of categorical grants -- that is, narrowly defined, closely controlled grants for specific purposes. Today, over one thousand of these categorical grants are available for almost every imaginable objective.

However, the necessity to go to Washington for the solution to many local problems has had a stifling effect on the creativity and accountability of State and local governments. Along with Federal aid comes Federal restrictions which limit local initiative and flexibility.

Furthermore, until the concept of block grants was developed, States and localities were limited to categorical grants which were designed to lead State and local governments in new directions. Consequently, the recipients, all too often, headed in the direction where the grant monies were available, rather than where their genuine needs existed.

Finally, much of the aid the Federal Government makes available has to be matched by State and local funds. The impact of this requirement is often to aggravate rather than to alleviate a State or local government's financial plight.

This was the situation the executive branch and the Congress faced in 1972 -- a Federal system endangered by the growing impoverishment of two out of the system's three partners. This is the situation that the Federal Government wisely met, by the passage of General Revenue Sharing.

This program has been a resounding success. Since its enactment, General Revenue Sharing has provided nearly \$19 billion to 50 States and some 39,000 local governments -- money which these governments could use as they saw fit to meet their priority needs.

These Federal revenue sharing dollars have meant new crime fighting equipment and more police on the street, help for essential mass transportation, a better environment, improved fire protection and many other useful public activities. If some communities have not used their revenue sharing funds wisely, they are a miniscule fraction of governments which have used this money well.

The current revenue sharing act has also enabled individuals and citizen groups to play their part in determining the use of these Federal funds in their communities by placing the decision on the use of these funds at the local rather than the Federal level. This citizen participation strengthens our democracy in the best possible way. It is my intention to strengthen our efforts to encourage the widest possible citizen participation.

The Need Goes On

General Revenue Sharing has also been the keystone of additional efforts to reform Federal aid. The new block grant programs, more decentralized grant management, joint funding projects and grant integration, improved program information and executive reorganization have all been included in a large-scale effort to make better sense of and to get greater results from the billions granted to State and local governments.

The General Revenue Sharing program enacted in 1972 turned a corner. It caught a serious problem in time and helped us get back on the road to a sounder Federalism, of shared rights and responsibilities.

Many State and local governments are facing deficits with the prospect of having to raise additional taxes or cut services. Our States and localities are facing these adverse developments at a time when their fiscal responsibilities have mounted due to the impact of inflation on their expenditures and the tax burdens placed on citizens. Further, the present high unemployment is taking its toll in terms of lower tax receipts and higher costs on States and communities. This combination of financial pressures is likely to continue to bear down on these governments for the foreseeable future.

Many units of governments, particularly in distressed urban areas, count on these funds for their budget planning. If the flow of shared revenues were to be turned off or scaled down, the results would be immediate and painful. Our efforts to revive the economy would suffer a serious blow. States, cities, counties and small communities would have to either cut back essential services causing increased public and related private unemployment or tax more or borrow more -- thus defeating the objectives of our national efforts to reduce the total tax load and revive the economy.

Enactment of Federal revenue sharing was a wise decision in 1972. Its continuation is imperative now. Before deciding to recommend extension of this program, I directed that an exhaustive study be made of the present program to identify its strengths and weaknesses. This assessment has been carried out and has taken into account the views of the Congress, State and local government officials, interested citizen bodies and private study groups analyzing government policy. I will also consider any significant findings which may yet emerge from studies presently underway.

Based on our review of this work, I am now proposing to the Congress legislation which will maintain the basic features of the existing revenue sharing program while offering several improvements.

The principal elements of the renewal legislation I am proposing are:

- The basic revenue sharing formula is retained. Experience to date suggests the essential fairness of the present formula and I recommend its retention.

- Funds will be authorized for five and three-quarters year. The effect of this provision is to conform the time period to the new Federal fiscal year;

- The current method of funding with annual increases of \$150 million will be retained to compensate, in part, for

the impact of inflation. Over the five and three-quarters years, this level will produce a total distribution of Federal revenues of \$39.85 billion. By the final year, the revenues shared will have increased by \$937 million over the current level of payments.

-- Recognizing the need to raise the existing per capita constraint on the basic formula, my proposal would permit those hard-pressed jurisdictions now constrained by the per capita limitation to receive more money. The impact of this change on other communities would be minimized by phasing the change in five steps and by the increase of \$150 million annually.

-- To strengthen the civil rights provisions of the existing statute the proposed legislation would authorize the Secretary of the Treasury to invoke several remedies to enforce the nondiscrimination provisions of the act. This is accomplished by providing the Secretary with authority to withhold all or a portion of entitlement funds due a State or unit of local government, to terminate one or more payments of entitlement funds, and to require repayment of entitlement funds previously expended in a program or activity found to have

been discriminatory. This change will further enhance the Secretary's ability to ensure that none of our citizens is denied on grounds of race, color, sex or national origin the benefits of any program funded in whole or in part through revenue sharing.

-- To strengthen public participation in determining the use of shared revenues, the proposed legislation requires that recipient governments must provide a procedure for citizen participation in the allocation of revenue sharing monies.

-- The Administration proposal would also make reporting requirements more flexible to meet varying needs from community to community. The legislation would grant the Secretary of the Treasury greater latitude in determining the form of reports and the kind of information required of recipients. Similarly, he would have more flexibility to determine the method by which recipient governments must publicize their use of funds.

-- Finally, the proposal requires a reconsideration of the program two years before its expiration.

Early Renewal is Important

I urge the Congress at its earliest convenience to begin deliberations on the renewal of the State and Local Fiscal Assistance Act of 1972. Effective planning at the State capitols, city halls, and county courthouses will require

action in this first session of the 94th Congress. In fact, in the fall of 1975 many of our States and local governments will be preparing their fiscal year 1977 budgets. It will be essential for them to know at that time whether General Revenue Sharing funds will be available to them after December, 1976.

The expiration of the present General Revenue Sharing Law is coincident with the year in which the Nation celebrates its bicentennial. There could be no more practical reaffirmation of the Federal compact which launched this Country than to renew the program which has done so much to preserve and strengthen that compact -- General Revenue Sharing.

C

THE WHITE HOUSE

FACT SHEET

THE STATE AND LOCAL FISCAL ASSISTANCE ACT AMENDMENTS OF 1975

The President is transmitting to Congress today the State and Local Fiscal Assistance Act Amendments of 1975 which will extend and improve the General Revenue Sharing program to provide essential fiscal assistance to general purpose governments through September of 1982.

BACKGROUND

The General Revenue Sharing program was authorized by Title I of the State and Local Fiscal Assistance Act of 1972, which was signed into law on October 20, 1972. The Administration has conducted a careful study of the program, which expires at the end of 1976, considering issues raised by interested groups and the several independent studies addressing themselves to revenue sharing. This review has led the President to offer this legislation, which seeks to continue the benefits of this program, in its existing broad outlines. It also would propose certain changes to strengthen the ability of General Revenue Sharing to contribute to a vital and balanced Federal system.

IMPORTANT REASONS TO EXTEND THE PROGRAM AS PROPOSED

- (1) It provides \$39.85 billion to State and local general purpose governments over 5 and 3/4 years to make it possible for them to perform the essential

tasks required by their residents. This renewal program builds on the existing program, which thus far has distributed almost \$19 billion to States and communities. These funds are used to pay for vitally needed day-to-day services and capital expenditures of benefit to a wide spectrum of Americans. State and local governments have come to depend on shared revenues to such a degree that the termination of or a decrease in funding would lead to cuts in essential services and/or increases in taxes. This is especially true in our large cities. It is vitally important that the program be renewed at the earliest possible time to assist the budgetary planning of these governments.

- (2) It contributes to a revitalized, balanced Federal system, in which States and localities can play their appropriate roles. General Revenue Sharing has slowed the march of ever greater power and control over the lives of our citizens to Washington by sharing the advantages of the Federal tax system with State and local governments. As a result, these governments can better perform those public tasks for which they are best suited. The diversity

of our large nation and the preservation of our essential freedoms requires a truly vital system of decentralized government.

- (3) State and local budgets as a whole are currently in a deficit situation. Many jurisdictions have had to face the impact of rising costs and have felt the effects of unemployment on both expenditures and tax receipts. There is little doubt that GRS is vitally needed to prevent cuts in essential services accompanied by increased unemployment, and tax increases -- all of which would contradict our efforts to further economic recovery. State and local budgets are likely to remain under severe pressure in the foreseeable future.
- (4) The General Revenue Sharing program has given more balance to our system of Federal assistance to State and local governments. The program has provided a badly needed source of assistance distributed by formulas responsive to need and tax effort which elected State and local officials can use to meet needs which they identify. Funds can be spent freely without trying to meet burdensome and restrictive Federal requirements. Additionally, shared revenues reach many smaller governments which are either not eligible for or knowledgeable about most of the other forms of assistance or are unable to deal with the often complex procedures associated with these grants.

- (5) Allocation of shared revenues in the States and communities has focused added public attention on the governmental process at these levels of government.

The program has for many citizens served as a lesson in how to influence public decisions in the States and localities. Elected officials familiar with a wide scope of State and local issues and responsive to voters, as opposed to program-oriented bureaucrats in Washington, make most decisions about the use of shared revenues.

- (6) The President's proposal would strengthen the current program in several important ways. The ceiling on local entitlements, participation in decision-making by citizens, the reporting and publicity of uses of shared funds, and protection against discrimination are among the areas addressed by the Administration's amendments.

Section-by-Section Analysis

- (1) Reserve For Adjustments - This section grants the Secretary of the Treasury the authority to set aside a percentage of the total revenue sharing funds available for any entitlement for the purpose of making adjustments to payments already made which are necessitated by changes in data. Adjustments for a few governments can be made without adjusting the payments to all governments. The

existing Act gives the Secretary authority to make necessary adjustments after payments have been made but provides no explicit means of funding these.

- (2) Funding of Payments. The second part of the bill has three major provisions -- those which fund the program; an exemption from certain provisions of the Congressional Budget Act of 1974; and a requirement that the Secretary of the Treasury report to Congress on the extended program two years before its expiration.

Funding is continued to recipient governments, including Indian tribes and Alaskan native villages, through September of 1982, a total of 5-3/4 additional years. The final six months of the current program are also covered through being included in a new entitlement period. The funding level is an extension of the funding established in the original Act, and continues to provide annual step increases of \$150 million each fiscal year. Funding for the 5-3/4 year renewal program will be \$39.85 billion. This includes \$75 million moved forward from the final six months of the present program to provide linear stairstep annual increases. The original Act provided for a \$150 million increase for the six-month entitlement period which was to end the program. Since the program is to be extended the legislation seeks to continue an even \$150 million annual stairstep progression.

As permitted in the Congressional Budget Act of 1974, the second section of the bill also specifically provides that the funds appropriated for the extension of the General Revenue Sharing program are exempted from certain annual appropriation procedures otherwise required by the Budget Act.

Finally, this section requires the Secretary of the Treasury to submit a report, with recommendations concerning the extension of the program to the appropriate Congressional committee two years before the expiration of the new program. This will minimize future uncertainty for State and local governments and assure careful review by the Congress and the Executive Branch.

- (3) Deletion of Special Rule to Measure State Assistance to Local Governments. The existing Act provides such a rule, as a part of the requirement that States maintain a certain previous level of financial aid to their localities, for the final six-month entitlement period included in that Act. The special rule is no longer needed as that six-month entitlement period is modified in the proposed bill to become part of a 15-month entitlement period ending September 30, 1977. Appropriate Office of Revenue Sharing regulations make a special rule for the 15-month entitlement period unnecessary.

(4) Raising the Maximum Constraint on Local Entitlements.

Section 4(b) increases the amount of funds that may be received by local governments characterized by unusually high tax effort, low per capita income or both. The existing Act limits a local government to an amount which may not exceed on a per capita basis 145% of the average per capita amount for all local governments in the State where it is located. By raising the 145% constraint to 175%, some needy governments will receive all or a greater part of the shared revenues which the formula would otherwise allocate to them. The 175% upper limit will continue to prevent excessive amounts from being allocated to jurisdictions whose needs are not accurately reflected by the data, such as certain resort communities and industrial enclaves. The upper limit will be increased gradually by six percentage points in five steps until the 175% limit is reached, so the potential negative impact on other governments will be minimized by the annual \$150 million increase in total funding.

Section 4(a) provides that should an Indian tribe or Alaskan native village waive receipt of its shared revenue payment, the funds will be paid to the county government in which the tribe or village is located, as is the case with funds waived by any unit of municipal government.

State governments, by enactment of a State law, have the option to adopt an alternative formula. Section 4(c)

extends until September 30, 1982, the time period during which such law must remain in effect.

(5) Making the Date for Determining Data Elements Consistent.

The fifth section of the proposed legislation makes the "most recent reporting year" for the State and local taxes component of the data factor called "general tax effort of the States" consistent with all other data elements used in the General Revenue Sharing formulas. For all data elements, the data used for allocation will be the most recent data available before the beginning of each entitlement period.

(6) More Effective Reporting of Fund Use. Section 6(a) of the proposal gives the Secretary of the Treasury increased discretion to prescribe the form and content of recipient government reports on planned and actual use of shared revenues. This provision would allow the design of reports more informative to citizens and to the Federal government.

Section 6(b) allows the Secretary of the Treasury to authorize alternative ways to publicize the use reports where newspaper publication, as now required, is unreasonably costly in relation to the shared revenues involved, or where better methods for informing the public are available.

(7) Strengthening the Authority of the Secretary of the Treasury to Enforce the Non-Discrimination Requirements.

This section helps to assure that the Secretary will have the authority he needs in enforcing the broad non-discrimination requirements of the existing law. The Administration proposal makes clear that when a jurisdiction is found to have discriminated in the use of revenue sharing money, the Secretary may withhold all or part of the jurisdiction's entitlement funds, may terminate its eligibility to receive one or more future payments, and may require repayment of shared revenues expended by the jurisdiction in a discriminatory program or activity.

(8) Encouraging Increased Public Involvement in Expenditure

Decisions. Section 8 seeks to expand the opportunity for the public to participate in decisions of State and local governments on the use of shared revenues. In addition to the existing requirements for publicity of the report on the planned uses of shared revenues, each recipient government is required to assure the Secretary of the Treasury that it provides notice and opportunity to residents so that they may give recommendations and views on the proposed expenditure of all shared revenues. This opportunity for citizen involvement

may be provided either in a public hearing or in such other appropriate manner as is prescribed in regulations by the Secretary of the Treasury.

Section 8 also permits Indian tribes and Alaskan native villages, whose members reside in more than one country, to use shared revenues for the benefit of their members without being required to expend shared funds in the same county from whose county area allocation they were derived, as is currently the case.

- (9) Definition of Entitlement Periods. The last section of the proposal defines the entitlement periods which govern the distribution of funds to recipient governments. A 15-month entitlement period beginning July 1, 1976, and ending September 30, 1977 permits transition to the new Federal fiscal year.

Renewal of General Revenue Sharing

“There could be no more practical reaffirmation of the Federal compact which launched this country than to renew the program which has done so much to preserve and strengthen that compact - General Revenue Sharing.”

President Gerald R. Ford
Message to Congress
April , 1975

Department of the Treasury
Washington, DC 20220
April, 1975

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KEY PROVISIONS OF
GENERAL REVENUE SHARING LAW

CURRENT AUTHORIZATION	RENEWAL PROPOSAL
\$30.2* billion to be distributed January 1972 - December 1976.	\$39.85* billion to be distributed January 1977 - September 1982.
Non-contiguous states (Alaska and Hawaii) appropriation of \$23.9 million, January 1972 - December 1976.	Non-contiguous states (Alaska and Hawaii) appropriation of \$27.5 million, through September 1982.
Funds authorized and appropriated for entire 5-year period.	Funds authorized and appropriated for entire 5-3/4-year period.
All units of general government to be eligible participants (states, counties, cities, towns, townships, Indian tribes and Alaskan native villages).	No change.
No general review of program required.	Secretary of the Treasury to report to Congress two years before expiration date.
Money allocated by formula set forth in the law, using data supplied primarily by U.S. Bureau of the Census.	No change, except as noted below with regard to 145% maximum constraint.
States receive 1/3 of the funds distributed; local governments receive 2/3.	No change.
Allocation to local governments limited to 145% of average state-wide per capita allocation within their states.	145% limit to be raised to 175% by 6 percentage points per entitlement period in five steps.

* The dollar amount for the renewal proposal includes \$75 million to be moved forward from the last months of the present program to provide linear stairstep increases in funding levels.

CURRENT AUTHORIZATION	RENEWAL PROPOSAL
<p>Allocations to local governments are not to be below 20% of average state-wide per capita allocation within their states.</p>	<p>No change.</p>
<p>To keep citizens informed, recipient governments must publish use reports in newspapers of general circulation. All media must be notified.</p>	<p>Secretary of the Treasury may authorize other methods to publicize use information locally.</p>
<p>No provision to require assurance that there will be a public hearing or other method by which public may participate in deciding how shared revenues are to be spent.</p>	<p>Recipient governments must assure the Secretary of the Treasury that public has access to a public hearing or other appropriate means of participation in decision-making for uses of shared revenues.</p>
<p>Law prescribes reports on amounts and purposes of planned and actual expenditures.</p>	<p>Secretary of Treasury would have full discretion to determine form and content of recipients' use reports.</p>
<p>Law contains strong anti-discrimination requirement. Secretary's enforcement powers are stated in general terms: to refer matter to Attorney General for civil action, to exercise powers and functions provided by Title VI of Civil Rights Act of 1964, or to take such other action as may be provided by law.</p>	<p>Strong anti-discrimination requirement and general powers retained. Secretary expressly authorized to withhold all funds or that portion used in discriminatory program or activity, to require repayment, and to terminate eligibility for one or more payments.</p>

CURRENT AUTHORIZATION

RENEWAL PROPOSAL

Revenue Sharing funds may not be utilized to meet Federal matching grants and the Davis-Bacon Federal minimum wage rate law applies to certain construction projects funded through revenue sharing. Local governments may use funds for any capital projects but only for operating and maintenance of programs in eight priority expenditure categories.

Restrictions retained in their present form.

QUESTIONS AND ANSWERS ABOUT HOW GENERAL REVENUE SHARING
WORKS AND WHAT CHANGES ARE PROPOSED

Length of Program and Funding Levels

Q: When did the General Revenue Sharing program begin and for how long does it last?

A: The State and Local Fiscal Assistance Act (P.L. 92-512) was signed into law on October 20, 1972. Title I of the Act authorized General Revenue Sharing and made it retroactive to January 1, 1972. The first checks went out on December 7, 1972. The program is due to expire on December 31, 1976.

Q: How much money is being distributed under the present program?

A: \$30.2 billion over the five-year period. An additional \$23.9 million is provided for non-contiguous states: Alaska and Hawaii.

Q: What steps is the Administration taking to extend the program?

A: After careful review, the Administration is proposing a 5-3/4 year renewal along the general lines of the present program.

Q: Will the funding level of the new program be similar to that currently in effect?

A: Yes. The funding level is to continue to increase at the rate of \$150 million per year. \$39.85 billion would be provided for 5-3/4 years. It should be noted that this amount includes \$75 million moved forward from the last six months of the present program to provide linear stair-step increases in funding levels. The non-contiguous states of Alaska and Hawaii would receive an additional \$27.5 million.

Eligible Participants

Q: Who are the recipients of the money that is distributed through General Revenue Sharing?

A: All units of general government in the United States are eligible to receive General Revenue Sharing funds. Nearly 39,000 States, counties, cities, towns, townships, Indian tribes and Alaskan native villages are receiving the money on a regular basis.

Q: Must all units of general government participate in the program?

A: No. Local governments may elect to waive participation. When a government waives its revenue sharing money for an entitlement period, those funds are paid to the next higher level of government. Currently, one-third of one percent of all eligible governments have chosen not to participate directly in General Revenue Sharing.

Allocation Procedure

Q: How is the money allocated to recipient units of government?

A: The funds are distributed quarterly according to formulas contained in the law. Data relating to population, per capita income, tax effort and other factors are supplied, principally by the U.S. Bureau of the Census, for each unit of general government. Using sophisticated computer techniques, these data are applied to the formulas to compute amounts to be paid each recipient government during each entitlement period.

Q: Do governments apply for the money?

A: No. Unlike grants, shared revenues are "entitlement" funds which are distributed automatically, on a regular basis, in October, January, April and July.

Q: Does the legislation propose any change in the way revenue sharing funds are allocated?

A: Only one change is proposed. After careful evaluation of existing and alternative formulas, it was decided to propose a gradual rise in the 145% maximum constraint to 175% in five steps. This provision presently limits the entitlements of local governments to 145% of the average per capita allocation for localities in the States in which the jurisdiction is located.

Q: Why is the Administration proposing to raise the maximum constraint?

A: The increase would permit the basic formulas to function in a less constrained manner. Thus many governments with high tax effort or low per capita income, or both, including some large urban governments which have been constrained, will receive more money. Due to the gradual rise of six percentage points per entitlement period in the maximum constraint and continuation of the \$150 million annual funding increases, virtually all other local governments will not suffer a decrease in funding.

Expenditure Decisions

Q: Who decides how revenue sharing money should be spent?

A: The basic purpose of the General Revenue Sharing program continues to be that of providing funds to be used to meet needs identified by the recipient State and local general purpose governments.

Q: Can revenue sharing funds be spent for any purpose?

A: Under both the present program and the Administration's proposed renewal program, all States and local governments must spend their "shared revenues" in accordance with the laws and procedures that apply to the expenditure of their own revenues. State governments are not restricted in the areas of activity for which they may use the money. Local governments (i.e., cities, counties, etc.) may use the funds for any capital project (capital, as defined by local law) or for operating and maintenance of programs and projects in the following categories: public safety, public transportation, recreation, environmental protection, financial administration, health, libraries, and social services for the poor or aged.

Q: What general restrictions are imposed on uses of the money?

A: The President's proposal retains restrictions that now apply to all expenditures of shared revenues. The money may not be used to match other Federal funds. Use of the money in any program or activity in which there is discrimination because of race, color, national origin or sex is prohibited. In addition, if shared revenues are to be used to pay 25% or more of the cost of a construction project, and if \$2,000 or more in revenue sharing funds is involved, then Federally-established minimum wage rates must be paid (i.e., the Davis-Bacon Act applies).

Q: When must recipient governments spend their shared revenues?

A: Governments must use, obligate or appropriate their shared revenues (including any interest they earn on the money) within 24 months from the end of the entitlement period to which the check is applicable, unless approval is obtained from the Office of Revenue Sharing for an extension of this time.

Q: How have governments been spending their shared revenues?

A: States and local governments together have spent approximately 60 percent of their shared revenues in the fields of public safety, education, and public transportation. During fiscal year 1974, State governments used 52 percent of their revenue sharing money in support of public education. The latest figures indicate that more money was spent during fiscal year 1974 to operate and maintain programs than for capital expenditures.

Reporting Requirement

- Q: Does the Administration proposal seek to make any changes in the reports which recipient governments must file with the Office of Revenue Sharing?
- A: Yes. The current law requires each recipient government to file two one-page reports with the Office of Revenue Sharing for each entitlement period. Prior to the beginning of each period, the recipient government must submit a report on its plans for use of the money it expects to receive for the coming period. After June 30 of each year, the recipient government must report for what purposes funds have been spent. The Administration proposal widens the discretion of the Secretary of the Treasury to determine the form and content of these reports so that the data obtained will be more useful to interested citizens and to the Federal Government.

Citizen Participation

- Q: Is current information available as to the use to which shared revenues are put?
- A: Recipient units of governments establish their own procedures to set priorities for using their shared revenues. The present law requires that each Planned and Actual Use Report be published in one or more newspapers which are published within the State and have general circulation within the geographic area of the recipient government involved. The proposed legislation seeks to improve this process by permitting the Secretary of the Treasury to prescribe alternate procedures for publicizing reports. These would be utilized where it is determined that the requirement of publication in a newspaper is unreasonably expensive in relation to the amount of funds involved or where the Secretary finds that there are better methods for bringing information to the attention of residents of a community.

Q: Does the Administration's proposal further the goal of increasing public participation in the expenditure of revenue sharing funds?

A: Yes. The proposed legislation would add a new provision to the current law to require that a recipient government give written assurance to the Secretary that it provides its residents the opportunity of a public hearing or the like to give recommendations and views on how revenue sharing funds should be spent.

Revenue Sharing and Civil Rights

Q: Is there a provision in the proposed legislation to assure that revenue sharing funds are not used in a discriminatory manner?

A: Yes. Section 51.32 of Title I of the State and Local Fiscal Assistance Act of 1972 provides that "No person in the United States shall, on the ground of race, color, national origin, or sex, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under, any program or activity funded in whole or in part with entitlement funds...". This provision is retained in the proposed legislation.

Q: Has the Administration proposed any changes in the section of the current law which empowers the Secretary of the Treasury to secure compliance with the non-discrimination requirement?

A: Yes. The proposed legislation makes it clear that the Secretary has the flexibility to invoke one or more of several remedies where a recipient government is found to have used revenue sharing funds in a discriminatory activity. The legislation expressly states that the Secretary may withhold all or a portion of entitlement funds due that government, may require the repayment of funds expended in a discriminatory manner, and may terminate the eligibility of a State or local government to receive one or more payments.

Administration

Q: What does it cost to administer the General Revenue Sharing program?

A: The Fiscal Year 1975 appropriation for operating the Office of Revenue Sharing is \$2,133,000. Administration of the General Revenue Sharing program currently costs 12/100ths of one percent of the amount being distributed.

Q: What is the size of the Office of Revenue Sharing staff?

A: The Office of Revenue Sharing is authorized a maximum of 85 positions, all of whom are located in Washington, D.C. A total request of 116 positions has been made to Congress in the Fiscal Year 1976 budget.

A SUMMARY OF THE
STATE AND LOCAL FISCAL ASSISTANCE ACT AMENDMENTS OF 1975

The State and Local Fiscal Assistance Act Amendments of 1975 will extend and improve the general revenue sharing program to provide essential fiscal assistance to general purpose governments through September of 1982. The bill amends the State and Local Fiscal Assistance Act of 1972 (Public Law 92-512). The bill has nine sections, which are summarized below.

1. Reserve for Adjustments

This section provides the means for making adjustment payments to governments where data corrections are necessary after the time when final allocations of funds have been made for eligible state and local governments. The amount of payments to each of approximately 39,000 governments is a share of a national total, and each share is determined according to data factors for each government relative to data factors for all governments. A change in the data for one government may change the shares for a large number of governments. The current Act gives the Secretary authority to make necessary adjustments after payments have been made, but does not mention the means of funding such adjustments.

The bill authorizes the Secretary of the Treasury to reserve a percentage of the total funds available for any

entitlement period to be used to make any necessary adjustment payments after the final payment amounts have been determined for all the governments. This method previously has been prescribed by regulation and express inclusion in the statute is now proposed. The method allows adjustment payments to be made to one or more governments without adjusting the payments of all governments.

2. Funding of Payments

The second section of the bill provides continuing funding of payments to recipient governments, including Indian tribes and Alaskan native villages, through September of 1982. The funding level is an extension of the funding established in the original Act, and continues to provide annual step increases of \$150 million each Federal fiscal year beginning after June 30, 1976. Fixed appropriations are provided for each Federal fiscal year, through and including fiscal year 1982, so that all levels of government may undertake with confidence their financial, program, and project plans for future years. Total appropriations for the 5-3/4 years amount to \$39.85 billion, which includes \$75 million to be moved forward from the last six months of the present program to provide linear stairstep increases in funding levels.

Funds for adjustments to allocations to Alaska and Hawaii are continued at the present annual rate of \$4.78 million, totaling \$27.5 million for the 5-3/4-year extension period.

A three-month appropriation provides for transition to the new Federal fiscal year which begins October 1, 1976.

As permitted in the Congressional Budget Act of 1974, this section specifically provides that funds appropriated for the extension of the General Revenue Sharing program are exempted from certain annual appropriation procedures otherwise required by the Congressional Budget Act.

The bill also requires the Secretary of the Treasury to submit a report, with recommendations concerning the extension of General Revenue Sharing program, to the appropriate Congressional committees a full two years before the proposed expiration date. Review of the General Revenue Sharing program at such time will minimize future uncertainty for State and local governments regarding availability of shared revenues.

3. State Maintenance of Transfers to Local Governments

The third section of the bill deletes a special rule to measure state assistance to local governments during the final six-month entitlement period included in the original Act. The special rule is no longer needed as that six-month entitlement period is modified in the bill

to become a 15-month entitlement period ending September 30, 1977. The current regulations of the Office of Revenue Sharing provide that the point of reference for measuring a state's assistance to local governments will be that state's fiscal year, making a special statutory rule unnecessary for the 15-month entitlement period.

4. Raising the Maximum Constraint on the Formula

Section four of the bill increases the amount of funds that may be received by local governments characterized by unusually high tax effort or low per capita income or both. The original Act limits a local government to an amount which may not exceed on a per capita basis 145% of the average per capita amount for all local governments in a state.

By raising the 145% constraint to an upper limit of 175%, the bill will allow governments now constrained to receive all or a greater part of the shared revenues otherwise allocated to them by the formula. The potential negative impact on other governments will be minimized by increasing the upper limit gradually, by 6 percentage points each entitlement period until the 175% limit is reached and by the annual \$150 million increase in the total appropriations. The 175% upper limit will continue to serve, as Congress originally intended, to prevent excessive amounts being allocated to jurisdictions with

unusual characteristics whose needs are distorted by the prescribed data, such as certain resort communities and industrial enclaves.

Should an Indian tribe or Alaskan native village waive receipt of its shared revenue payment, the bill provides that the funds will be paid to the county government as is the case with funds waived by any unit of municipal government.

The present Act gives state governments the option of adoption of an alternate formula for distributing sharing revenues to its county areas and municipalities. The bill extends to September 30, 1982, the time period during which any such law must remain in effect.

5. Date for Determining State and Local Taxes

The fifth section of the bill makes the definition of the "most recent reporting year" for the state and local taxes component of the data factor, called the "General Tax Effort of States", consistent with the definitions for all other data elements used in the General Revenue Sharing formulas. For all data elements, the data used for allocations will be the most recent data available before the beginning of each entitlement period.

6. More Effective Reports on Use of Funds

The sixth section of the bill gives the Secretary of the Treasury increased discretion to prescribe the form

and content of recipient government reports made before and after use of shared revenues.

The bill also allows the Secretary of the Treasury to authorize new ways to publicize the use reports where newspaper publication costs would be excessive in relation to the amount of shared revenues received by the local government, or where better methods for informing the public are available.

7. Non-Discrimination

Section seven of the bill clarifies the authority of the Secretary of the Treasury to enforce the broad non-discrimination requirements of the existing law. The bill states explicitly that when a jurisdiction is found to have discriminated in the use of revenue sharing money, the Secretary may withhold all of the jurisdiction's entitlement funds or that portion used in a discriminatory program or activity. The Secretary also is specifically authorized to terminate the eligibility of the jurisdiction to receive one or more future payments, and to require repayment by the jurisdiction of revenue sharing funds expended in a discriminatory program or activity.

8. Increased Public Involvement in Expenditure Decisions

Section eight expands the opportunity for the public to participate in decisions by state and local governments on the use of shared revenues. In addition to the

requirement for publicity of the report on the planned uses of shared revenues, each government is required to assure the Secretary of the Treasury that it will provide the residents with an opportunity to give their recommendations and views on the proposed expenditures of shared revenues. This opportunity for public involvement may be provided either in a public hearing or by other appropriate means prescribed in regulations to be issued by the Secretary of the Treasury.

The bill also removes a burdensome restriction on those Indian tribes and Alaskan native villages whose members reside in more than one county. The original Act required them to apportion the benefits of expenditures among county areas in the same ratios as those used in the revenue sharing allocation of funds. This bill will allow all Indian tribes and Alaskan native villages to concentrate their revenue sharing expenditures in areas of greatest need.

9. Entitlement Periods

The ninth and last section of the bill defines the entitlement periods which govern the distribution of funds to recipient governments. A fifteen-month entitlement period beginning July 1, 1976, and ending September 30, 1977, permits transition to the new Federal fiscal year. Funds distributed during this fifteen-month entitlement period are provided from both the transition quarter

appropriation and the appropriation for FY 1977. Five quarterly payments will be made to all recipient governments during this period. Each entitlement period after September 30, 1977, has the same beginning and ending dates as the applicable Federal fiscal year.

GENERAL REVENUE SHARING
PAYMENTS THROUGH APRIL 7, 1975
(with numbers of recipients by category)

STATE NAME	STATE	COUNTIES	MUNICIPALITIES	TOWNSHIPS	INDIAN TRIBES & ALASKAN NATIVE VILLAGES	TOTALS
ALABAMA	\$106,595,657 (1)	\$ 79,811,942 (67)	\$133,713,837 (399)			\$ 320,121,436 (467)
ALASKA	8,151,177 (1)		15,610,757 (126)		\$ 502,614 (92)	24,264,548 (219)
ARIZONA	62,746,495 (1)	50,361,909 (14)	69,635,925 (66)		5,473,525 (18)	188,217,854 (99)
ARKANSAS	69,510,107 (1)	70,833,435 (75)	55,238,944 (458)			195,582,486 (534)
CALIFORNIA	670,854,042 (1)	809,818,743 (57)	531,332,619 (411)		439,280 (54)	2,012,444,684 (523)
COLORADO	65,926,982 (1)	46,565,115 (62)	85,251,972 (247)		125,967 (2)	197,870,036 (312)
CONNECTICUT	79,662,535 (1)		85,046,335 (33)	\$ 74,404,145 (149)		239,113,015 (183)
DELAWARE	21,513,093 (1)	20,746,117 (3)	14,328,555 (54)			56,587,765 (58)
DIST OF COLUMBIA	84,346,800 (1)					84,346,800 (1)
FLORIDA	182,940,956 (1)	162,485,967 (66)	204,068,115 (386)		67,526 (2)	549,562,564 (455)
GEORGIA	131,235,067 (1)	151,975,678 (158)	110,326,599 (510)			393,537,344 (669)
HAWAII	27,769,366 (1)	13,785,221 (3)	41,753,506 (1)			83,308,093 (5)
IDAHO	25,409,184 (1)	29,286,689 (44)	21,250,024 (191)		281,613 (5)	76,227,510 (241)
ILLINOIS	321,490,473 (1)	145,128,416 (102)	375,071,021 (1266)	84,200,590 (1435)		925,890,500 (2804)
INDIANA	133,429,274 (1)	91,027,087 (91)	144,268,402 (556)	31,538,816 (1000)		400,263,579 (1648)
IOWA	88,919,482 (1)	103,446,064 (99)	74,369,178 (942)		39,024 (1)	266,773,748 (1043)
KANSAS	60,543,743 (1)	61,612,162 (105)	52,727,466 (610)	6,677,819 (1150)	24,620 (4)	181,585,810 (1870)
KENTUCKY	119,366,078 (1)	87,677,671 (120)	101,332,824 (394)			308,376,573 (515)
LOUISIANA	146,682,050 (1)	117,231,843 (62)	169,081,739 (295)		19,977 (1)	433,015,609 (359)
MAINE	38,310,773 (1)	5,082,942 (16)	31,631,228 (22)	39,760,365 (474)	147,619 (3)	114,932,927 (516)
MARYLAND	124,631,230 (1)	145,159,546 (23)	104,154,181 (150)			373,944,957 (174)
MASSACHUSETTS	198,483,338 (1)	22,853,112 (12)	223,428,876 (39)	151,235,999 (312)		596,001,325 (364)
MICHIGAN	266,937,865 (1)	155,459,927 (83)	329,785,203 (533)	48,891,318 (1246)	87,832 (5)	801,162,145 (1868)
MINNESOTA	124,450,206 (1)	132,688,249 (87)	100,936,211 (851)	15,347,576 (1786)	722,432 (12)	374,144,674 (2737)
MISSISSIPPI	107,730,187 (1)	129,712,527 (82)	72,631,500 (277)		139,963 (1)	310,214,177 (361)
MISSOURI	117,788,182 (1)	77,955,694 (114)	152,024,347 (871)	5,375,451 (340)		353,143,674 (1326)
MONTANA	24,795,577 (1)	32,917,719 (56)	14,867,791 (125)		1,799,394 (7)	74,380,481 (189)
NEBRASKA	45,242,176 (1)	44,942,342 (93)	42,449,611 (520)	2,888,578 (467)	188,852 (3)	135,711,559 (1084)
NEVADA	13,808,081 (1)	17,260,681 (16)	10,133,099 (17)		214,000 (17)	41,415,861 (51)
NEW HAMPSHIRE	20,065,455 (1)	5,241,933 (10)	19,023,527 (13)	15,994,890 (222)		60,325,805 (246)
NEW JERSEY	197,304,585 (1)	139,546,268 (21)	175,520,213 (333)	79,616,848 (232)		591,987,914 (587)
NEW MEXICO	40,936,304 (1)	32,313,628 (32)	40,412,093 (90)		5,262,231 (22)	118,924,256 (145)
NEW YORK	701,017,982 (1)	300,426,090 (57)	952,937,060 (619)	148,175,049 (930)	376,761 (6)	2,102,932,942 (1613)
NORTH CAROLINA	161,145,301 (1)	173,513,583 (100)	149,191,324 (458)		351,242 (1)	484,201,450 (560)
NORTH DAKOTA	25,086,436 (1)	25,784,127 (53)	16,806,213 (347)	6,565,389 (1360)	1,030,470 (5)	75,272,635 (1766)
OHIO	250,822,997 (1)	159,058,849 (88)	293,615,356 (934)	48,927,549 (1320)		752,424,751 (2343)
OKLAHOMA	70,365,929 (1)	51,984,173 (77)	87,464,599 (531)		1,258,880 (25)	211,073,581 (634)

OREGON	62,368,422 (1)	47,356,878 (36)	77,147,921 (232)		203,642 (4)	187,076,863 (273)
PENNSYLVANIA	330,060,562 (1)	186,699,849 (66)	369,484,186 (1013)	104,552,547 (1548)	400 (1)	990,797,544 (2629)
RHODE ISLAND	28,324,916 (1)		40,294,723 (8)	16,346,341 (31)		84,965,980 (40)
SOUTH CAROLINA	88,306,116 (1)	90,005,513 (46)	80,005,022 (256)			258,316,651 (303)
SOUTH DAKOTA	27,940,838 (1)	32,593,747 (67)	17,320,150 (301)	4,024,127 (957)	1,920,825 (9)	83,799,687 (1335)
TENNESSEE	118,634,753 (1)	103,267,923 (94)	136,445,761 (321)			358,348,437 (416)
TEXAS	298,229,926 (1)	220,569,873 (254)	374,361,656 (993)		61,583 (2)	893,223,038 (1250)
UTAH	37,112,350 (1)	36,921,263 (29)	36,672,985 (216)		572,734 (5)	111,279,332 (251)
VERMONT	17,661,991 (1)	434,430 (14)	12,186,527 (55)	22,765,017 (237)		53,047,965 (307)
VIRGINIA	124,558,263 (1)	92,153,679 (96)	157,419,760 (228)		5,649 (2)	374,137,351 (327)
WASHINGTON	90,873,182 (1)	81,461,633 (39)	99,535,101 (266)	3,401 (3)	773,299 (22)	272,646,616 (331)
WEST VIRGINIA	81,122,395 (1)	48,335,893 (55)	56,008,362 (227)			185,466,650 (283)
WISCONSIN	158,038,834 (1)	156,134,786 (72)	134,753,494 (574)	25,195,870 (1268)	483,197 (10)	474,606,181 (1925)
WYOMING	11,669,645 (1)	16,985,238 (23)	6,011,605 (86)		258,757 (2)	34,925,245 (112)
NATIONAL TOTALS						
FUNDS	\$6,410,917,358	\$4,806,616,154	\$6,699,067,503	\$932,487,685	\$22,833,908	\$18,871,922,608
RECIPIENTS	(51)	(3,039)	(18,451)	(16,467)	(343)	(38,351)

A BILL

To extend and revise the State and Local Fiscal Assistance Act of 1972.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 102 of the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. Supp. 1221) is amended by adding a final sentence to read as follows: "The Secretary may reserve such percentage of the total entitlement payment for any entitlement period as he deems necessary to ensure that there will be sufficient funds available to pay adjustments due after the final allocation of funds among the State governments and units of local government."

SEC. 2. Section 105 of the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. Supp. 1224) is amended by--

(1) striking the word "and" at the end of subsection (b)(1)(F), striking subparagraph (G) and adding to subsection (b) subparagraphs (G) through (M) to read as follows:

"(G) for the period beginning July 1,
1976, and ending September 30, 1976,
\$1,625,000,000;

(H) for the fiscal year beginning October 1,
1976, \$6,537,500,000;

(I) for the fiscal year beginning October 1,
1977, \$6,687,500,000;

(J) for the fiscal year beginning October 1, 1978, \$6,837,500,000;

(K) for the fiscal year beginning October 1, 1979, \$6,987,500,000;

(L) for the fiscal year beginning October 1, 1980, \$7,137,500,000; and

(M) for the fiscal year beginning October 1, 1981, \$7,287,500,000.""

(2) striking the word "and" at the end of subsection (b)(2)(D) and by striking subparagraph (E) and adding to subsection (b)(2) subparagraphs (E) and (F) to read as follows:

(E) for the period beginning July 1, 1976 and ending September 30, 1976, \$1,195,000;

(F) for each of the fiscal years beginning October 1, 1976, October 1, 1977, October 1, 1978, October 1, 1979, October 1, 1980, and October 1, 1981, \$4,780,000."; and

(3) adding subsections (d) and (e) to read as follows:

(d) NEW SPENDING AUTHORITY EXEMPTION.--

Funds appropriated pursuant to subsection (b)(1) and (2) are exempt from the provisions of sections 401(a) and (b) of the Congressional Budget Act of 1974."

"(e) SECRETARY'S REPORT ON EXTENSION.--

No later than September 30, 1980, the Secretary shall submit a report with appropriate recommendations concerning the extension of this title to the committees of the House and the Senate having legislative jurisdiction over such extension.

SEC. 3. Section 107(b) of the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. Supp. 1226(b)) is amended by striking paragraph (5) and redesignating paragraphs (6) and (7) as (5) and (6) respectively.

SEC. 4(a). Section 108(b)(4) of the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. Supp. 1227(b)(4)) is amended by revising the last sentence thereof to read as follows: "If the entitlement of any such tribe or village is waived for any entitlement period by the governing body of that tribe or village, then the amount of such entitlement shall (in lieu of being paid to such unit) be added to, and shall become a part of, the entitlement of the county government of the county area in which such unit is located."

(b) Section 108(b)(6)(B) of the Act (31 U.S.C. Supp. 1227(b)(6)(B)) is amended by adding a new sentence to the end thereof to read as follows: "Beginning with the entitlement period that begins July 1, 1976, the maximum constraint shall increase at a rate of 6 percentage points per entitlement period until it reaches 175 percent."

(c) Section 108(c)(1) of the Act (31 U.S.C. Supp. 1227(c)(1)) is amended by striking "December 31, 1976" from subparagraph (C) and inserting in lieu thereof "September 30, 1982."

SEC. 5. Section 109(c)(2)(B) of the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. Supp. 1228(c)(2)(B)) is amended to read as follows:

"(B) MOST RECENT REPORTING YEAR. --

The most recent reporting year with respect to any entitlement period consists of the years taken into account by the Bureau of the Census in its most recent general determination of State and local taxes made before the beginning of such period."

SEC. 6(a). Section 121(a) of the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. Supp. 1241(a)) is amended by revising the first sentence to read as follows: "Each State government and unit of local government which receives funds under subtitle A shall, after the close of each entitlement period, submit a report to the Secretary on the use of the funds received during such period."

(b) Section 121(b) of the Act (31 U.S.C. Supp. 1241(b)) is amended by revising the first sentence to read as follows: "Each State government and unit of local government which expects to receive funds under subtitle A for any entitlement period beginning on or after January 1, 1973, shall submit a report to the Secretary on how it plans to use the funds it expects to receive during such period."

(c) Section 121(c) of the Act (31 U.S.C. Supp. 1241(c)) is amended by inserting a new sentence after the first sentence to read as follows: "Where the newspaper publication cost of such report is excessive in relation to the amount of the entitlement of a unit of local government or where other means of publicizing the reports are more appropriate, then such reports shall be publicized pursuant to regulations prescribed by the Secretary."

SEC. 7 Section 122(b)(2) of the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. Supp. 1242(b)(2)) is amended to read as follows:

"(2) to exercise the powers and functions provided by title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d), and to withhold all or a portion of the entitlement funds due such State government or unit of local government, to terminate the eligibility of such State government or unit of local government to receive one or more payments under subtitle A, and to require repayment by such State government or unit of local government of the entitlement funds expended in a program or activity found to be in violation of subsection (a);".

SEC. 8. Section 123 of the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. Supp. 1243) is amended by --

(1) striking the word "and" at the end of subsection (a)(5)(B), by striking the semicolon at the end of subsection (a)(5)(C), and inserting in lieu of the latter a comma and the word "and", and by adding a new subsection (a)(5)(D) to read as follows:

"(D) notwithstanding paragraph 4, provide notice and opportunity to the residents so that they may give recommendations and views on the proposed expenditures of all funds made available under subtitle A in a public hearing or in such other manner as the Secretary may prescribe by regulation;"

(2) striking paragraph (8) of subsection (a).

SEC. 9. Section 141(b) of the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. Supp. 1261) is amended by striking paragraph (5) and substituting in lieu thereof the following:

"(5) The period beginning July 1, 1976, and ending September 30, 1977.

(6) The one-year periods beginning on October 1 of 1977, 1978, 1979, 1980, and 1981."

ANALYSIS

STATE AND LOCAL FISCAL ASSISTANCE ACT AMENDMENTS OF 1975

Section 1

The amount of a recipient government's revenue sharing allocation is determined by the data factors of that government relative to the data factors of all other competing governments. In the process of improving the data, it is sometimes necessary to make data corrections after the final allocation of funds, and after the period during which the vast majority of data corrections have been processed. Each data correction of this type, absent a special procedure, would result in retroactive changes to the allocations and payments of many governments which had expended the funds or had come to rely on those allocations and payments for budgetary purposes.

To mitigate the inequity arising from this unfortunate but inevitable circumstance, 31 CFR 51.25(a) has been promulgated. It establishes an Obligated Adjustment Reserve that is funded by administratively holding in reserve a small percentage (.005) of the revenue sharing funds appropriated for each entitlement period from which adjustments can be made to alleviate hardships caused by prior misallocations. The amount of revenue sharing funds held in reserve and the decision to make adjustment payments is determined at the discretion of the Secretary, as the equity of the situation requires.

The creation of the Reserve Fund has proved necessary for the orderly administration of the General Revenue Sharing program due to the

complexity of the allocation process. The proposed amendment to section 102 of the Act is recommended in the first section of the bill to clarify the authority of the Secretary to make adjustments in this manner.

Section 2

Section 105(b)(1) of the present Act provides for the periodic appropriation of funds from the general fund of the Treasury to the State and Local Government Fiscal Assistance Trust Fund. Funding under this section is provided through December 31, 1976, with an increase of \$150 million each full fiscal year with the exception of early periods and the last period of six months. That six-month period also provides for a step increase of \$150 million.

Clause (1) of section 2 of the bill provides for a continuation of the General Revenue Sharing program for 5-3/4 additional years, concluding with the fiscal year beginning October 1, 1981. This recommendation strikes a reasonable balance between the need of recipient governments for fiscal stability and the legitimate desire of the Federal Executive and the Congress to review the law in the light of future national economic concerns. Thus, the total amount to be distributed under the 5-3/4-year renewal program is \$39.85 billion, which includes \$75 million moved forward from the final six months of the current program. The original Act provided for a \$150 million increase for the six-month entitlement period which was to end the GRS program. Since the program is to be extended, the legislation seeks to continue linear \$150 million annual stairstep increases in funding level.

The amendment also creates a three-month appropriation period beginning July 1, 1976, and ending September 30, 1976, to provide for the transition to

the new October 1 Federal fiscal year. The entitlement period beginning July 1, 1976, combines this quarter with the following fiscal year so that the entitlement period would end on September 30, 1977.

When the revenue sharing allocation of Alaska or Hawaii is determined by the three-factor allocation formula, it becomes eligible for the non-contiguous State adjustment. Pursuant to section 106(c) of the Act, an adjustment may be made to the basic allocation for these States in which civilian employees of the U.S. Government receive an allowance under 5 U.S.C. section 5941. Section 105(b)(2) appropriates the funds used to make this adjustment.

Clause (2) of section 2 of the bill would amend section 105(b)(2) by extending this appropriation at the existing rate of \$4,780,000 per year. Further, this amendment, like that of clause (1) of section 2 above, would result in two appropriation periods being combined under the new fifteen-month entitlement period proposed for section 141(b). This will allow for the transition to the new Federal fiscal year and at the same time identify all the appropriations being proposed for this section, including the transition quarter.

Clause (3) of section 2 of the bill would amend section 105 of the Act to add subsections (d) and (e). The new subsection (d) provides that the funds appropriated for the extension of the General Revenue Sharing program are exempt from the appropriation procedures of section 401(a) and (b) of the Congressional Budget Act of 1974 (P.L. 93-344). This Act specifically provides that any extension of the General Revenue Sharing program is eligible for this exemption. The appropriation of funds at

the outset for the extension of the General Revenue Sharing program is vitally important to recipient governments to assist them in planning for their service programs, capital improvement programs, and financial policies without being subject to the inherent delays and uncertainties of the annual appropriation process.

The new subsection (e) provides that the Secretary of the Treasury shall submit a report, with recommendations concerning the extension of the Act, to the appropriate Congressional committees two years before the expiration of funding under this bill. A requirement to review the renewal of the General Revenue Sharing program two years in advance of its expiration would remove much of the uncertainty for State and local governments regarding availability of future funds and would provide the Congress adequate time to review the program.

Section 3

Section 107(b)(5) of the Act provides a special rule to measure State assistance to local governments during the six-month-long entitlement period (July 1, 1976 - December 31, 1976). This provision is no longer needed in view of the fact that this legislation would replace the six-month entitlement period with a new longer entitlement period. Accordingly, it is proposed that section 107(b) be amended to delete paragraph (5). In situations in which either the recipient government's fiscal year does not coincide with an entitlement period or where an entitlement period is greater than or less than a full year, the Office of Revenue Sharing has provided by regulation (31 CFR 51.26) that the

point of reference for measuring a State's assistance to local governments will be that State's fiscal year.

Section 4

Section 4(a) amends section 108(b)(4) of the Act to treat an entitlement waiver by an Indian tribe or Alaskan native village in the same way as waivers by other eligible governments.

Section 108(b)(4) of the present Act provides that if the governing body of an Indian tribe or Alaskan native village waives its entitlement, then the amount of the entitlement shall be distributed according to the rules relating to distribution within county areas. The waiver by an Indian tribe or Alaskan native village is therefore handled differently than a waiver by a unit of local government pursuant to section 108(b)(6)(D). In the case of a waiver by a unit of local government, the entitlement waived becomes a part of the entitlement of the county government of the county area in which the waiving unit is located. In the case of Indian tribes and Alaskan native villages, section 108(b)(4) requires the amount of the entitlement waived by those units to pass to all of the other local units of government in the applicable county area.

The required treatment of waived entitlements by Indian tribes causes a significant burden of recomputation, the net effect of which is to increase the entitlement of numerous units of local government by relatively insignificant amounts. In many instances, the cost to the Office of Revenue Sharing of making the required adjustment to entitlements initiated by waiver by an Indian tribe exceeds the amount of the entitlement waived. We believe that entitlements waived by an Indian tribe or Alaskan native village should be

treated the same as a waiver by any other unit of local government, and the amount waived should be added to the county government entitlement. Section 4(a) of the bill would accomplish that purpose.

Section 4(b) of the bill provides that beginning with the entitlement period that begins on July 1, 1976, the present maximum limitation on the amount of revenue sharing entitlements be raised. In order to insure that some communities would not receive extremely high or low allocations, the maximum and minimum limitations on the revenue sharing allocations to county areas and units of local government were imposed upon the revenue sharing formula. Under the current law, the maximum limitation for any county area or local government in a State is 145 percent of the per capita allocation to all local governments in the State.

The effect of this 145 percent maximum is as follows: after the entitlements of local governments within a State are computed according to the formula, any jurisdiction which is entitled to receive more than 145 percent of the average per capita allocation to all local governments in that State has its allocation reduced to the 145 percent level. The funds taken from these jurisdictions, which are generally characterized by low-income population and high levels of tax effort, are then redistributed according to the formula to the remaining jurisdictions within the State which are not so constrained and which would otherwise receive smaller amounts.

To reduce the impact on local governments which have been receiving additional funds that are redistributed because of the operation of the

145 percent constraint upon other jurisdictions within their State, the maximum allocation constraint would be raised gradually, in five steps, by an increase of 6 percentage points per entitlement period until a new maximum constraint level of 175 percent is reached. The purpose of raising the maximum per capita allocation constraint to 175 percent is to allow low personal income and high tax effort to be more fully reflected in the operation of the basic formula.

Due to the responsiveness of the revenue sharing formulas to changes in data--the allocation of revenue sharing funds is based on annually changing data elements such as adjusted taxes, and on periodically updated data elements such as per capita income and population--the effect of this proposed change will vary in any entitlement period and from State to State. As a result of the gradual phase-in, and as a result of the stairstep increases in the total amount being distributed each entitlement period, however, the potential losses to almost all jurisdictions in any given year should be fully offset so that they will not suffer an actual decrease in their revenue sharing payments as a consequence of this change.

Increasing the maximum constraint as proposed will, as a general rule, cause increased revenue sharing funds to be received by the 4,000 places that have been constrained in the past. These places include both major cities and smaller jurisdictions. Approximately 23,000 places would no longer receive additional redistributed funds from the constrained

places, but the amount involved for any given place is relatively small. Had the 175 percent constraint limitation been fully implemented in FY 1974, these 23,000 places would have received an average of \$3,000 less than they were actually paid in FY 1974, which is an average 2.2 percent less than they actually received.

Section 108(c) of the Act enables State governments, by enactment of a State law, to adopt an alternative formula for the distribution of revenue sharing allocations among the county areas and among the municipalities located therein. Section 4(c) of the bill amends section 108(c)(1)(C) for the sole purpose of reflecting the extension of the General Revenue Sharing appropriations until September 30, 1982.

Section 5

Section 109(a)(5) of the present Act states that, except as provided in the regulations, the determination of allocations and entitlements for any entitlement period shall be made as of the first day of the third month immediately preceding the beginning of each period. Further, section 109(a)(7) provides for uniformity of data and states the general rule that the data shall be the most recently available data. These provisions are effective and permit the orderly computation of entitlements before the beginning of each period so that States and local governments may be advised, for planning purposes and for purposes of informing their citizens, well before payments are made. In section 109(c)(2)(B) the definition of the general tax effort for States defines the most recent

reporting year as the one taken into account by the Bureau of the Census prior to the close of that entitlement period. This definition appears to conflict with the definition for all other data items and appears to conflict with the earlier section providing for uniformity of data and for computation of entitlements three months before the beginning of an entitlement period.

Were this non-conforming definition to be given precedence, it would necessitate substitution of these data during an entitlement period while payments were being made, and would result in changing the entitlements for all 38,000 recipient governments during the middle of the payment year.

Section 5 of the bill would eliminate this non-conforming language by amending section 109(c)(2)(B) by deleting the word "close" in the phrase "made before the close of each period", and inserting in lieu thereof the word "beginning". Thus, the phrase would read, "made before the beginning of such period". In this way, data from which the general tax effort factor is computed, and which is published by the Department of Commerce by October of each year, would be used for the computation of the entitlement period beginning in the following year, and no tax effort adjustments to the general universe of recipients would be necessary.

Section 6

Section 121(a) of the Act requires States and units of local government to submit a report to the Secretary of the Treasury at the close of

each entitlement period setting forth the amounts and purposes for which funds received during such period have been spent or obligated. The purpose of this section is to keep the Secretary and the public abreast of how recipient governments are spending their General Revenue Sharing funds.

Attempts to measure the various effects General Revenue Sharing funds have had on recipient governments from the Actual Use Reports submitted to date have met with only limited success. Section 6(a) of the bill is intended to give the Secretary more discretion to determine the form and content of the reports submitted under section 121(a) of the Act. This additional authority to regulate the substantive content of the Actual Use Reports will be used to require recipient governments to report financial and use information in a fashion that is more meaningful to the general public, to the Congress, and to the Executive Branch.

Section 121(b) of the Act requires States and units of local government expecting to receive revenue sharing funds for any entitlement period to submit a report to the Secretary of the Treasury setting forth the amounts and purposes for which they plan to spend or obligate the funds during such period. The so-called Planned Use Report is intended to be used to inform the Secretary and the public as to how recipient governments plan to expend their General Revenue Sharing funds.

Section 6(b) of the bill is intended to serve the same function for the Planned Use Reports as section 6(a) serves for the Actual Use Reports. In each case, we believe the effectiveness of the reports could be

significantly enhanced if the Secretary were allowed more administrative discretion to determine their content. The present requirement that the Planned Use Report set forth the amounts and purposes for which the recipient government plans to spend or obligate the funds does provide beneficial information. However, section 6(b) would make it possible for the reports to provide data that is more useful to local citizens and the Federal Government.

Section 121(c) of the Act requires each recipient government to publish a copy of each report which it submits to the Office of Revenue Sharing in a newspaper which is published within the State and has general circulation within the geographical area of that government. Based on our administrative experience, this section should be modified. The Office of Revenue Sharing has received a large number of complaints, particularly from small units of government, regarding the relatively high cost of publication. Some small governments receiving less than \$1,000 have had to spend \$100 or more for publication due to a variety of local circumstances. In other instances, the unavailability of a newspaper circulating generally within the geographical area of a county has been called to our attention. In still other cases, we have been advised that there are more effective ways to get the information contained in the report to the citizens of the community.

Section 6(c) of the bill would amend section 121(c) to authorize the Secretary to establish alternative procedures where it is determined that the requirement of publication in a newspaper is unreasonably expensive

in relation to the amount of revenue sharing funds involved, or, where the Secretary finds that in terms of public understanding, there are better methods to get the information before the residents of the community.

Section 7

Section 122(a) of the Act provides that no person in the United States shall on the ground of race, color, national origin, or sex be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity funded in whole or in part with revenue sharing funds. The statutory authority of the Secretary of the Treasury to enforce the above nondiscrimination provision is set forth in section 122(b) of the Act. It presently states that upon a determination by the Secretary that a recipient has failed to comply with subsection 122(a), and after notification to the Governor of the State (or, in the case of a unit of local government, the Governor of the State in which such unit is located) and after failure to secure voluntary compliance within a reasonable period of time, the Secretary may either: refer the matter to the Attorney General with a recommendation that an appropriate civil action be instituted; exercise the powers and functions provided by Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d); or take such other action as may be provided by law.

Title VI of the Civil Rights Act of 1964 prohibits discrimination in the use of Federal financial assistance by way of grant, loan, or contract,

(42 U.S.C. 2000d-1). In order to receive such assistance, generally the State or local government must file an application satisfying the requirements of the particular program. Revenue sharing payments are based on a statutory entitlement for which States and units of local government are automatically eligible pursuant to Section 102 of the Act. The Secretary has no discretion to approve or disapprove in advance payments to any participating recipient government.

Recognizing the unique aspects of revenue sharing entitlements, section 7 of the bill is intended to express clearly in the Act certain authority of the Secretary in applying the nondiscrimination provisions of Section 122. This is accomplished by stating explicitly that the Secretary has authority to withhold all or a portion of entitlement funds due a State or unit of local government, to terminate one or more payments of entitlement funds, and to require repayment of entitlement funds previously expended in a program or activity found to have been in violation of subsection (a). The changes in section 122 will further enhance the Secretary's ability to ensure that entitlement funds are not utilized in a discriminatory manner.

Section 8

Broad public participation in State and local decision making as to how revenue sharing funds are to be expended is an essential ingredient of General Revenue Sharing. For this reason, section 121(c) requires that the news media be notified when the Planned Use and Actual Use Reports are published in a local newspaper. By regulation, recipient

governments must also make these reports available to the general public. Additionally, to encourage citizen involvement, section 123(a)(4) of the Act requires recipient governments to provide for the expenditure of revenue sharing funds only in accordance with the laws and appropriation procedures which are applicable to the expenditure of their own revenues.

Clause (1) of section 8 of the bill would further strengthen the general public's role in the General Revenue Sharing process. It amends section 123(a)(5) of the Act to the extent that in order to qualify for revenue sharing funds, a State or unit of local government must establish to the satisfaction of the Secretary of the Treasury that it will provide the residents under its jurisdiction with an opportunity to give their recommendations and views on how the revenue sharing funds should be spent. This opportunity for public involvement may be provided either in a public hearing or, where appropriate, by other means prescribed in regulations to be issued by the Secretary of the Treasury. This amendment would serve to ensure that all recipient governments, regardless of whether they have State or local public participation requirements, will include the public in the decision-making process on the expenditure of revenue sharing funds.

Section 123(a)(8) of the Act provides that Indian tribes and Alaskan native villages must spend their revenue sharing funds for the benefit of members of the tribe or village residing in the county area from which its revenue sharing entitlement originates. This provision affects Indian

reservations which are located in more than one county, thus resulting in the tribe receiving separate revenue sharing allocations from each county area.

Clause (2) of section 8 proposes to eliminate this provision for two reasons. First, it is very difficult for the Indian government to administer since it demands that an analysis be made of each proposed revenue sharing expenditure to ensure that the proper percentage of residents in the applicable counties will benefit in proportion to the percentage of revenue sharing funds generated from each county. Second, this requirement frustrates reservation-wide planning by limiting the capacity of the tribal government to concentrate its revenue sharing expenditures in areas which have the highest priority.

Section 9

Section 141 of the Act defines the entitlement periods which govern the distribution of funds to recipient governments. Section 9 of the bill would revise the last entitlement period (July 1, 1976, to December 31, 1976) by extending it to September 30, 1977. This fifteen-month entitlement period would provide for the transition to the new Federal fiscal year and would combine the appropriations of subparagraph (G) and proposed subparagraph (H) of section 105(b)(1). Also, section 141 would be amended to extend the General Revenue Sharing program until September 30, 1982.

COMPARATIVE TYPE SHOWING CHANGES IN
EXISTING LAW MADE BY PROPOSED BILL

Changes in existing law made by the proposed bill are shown as follows (existing law proposed to be omitted is enclosed in brackets; new matter is underscored):

Sections 102, 105, 107, 108, 109, 121, 122, 123 and 141 of the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. Supp. 1221, 1224, 1226, 1227, 1228, 1241, 1242, 1243, 1261)

SEC. 102. PAYMENTS TO STATE AND LOCAL GOVERNMENTS

* * *

Except as otherwise provided in this title, the Secretary shall, for each entitlement period, pay out of the Trust Fund to--

(1) each State government a total amount equal to the entitlement of such State government determined under section 107 for such period, and

(2) each unit of local government a total amount equal to the entitlement of such unit determined under section 108 for such period.

In the case of entitlement periods ending after the date of the enactment of this Act, such payments shall be made in installments, but not less often than once for each quarter, and, in the case of quarters ending after September 30, 1972, shall be paid not later than 5 days after the close of each quarter. Such payments

for any entitlement period may be initially made on the basis of estimates. Proper adjustment shall be made in the amount of any payment to a State government or a unit of local government to the extent that the payments previously made to such government under this subtitle were in excess of or less than the amounts required to be paid. The Secretary may reserve such percentage of the total entitlement payment for any entitlement period as he deems necessary to ensure that there will be sufficient funds available to pay adjustments due after the final allocation of funds among State governments and units of local government.

SEC. 105. CREATION OF TRUST FUND: APPROPRIATIONS

* * *

(b) APPROPRIATIONS.--

(1) IN GENERAL.--There is appropriated to the Trust Fund, out of amounts in the general fund of the Treasury attributable to the collections of the Federal individual income taxes not otherwise appropriated--

(A) for the period beginning January 1, 1972,
and ending June 30, 1972, \$2,650,000,000;

(B) for the period beginning July 1, 1972,
and ending December 31, 1972, \$2,650,000,000;

(C) for the period beginning January 1, 1973,
and ending June 30, 1973, \$2,987,500,000;

(D) for the fiscal year beginning July 1,
1973, \$6,050,000,000;

(E) for the fiscal year beginning July 1,
1974, \$6,200,000,000;

(F) for the fiscal year beginning July 1,
1975, \$6,350,000,000; [and]

[(G) for the period beginning July 1, 1976,
and ending December 31, 1976, \$3,325,000,000.]

"(G) for the period beginning July 1, 1976,
and ending September 30, 1976, \$1,625,000,000;

(H) for the fiscal year beginning October 1, 1976,
\$6,537,500,000;

(I) for the fiscal year beginning October 1, 1977,
\$6,687,500,000;

(J) for the fiscal year beginning October 1, 1978,
\$6,837,500,000;

(K) for the fiscal year beginning October 1, 1979,
\$6,987,500,000;

(L) for the fiscal year beginning October 1, 1980,
\$7,137,500,000; and

(M) for the fiscal year beginning October 1, 1981,
\$7,287,500,000."

(2) NONCONTIGUOUS STATES ADJUSTMENT AMOUNTS.--There is appropriated to the Trust Fund, out of amounts in the general funds of the Treasury attributable to the collections of the Federal individual income taxes not otherwise appropriated--

(A) for the period beginning January 1, 1972, and ending June 30, 1972, \$2,390,000;

(B) for the period beginning July 1, 1972, and ending December 31, 1972, \$2,390,000;

(C) for the period beginning January 1, 1973, and ending June 30, 1973, \$2,390,000;

(D) for each of the fiscal years beginning July 1, 1973, July 1, 1974, and July 1, 1975, \$4,780,000; [and]

[(E) for the period beginning July 1, 1976, and ending December 31, 1976, \$2,390,000;]

(E) for the period beginning July 1, 1976, and ending September 30, 1976, \$1,195,000;

(F) for each of the fiscal years beginning October 1, 1976, October 1, 1977, October 1, 1978, October 1, 1979, October 1, 1980, and October 1, 1981, \$4,780,000.

(3) DEPOSITS.--Amounts appropriated by paragraph (1) or (2) for any fiscal year or other period shall be deposited in the Trust Fund on the later of (A) the first day of such year or period, or

(B) the day after the date of enactment of this Act.

(c) TRANSFERS FROM TRUST FUND TO GENERAL FUND.--The Secretary shall from time to time transfer from the Trust Fund to the general fund of the Treasury any moneys in the Trust Fund which he determines will not be needed to make payments to State governments and units of local government under this subtitle.

(d) NEW SPENDING AUTHORITY EXEMPTION.--Funds appropriated pursuant to subsection (b)(1) and (2) are exempt from the provisions of sections 401(a) and (b) of the Congressional Budget Act of 1974.

(e) SECRETARY'S REPORT ON EXTENSION.--No later than September 30, 1980, the Secretary shall submit a report with appropriate recommendations concerning the extension of this title to the committees of the House and the Senate having legislative jurisdiction over such extension.

SEC. 107. ENTITLEMENTS OF STATE GOVERNMENTS

* * *

(b) STATE MUST MAINTAIN TRANSFERS TO LOCAL GOVERNMENTS.

* * *

[(5) SPECIAL RULE FOR PERIOD BEGINNING JULY 1, 1976.--
In the case of the entitlement period beginning July 1, 1976, and ending December 31, 1976, the aggregate amount taken into account under paragraph (1)(A) for the preceding entitlement period and the aggregate amount taken into account under paragraph

(1)(B) shall be one-half of the amounts which (but for this paragraph) would be taken into account.]

[6](5) REDUCTION IN ENTITLEMENT.--If the Secretary has reason to believe that paragraph (1) requires a reduction in the entitlement of any State government for any entitlement period, he shall give reasonable notice and opportunity for hearing to the State. If, thereafter, he determines that paragraph (1) requires the reduction of such entitlement, he shall also determine the amount of such reduction and shall notify the Governor of such State of such determinations and shall withhold from subsequent payments to such State government under this subtitle an amount equal to such reduction.

[7](6) TRANSFER TO GENERAL FUND.--An amount equal to the reduction in the entitlement of any State government which results from the application of this subsection (after any judicial review under section 143) shall be transferred from the Trust Fund to the general fund of the Treasury on the day on which such reduction becomes final.

SEC. 108. ENTITLEMENTS OF LOCAL GOVERNMENTS.

* * *

(b) ALLOCATION TO COUNTY GOVERNMENTS,
MUNICIPALITIES, TOWNSHIPS, ETC.--

* * *

(4) INDIAN TRIBES AND ALASKAN NATIVE VILLAGES.--

If within a county area there is an Indian tribe or Alaskan native village which has a recognized governing body which performs substantial governmental functions, then before applying paragraph (1) there shall be allocated to such tribe or village a portion of the amount allocated to the county area for the entitlement period which bears the same ratio to such amount as the population of that tribe or village within that county area bears to the population of that county area. If this paragraph applies with respect to any county area for any entitlement period, the amount to be allocated under paragraph (1) shall be appropriately reduced to reflect the amount allocated under the preceding sentence. If the entitlement of any such tribe or village is waived for any entitlement period by the governing body of that tribe or village, then the [provisions of this paragraph shall not apply with respect to the amount of such entitlement for such period] amount of such entitlement shall (in lieu of being paid to such unit) be added to, and shall become a part of, the entitlement of the county government of the county area in which such unit is located.

*

*

*

(6) ENTITLEMENT.--

(A) IN GENERAL.--Except as otherwise provided in this paragraph, the entitlement of any unit of local government for any entitlement period shall be the amount allocated to such unit under this subsection (after taking into account any applicable modification under subsection (c)).

(B) MAXIMUM AND MINIMUM PER CAPITA ENTITLEMENT.--

Subject to the provisions of subparagraphs (C) and (D), the per capita amount allocated to any county area or any unit of local government (other than a county government) within a State under this section for any entitlement period shall not be less than 20 percent, nor more than 145 percent, of two-thirds of the amount allocated to the State under section 106, divided by the population of that State. Beginning with the entitlement period that begins July 1, 1976, the maximum constraint shall increase at a rate of 6 percentage points per entitlement period until it reaches 175 percent.

(c) SPECIAL ALLOCATION RULES.--

* * *

(1) OPTIONAL FORMULA

* * *

(C) apply during the period beginning on the first day of the first entitlement period to which it applies and ending on [December 31, 1976.] September 30, 1982.

SEC. 109. DEFINITIONS AND SPECIAL RULES FOR APPLICATION OF ALLOCATION FORMULAS.

* * *

(c) GENERAL TAX EFFORT OF STATES.--

* * *

(2) STATE AND LOCAL TAXES.--

(B) MOST RECENT REPORTING YEAR.--The most recent reporting year with respect to any entitlement period consists of the years taken into account by the Bureau of the Census in its most recent general determination of State and local taxes made before the [close] beginning of such period.

SEC. 121. REPORTS ON USE OF FUNDS; PUBLICATION.

(a) REPORTS ON USE OF FUNDS.--Each State government and unit of local government which receives funds under subtitle A shall, after the close of each entitlement period, submit a report to the Secretary [setting forth the amounts and purposes for which funds received during such period have been spent or obligated] on the use of the funds received during such period. Such reports shall be in such form and detail and shall be submitted at such time as the Secretary may prescribe.

(b) REPORTS ON PLANNED USE OF FUNDS.--Each State government and unit of local government which expects to receive funds under subtitle A for any entitlement period beginning on or after January 1, 1973, shall submit a report to the Secretary [setting forth the amounts and purposes for which it plans to spend or obligate the funds which it expects to receive during such period] on how it plans to use the funds it expects to receive during such period. Such reports shall be in such form and detail as the Secretary may prescribe and shall be submitted at such time before the beginning of the entitlement period as the Secretary may prescribe.

(c) PUBLICATION AND PUBLICITY OF REPORTS.--Each State government and unit of local government shall have a copy of each report submitted by it under subsection (a) or (b) published in a newspaper which is published within the State and has general circulation within the geographic area of that government. Where the newspaper publication cost of such report is excessive in relation to the amount of the entitlement of a unit of local government or where other means of publicizing the reports are more appropriate, then such reports shall be publicized pursuant to regulations prescribed by the Secretary. Each State government and unit of local government shall advise the news media of the publication of its reports pursuant to this subsection.

SEC. 122. NONDISCRIMINATION PROVISION.

* * *

(b) AUTHORITY OF SECRETARY.--Whenever the Secretary determines that a State government or unit of local government has failed to comply with subsection (a) or an applicable regulation, he shall notify

the Governor of the State (or, in the case of a unit of local government, the Governor of the State in which such unit is located) of the noncompliance and shall request the Governor to secure compliance. If within a reasonable period of time the Governor fails or refuses to secure compliance, the Secretary is authorized (1) to refer the matter to the Attorney General with a recommendation that an appropriate civil action be instituted; (2) to exercise the powers and functions provided by title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d)[;], and to withhold all or a portion of the entitlement funds due such State government or unit of local government, to terminate the eligibility of such State government or unit of local government to receive one or more payments under subtitle A, and to require repayment by such State government or unit of local government of the entitlement funds expended in a program or activity found to be in violation of subsection (a);

(3) to take such other action as may be provided by law.

SEC. 123. MISCELLANEOUS PROVISIONS.

(a) ASSURANCES TO THE SECRETARY

* * *

(5) it will --

(A) use fiscal, accounting, and audit procedures which conform to guidelines established therefor by the Secretary (after consultation with the Comptroller General of the United States),

(B) provide to the Secretary (and to the Comptroller General of the United States),

on reasonable notice, access to, and the right to examine, such books, documents, papers, or records as the Secretary may reasonably require for purposes of reviewing compliance with this title (or, in the case of the Comptroller General, as the Comptroller General may reasonably require for purposes of reviewing compliance and operations under subsection (c)(2)), [and]

(C) make such annual and interim reports (other than reports required by section 121) to the Secretary as he may reasonably require[;],
and

(D) notwithstanding paragraph (4), provide notice and opportunity to the residents so that they may give recommendations and views on the proposed expenditures of all funds made available under subtitle A in a public hearing or in such other manner as the Secretary may prescribe by regulation;

* * *

[(8) in the case of a unit of local government as defined in the second sentence of section 108(d)(1) (relating to governments of Indian tribes and Alaskan native villages), it will expend funds received by it under subtitle A for the benefit of members of the tribe or village residing in the county area from the allocation of which funds are allocated to it under section 108 (b)(4).]

* * *

SEC. 141. DEFINITIONS AND SPECIAL RULES.

* * *

(b) ENTITLEMENT PERIOD.--For purposes of this title, the term "entitlement period" means --

(1) The period beginning January 1, 1972, and ending June 30, 1972.

(2) The period beginning July 1, 1972, and ending December 31, 1972.

(3) The period beginning January 1, 1973, and ending June 30, 1973.

(4) The one-year periods beginning on July 1, of 1973, 1974, and 1975.

[(5) The period beginning July 1, 1976, and ending December 31, 1976.]

(5) The period beginning July 1, 1976, and ending September 30, 1977.

(6) The one-year periods beginning on October 1 of 1977, 1978, 1979, 1980, and 1981.