The original documents are located in Box 31, folder "Revenue Sharing - Impact on States" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

USE AND IMPACT OF GENERAL REVENUE SHARING IN THE STATES

Introduction

The National Governors' Conference, in an effort to ascertain the perspective of the governors' offices on general revenue sharing, asked for letters describing the use and impact of these funds. This report summarizes in four tables the responses received from thirty-one states. Thesa responses provide a view which is generally applicable to all states.

1. Importance of General Revenue Sharing Funds in the State Budget (Table 1)

General revenue sharing funds amount to a small portion of the state's general fund budget, ranging (in the 19 states providing information on this aspect) from 2 percent to 6.5 percent. The median is 3 percent; in nine states GRS is between 2.0 and 2.8 percent of the budget; in seven states between 3.0 and 3.9 percent; and in three states the proportion is higher.

A greater importance is attached to GRS when viewed as additional funds. All states normally anticipate an annual revenue increase because tax collections rise with economic and inflationary growth with accompanying increased personal income and sales. The five states sending data on this aspect of GRS show that it provided from 18 to 36 percent of new money. If GRS becomes considered as part of normal income, it can be considered as new money only once, but those states which viewed GRS as an annual windfall not to be used for normal operating expenses can consider it as new money each year.

All states invest funds beyond those needed for cash flow, and investment of GRS provided considerable additional revenue.

The states were not questioned on investment income, but five states reported interest earnings ranging from 7.6 to 9 percent of total GRS monies received.

TABLE 1

General Revenue Sharing Funds

State	years	received amount (millions $)	estimates 1976 (millions $)	% of general fund	% of new money	interest earnings 1972-75 (millions $)
Arizona	72-75	$64.0		3.2%		
Arkansas			$22.0			
Connecticut	72-75	79.7	28.0			$6.1
Florida	72-75	182.9	75.0	3.4		14.1
Georgia	annually	44.0				
Hawaii	72-75	27.7		2.0-		
Idaho	annually	8.5		3.9		
Illinois	annually	100.0		2.0	25%	
Indiana	72-75	133.0	42.8			12.0
Iowa	annually	28				
Kansas	72-75	60.5				5.7
Kentucky	72-75	120.0	36.6	4.0		
Louisiana	72-75	146.0				
Maine	72-75	41.0				
Michigan	annually	90.0		3.0	18	
Missouri	72-75	168.3		5.0		
Nevada	72-75	14.9				
New Mexico	72-75	41.0		2.8	18	
New York	annually	235.0		2.25		
North Carolina	72-75	162.4	51.7	3.0	36	
North Dakota				2.7		
Oregon	72-75	57.0		2.7	19	
Pennsylvania	72-75	330.0	110.0			
Rhode Island	72-75	28.9		2.0		
South Carolina	72-75	95.4	28.0			
South Dakota	annually	8.7		6.5		
Tennessee	72-75	118.5	40.0	2.7		
Vermont	72-75	17.7	5.8	3.8		
Virginia	'75	41.0				
Washington	72-75	100.0	31.5	2.0		
West Virginia	72-75	87.6				7.5
Wyoming	72-75	15.9	3.5	3.8		

2. Use of General Revenue Sharing Funds (Table 2)

States are required by law to provide annual reports to the Federal government on the planned use and actual use of GRS funds. However, analysts of GRS funding have found that formally stated uses are misleading, because use of GRS for one purpose frees up money for the purposes which are not stated.

The most prevalent stated use of GRS is for state aid to local schools; 10 of the 31 reporting states have specified this use for all or most of their GRS, and 4 others have specified related but more specific purposes such as school construction and teacher salaries. Another related purpose of assisting local government is use for property tax relief, reported by two states. Another popular use is for capital construction; six states report that all or a majority of GRS is used for this purpose. Use for construction programs has had the advantage of assuring that, if GRS proves to be temporary, these funds are not built into the base for operating budgets.

Two states report that all GRS is used for general budget purposes and that the programs for which these funds are used cannot be specified. This use designation - or non-designation - recognizes the fungibility of GRS, that these funds are essentially an additional revenue which is utilized to help carry out state priorities.

TABLE 2

Use of General Revenue Sharing Funds

Function or purpose	State	% of GRS to this activity
Property tax relief	Arizona	100%
	Connecticut '76	4
	Kansas	43
	Vermont	100
Local aid - general	Connecticut '76	20%
water-sewer	Missouri	7
specific	Pennsylvania '76	part
Education		
State aid-general	Idaho	100%
	Illinois	100
	Iowa	100
	Montana '76	37
	'77	100
	Nevada '74 on	100
	New Mexico	most
	North Dakota	100
	Oregon	100
	South Dakota	100
	Virginia	100
Special	Pennsylvania '76	part
Operation & general	Florida '76	83
	North Carolina	47
Construction	Florida 72-75	83
Teacher Sal.	Arkansas '76	10
Teacher Ret.	Kansas	15
	Washington 75-77	100
Operation & retirement	Michigan	100
State & local programs	Tennessee	45
Capital construction	Georgia 72-75	100%
	Kansas	39
	Kentucky	most
	Missouri	93
	Montana '76	37
	Nevada 72-73	100
	North Carolina	53
	South Carolina	30
	West Virginia	55
	Wyoming (in '75)	39

Function or Purpose	State	% of GRS to this activity
Highways maintenance & repair	Arkansas '76	90%
	Louisiana	90
state-local roads	Tennessee	48
Other state operations:		
education, health, justice, environment	Pennsylvania 72-75	100%
salaries - health, education, welfare	Connecticut '76	76
retirement system contribution	Georgia '76	100
mental hosp.	Montana '76	29
occupational disease payments	Pennsylvania '76	part
environment	Tennessee	7
WICHE	Wyoming (in '75)	8
Veteran's bonus	West Virginia	45
general & other	Florida	17
	Indiana	100
	Kentucky	part
	New York	100
	South Carolina	70
	Wyoming (in '75)	53
Other		
Tax stablization	Rhode Island	100%
Debt retirement, reduction and deficit avoidance	Hawaii	100

3. <u>Impact of General Revenue Sharing Discontinuance</u> (Table 3)

Governors were asked to assess the impact of discontinuing GRS. The answers sometimes related to reported use; hence nine states reported that the impact would be to reduce state aid to schools. Reductions in other programs were reported by ten states, five reported that their cessation of state aid would have a direct effect on local government programs or taxes, and ten reported the likelihood of increased state taxes. In this latter category, five states reported that GRS has served to alleviate fiscal problems created by the current recession, and that discontinuance would exacerbate these problems.

TABLE 3

General Revenue Sharing -
Impact of Discontinuance

IMPACT	STATES
Education:	
reduce state aid to schools	Kansas North Dakota Oregon South Dakota
reduce school budgets 6%	Florida
reduce school aid or other programs	Illinois
reduce school aid and construction	North Carolina
curtail reform of school aid equalization	New Mexico
lower state ranking in teacher salaries	Arkansas
Tax burden:	
increase state taxes	Montana
increase taxes, or reduce programs	Arizona Maine Michigan Nevada
prevent alleviation of fiscal problem	Rhode Island Tennessee Virginia Washington Wyoming

IMPACT	STATES
Program reduction:	
reduce increases in programs	Indiana Kentucky Missouri
reduce funds available for programs	Connecticut Hawaii Pennsylvania South Carolina
reduce highway maintenance, hurt economic development	Arkansas Louisiana
curtail capital construction or increase bonding	West Virginia
Local fiscal effects:	
eliminate programs or increase property taxes	Connecticut Vermont
increase local taxes	Idaho Iowa
increased rents for elderly	Connecticut

4. Alternatives to General Revenue Sharing (Table 4)

Alternatives to GRS, assuming no substitute Federal grant programs, are either to increase taxes or reduce programs. Most reporting states listed several alternatives, and indicated the effect if the loss of GRS were compensated for by actions affecting one tax or program.

An increase in overall state taxes of 3 to 3.8 percent was listed by three states. The effect on personal income taxes, as reported by eleven states, would be an increase of 5 to 27 percent, with a median of 9 percent. If sales taxes were to pick up the burden, the effect reported by nine states would be an increase of 4 to 20 percent, also with a median of 9 percent. Corporate income taxes would increase 13 to 91 percent, with a median of 30 percent, according to five states.

Program alternatives are numerous. The one most mentioned is a reduction in school aid of 4 to 12 percent, reported by eight states. Four states listed the increase of higher education tuition by 59 to 131 percent, and four mentioned a reduction in state support for higher education of 15 to 23 percent. If the cuts were taken in aid to families with dependent children (AFDC), the effect would be a 30 to 88 percent reduction, according to five states. Two report that the effect would be a reduction in medicaid of 28 to 30 percent, and four mention a reduction in mental health programs of 33 to 82 percent.

Other programs do not require the extent of state resources as education and welfare, and the effect of applying GRS loss would be to eliminate some of them entirely. For example, several reported that the loss would be the equivalent of wiping out all natural resources and related other programs, the elimination of corrections programs, or the closing of institutions.

These examples, it is emphasized, illustrate the effect of compensating for the loss of GRS in one program or tax. However, it is certain that in most states the loss would be distributed among various alternatives, so that either several taxes would be raised, numerous programs would be reduced, or both increased taxes and curtailed programs would be decided upon.

alphabetical

TABLE 4

Alternatives if General Revenue Sharing is Discontinued

(Note: All items reflect effect if loss of GRS funds were applied to one alternative. Listed are quantified alternatives only; other states mentioned alternatives without specifying degree)

Tax alternatives

Increase state taxes
- North Carolina - by 3%
- Tennessee - by 3.5%
- Wyoming - by 3.8%

Increase personal income tax
- Arizona - by 14%
- Hawaii - by 9%
- Illinois - by 6-8%
- Iowa - by 6%
- Maine - by 27%
- Michigan - by 7%
- North Carolina - by 8%
- Oregon - by 5%
- Pennsylvania - by 10%
- South Carolina - by 13.5%
- Vermont - by 11%

Increase corporate income tax
- Connecticut - by 13%
- Hawaii - by 30%
- Iowa - by 50%
- Maine - by 91%
- Michigan - by 25%

Increase sales tax
- Connecticut - by 4%
- Hawaii - by 14%
- Illinois - by 6-8%
- Michigan - by 9%
- Nevada - by 10%
- South Carolina - by 8.5%
- South Dakota - by 10%
- Tennessee - by 7%
- Vermont - by 20%

Increase gas and user taxes
- Tennessee - by 24%
- Washington - by 50%

Increase excise taxes
- Tennessee - by 30%

Increase property taxes
- Hawaii - by 16%
- South Dakota - by 7%

Increase tobacco tax
- Arizona - by 75%

Program alternatives

Education:

Decrease school aid
- Arizona - 10%
- Illinois - 9%
- Maine - 12%
- Nevada - 6%
- North Carolina - 5.5%
- Oregon - 10%
- Tennessee - 4%
- Washington - 6%

Reduce teacher salary aid
- South Carolina - by 14%

Eliminate special education reimbursement - Illinois

Eliminate ancillary education services - adult education, school lunch, etc. - Kentucky

Aid to community colleges
- Illinois - eliminate
- Nevada - close 2 of 3
- Rhode Island - reduce 81%

Increase university tuition
- Arizona - 75%
- North Carolina - 131% in-state
- Oregon - 59%
- South Dakota - 100%

Reduce higher education support
- Michigan - 15%
- North Carolina - 19%
- South Carolina - 20%
- South Dakota - 23%

Human Resources:

Reduce AFDC
- Illinois - 30%
- Maine - 83%
- Nevada - 60%
- Oregon - 37%
- South Carolina - 78%

Reduce income maintenance
- Washington - 28%

Reduce Medicaid
- Illinois - 28%
- Washington - 30%

Eliminate child and family services
- Illinois

Reduce foster & group home, day care
- Oregon - 67%

Reduce medical services
- Oregon - 60%
- South Dakota - eliminate

General public assistance
- Rhode Island - reduce 59%
- South Dakota - eliminate

Reduce health and social services
- Tennessee - 10%

Health programs
- Rhode Island - reduce 75%
- Nevada - eliminate
- South Carolina - eliminate

Reduce mental health programs
- Michigan - 33%
- North Carolina - 42%
- ~~South Carolina - 64%~~
- ~~Washington - 83%~~

Program alternatives, continued

Human resources, continued

Eliminate local mental health
- Oregon - close 2 of 6 hospitals

Eliminate mental health hospitals - North Carolina

Close psychiatric & retarded facilities - Kentucky

Programs for retarded - eliminate
- Arizona - South Carolina

Reduce corrections and mental health
- South Dakota - 50%

Corrections
- North Carolina - reduce 76%
- Oregon - eliminate
- Rhode Island - reduce 87%
- South Carolina - eliminate

Close 4 minimum security facilities, cancel new maximum security, plus - Kentucky

Eliminate health, corrections, labor, commerce & natural resources - Michigan

Natural Resources:

Eliminate natural resources, environment - Oregon

Eliminate natural resources - Rhode Island

Eliminate natural resources and recreation - Tennessee

Eliminate environment, conservation, and others - Vermont

Eliminate natural resources, conservation, agriculture - Nevada

Other:

Cut state salaries - New York - 10%

Eliminate capital construction - Missouri

Reduce economic development - Maine 96%

Eliminate public safety, natural resources, parks & forests, agriculture and health - South Dakota

Eliminate general support for local government - Illinois, Washington

Close university hospital & medical school - Arizona

Eliminate Dept. of Revenue, Board of Charities & Reform - Wyoming

Eliminate housing development - West Virginia

Reduce Dept. of Community Affairs - Rhode Island -76%

Source National Gover. Conference

WHAT HAPPENS IF REVENUE SHARING DOESN'T PASS

Excerpts from a Report by the National Governors' Conference

Arizona	Would have to increase personal income tax by 14% or decrease school aid by 10%.
Connecticut	Would have to increase corporate income tax by 13% or increase sales tax by 4%.
Hawaii	Would have to increase personal income tax by 9% or increase sales tax by 14%.
Illinois	Would have to increase personal income tax by at least 6%, increase sales tax by at least 6%, or reduce Medicaid by 28%.
Kentucky	Would have to eliminate auxiliary education services, adult education, and school lunches.
Iowa	Would have to increase personal income tax by 6% or increase corporate income tax by 50%.
Maine	Would have to increase personal income tax by 27%, increase corporate income tax by 91% or decrease school aid by 12%.
Michigan	Would have to increase personal income tax by 7%, increase sales tax by 9%, or reduce higher education support by 15%.
Missouri	Would have to eliminate capital construction.
New York	Would have to cut state salaries by 10%.
Nevada	Would have to increase sales tax by 10%, decrease school aid by 6%, or eliminate health programs.

Oregon	Would have to increase personal income tax by 5%, increase university tuition by 59%, or reduce medical services by 60%.
Pennsylvania	Would have to increase personal income tax by 10%.
Rhode Island	Would have to reduce aid to community colleges by 81% or reduce health programs by 50%.
South Carolina	Would have to increase personal income tax by 13.5%, increase sales tax by 8.5%, or reduce teacher salary aid by 14%.
South Dakota	Would have to increase sales tax by 10%, increase property tax by 7%, or increase university tuition by 100%.
Tennessee	Would have to increase state tax by 3.5%, increase sales tax by 7-10%, or decrease school aid by 4%.
Vermont	Would have to increase personal income tax by 11% or increase sales tax by 20%.
Washington	Would have to increase gas and user taxes by 50% or reduce Medicaid by 30%.
West Virginia	Would have to eliminate housing development.
Wyoming	Would have to increase state taxes by 3.8%.

ARIZONA
OFFICE OF THE GOVERNOR

OFFICE OF
ECONOMIC PLANNING AND DEVELOPMENT

MAILING ADDRESS: 1645 West Jefferson • Room 428 • Phoenix, Arizona 85007

September 19, 1975

Mr. Lee Galeotos
1150 17th St. N.W.
Washington, D.C. 20036

Dear Mr. Galeotos:

As requested in Governor Ray's July 18, 1975 letter, I am enclosing a brief report which describes the State of Arizona's use of federal revenue sharing funds. The State uses its portion of funds for property tax relief; therefore, discontinuing the federal revenue sharing program would lower the disposable incomes of Arizona residents and cause a higher tax burden.

Federal revenue sharing funds are also important to Arizona's other units of government. In general, twelve non-metropolitan counties and one urban county use most of their federal revenue sharing funds for capitol expenditures while only one county, an urban county, uses the funds for operational expenditures primarily. Arizona's cities and towns tend to use their federal revenue sharing funds for operational expenditures.

It is important to continue the federal revenue sharing program. During the present economic situation, as costs increase at a greater rate than revenues, federal revenue sharing funds become more important to state and local levels of government. If the federal government discontinues the revenue sharing program, state and local levels of government must compensate for this revenue loss by reducing services, eliminating programs, or increasing taxes.

Please inform me if you need additional information or assistance.

Sincerely,

Brent W. Brown

Brent W. Brown
Executive Director

BWB/ald

THE IMPACT OF FEDERAL REVENUE SHARING ON ARIZONA

The State of Arizona has received a total of $63,982,000 in federal revenue sharing funds during the past three years; this is approximately $20 million annually. Arizona has used this money for property tax relief. During the 1974-75 Fiscal Year, the State of Arizona spent $22,352,000 in federal revenue sharing funds; this represents 3.2 percent of the total 1974-75 budget of $696,504,600.

If federal revenue sharing to states is not continued and the property tax relief program is ended Arizona's citizens will feel the impact through lower disposable incomes and a higher tax burden. If the property tax relief program is continued without federal revenue sharing funds, other tax revenues must be increased, or various state programs must be curtailed or reduced. Any one of the following actions would countervail the loss of the State's federal revenue sharing allocation:

A 75% increase in student fees at the state universities.

A 14% increase in state personal income tax.

A 75% increase in state tobacco tax.

A 10% decrease in state assistance to schools.

Complete elimination of various state programs for the mentally retarded.

Closing the University of Arizona Hospital and College of Medicine.

Although the State obtains one-third of Arizona's federal revenue sharing allocation, Arizona's other units of government receive two-thirds of the total Arizona amount. Arizona's twelve non-metropolitan counties use federal revenue sharing funds for capital expenditures primarily. While one urban county uses federal revenue sharing funds for capital expenditures only, the other urban county uses most of its funds for personnel services. Loss of federal revenue sharing money would slow capital outlays at the county level and would raise taxes as the counties seek other revenue sources to replace that portion of the federal revenue sharing funds which are used for non-capitol expenditures. Arizona cities and towns have begun to use federal revenue sharing funds for operating expenditures instead of capitol expenditures. If the federal revenue sharing program is discontinued, economic conditions and the inherent problem of inadequate revenues would force many cities and towns either to curtail many desirable services, or to increase taxes.

October 22, 1975

Honorable Bill Brock
United States Senator
254 Russell Building
Washington, D. C. 20510

Dear Senator Brock:

Please find enclosed the Brock Revenue Sharing Questionnaire which we have completed.

I wholeheartedly support the plan to continue Revenue Sharing to states and local governments as the plan now exists. Under the present method of allocation of funds, the states and local governments are allowed great flexibility in the utilization of Revenue Sharing funds. This gives us the ability to use these funds in areas where the need is greatest.

Revenue Sharing funds have been utilized for programs in this state that probably could not have been funded from any other source and have provided many benefits to the citizens of this state. In particular, I would like to point out that medical education, mental health, education and transportation are four areas which have been vitally effected by receipt of Revenue Sharing funds and without the continuance of these funds, some very critical and important programs would have to be reduced or alternate sources of funding would have to be found.

In conclusion, I wholeheartedly support the allocation and distribution of Revenue Sharing funds without the addition of severe restrictions by Congress which would limit the utilization of these funds by the states and local governments. I, too, feel there is a great need to pass a meaningful Revenue Sharing bill and I wholeheartedly endorse your idea.

Sincerely yours,

George C. Wallace
Governor

GCW/bna

BROCK REVENUE SHARING QUESTIONNAIRE

1. Do you support renewal of general Revenue Sharing?
   Yes __X__ No ______

2. Do you think the program should be changed?
   Yes ______ No __X__
   Comments ______________________________

3. Does the program allow state and local officials to use funds in most needed programs?
   Yes __X__ No ______

4. Is this program important to your government?
   Yes __X__ No ______

5. What priority would you assign to Revenue Sharing?
   1st __X__ 2nd______ 3rd______ Other ______

6. Would your government have to raise taxes without Revenue Sharing?
   Yes __X__ No ______ How Much ______

7. Would your government have to cut back on programs without general Revenue Sharing?
   Yes __X__ No ______ Which ones: ______

   Or increase taxes to maintain the same level of spending

Name George C. Wallace

Address State Capitol

City/State Montgomery, Alabama Zip 36104

Position or Title Governor

P.S. This questionnaire requires no postage. Just detach, fold where indicated, and mail. Thanks again.

The Impact of Revenue Sharing on the State of Arkansas

The State of Arkansas will receive $22 million in General Revenue Sharing funds this year. Two million dollars has been appropriated to educational support and $20 million has been appropriated to highway maintenance.

In the area of education, the money will be used to support teacher salaries. Compared to the nation as a whole, Arkansas is forty-seventh in teacher salaries and the loss of future revenue sharing funds would jeopardize even that low standing.

The bulk of our revenue sharing will be spent on federal and state highway maintenance. Due to rising costs and inflation, the State cannot afford to build new highways and can nil afford to maintain existing highways. The loss of revenue sharing funds in this area would have grave effects on our future economic growth as our state relies heavily on motor vehicle transportation.

In summary, the State of Arkansas cannot absorb by reallocation or increase in taxes any loss suffered by the decrease or elimination of general revenue sharing funds.

THE IMPACT OF REVENUE SHARING ON COLORADO

The State of Colorado has recieved approximately $72 million from the General Revenue Sharing Program as of this date.

These funds have been used to support a variety of programs and construction projects, while enhancing the state-local fiscal partnership. Expenditure objectives have been to fund high priority projects in the areas of Education (30 percent), Public Safety (17 percent), Public Transportation (14 percent), Enviornmental Protection (6 percent), and Health (5 percent). Capital construction in a number of areas has been funded by General Revenue Sharing. However 40 percent of revenue sharing construction has been for Higher Education. State collected revenue returned to local governments has increased from 60percent to 70 percent due to revenue sharing, funding welfare programs, and elementary and secondary education. Due to inflation this increase has already been substantially eroded, and will only be compounded if General Revenue Sharing is not renewed.

Obviously if this program is not continued, Colorado will lose over $23 million of revenue a year. Since Colorado experienced budget problems in 1975-76, causing numerous state program eliminations, a loss of revenue sharing funds would have the possible following results:

- Reduce state aid to local governments by more than 10 percent.

- Increase state income tax, local property tax, and perhaps the sales tax to maintain the present tax base, just to continue necessary programs.

- The State will not be able to meet the EPA time table for implementation of the federal Water Quality Control law, maintaining inadequate sewage treatment plants in many cities and towns.

- Reduce state immunization activities by a third.

- Discontinue such programs as Library Services to the Blind and Physically Handicapped, unless other general funds are diverted to support these programs.

- A severe impact for CU-Medical Center and CSU Experiment and Forest Service Department, with a serious degree of uncertainty for their day to day operations.

- Numerous program reductions and eliminations in the Departments of Social Services and Institutions, the prime state department beneficiaries of revenue sharing funds.

- A loss of $10 million in general revenue sharing funds to local governments every three months, causing an inevitable property tax increase to compensate for this 10 percent loss of total expenditure funds.

State of connecticut
Review of Federal Revenue Sharing Program
August 15, 1975

From December 1972 to June 30, 1975, Connecticut has received $79,662,535 in federal revenue sharing and has earned $6,136,933.90 in interest on such trust fund deposits.

For fiscal 1976, Connecticut expects to receive $28,016,231 in federal revenue sharing and expects to earn $300,000 in interest on such funds. These funds, together with a balance of $1,099,469.68 in the Trust Fund on June 30, 1975 will be utilized as follows:

	1975-76
For direct grants to towns - rates based on population	$ 6,000,000.00
For tax abatement payments to towns and cities for education, religious and other non-profit sponsors of rental housing projects.	1,117,000.00
For reimbursement of Personal Service expenditure of Education, Welfare and Higher Education Units,	22,298,700.68
Total 1975-76	$29,415,700.68

For fiscal 1977, the same plan is contemplated, therefore, the sudden withdrawal of an estimated $29 million of these federal funds would result in the following action:

1. The elimination of the state $6 million population grant to cities and towns with a corresponding increase in local property taxes to make up the differences.

2. The reduction in the state's reimbursement to cities and towns for property tax abatement of local taxes on "non-profit" sponsors of rental housing projects with a corresponding increase in rentals for apartments in such projects rented by indigent elderly persons as a general rule.

3. The state would have to raise $22.3 more in revenue to finance operations. This, for instance, would necessitate a 4% raise in the sales tax rate, or a 13% increase in the corporation business tax rates. Naturally other revenues could be raised to make up the $22.3 million in combination or a new tax could be levied.

   In the 1975-76 period, tax increases of $184 million were made so the fiscal problems involved with the sudden loss of another $29 million would be very serious.

Impact of Federal Revenue Sharing
on Delaware Financial Resources
as of June 30, 1975

Since Federal revenue sharing funds became available in F.Y. 1973, they have accounted for two percent of the State's general fund revenue. Most significantly, revenue sharing accounted for 19 percent of the revenue increases during this period.

If revenue sharing is not reenacted, the state will have to enact revenue measures or reduce programs.

Unlike the Federal Government, Delaware is mandated to operate with a balanced budget. By discontinuing revenue sharing, the Federal Government will be adding to our budget balancing problems during a period when recession is deflating revenues and inflation creates problems in maintaining program levels.

October 27, 1975

Honorable Lawton Chiles
United States Senator
Room 2106, Senate Office Building
Washington, D.C. 20510

Dear Lawton:

The State and Local Fiscal Assistance Act of 1972, the Revenue Sharing Program, expires December 31, 1976. Severe economic conditions, which have depleted most of our reserve funds, and less than optimistic prospects for full recovery in the immediate future in conjunction with the application of the Federal Revenue Sharing funds to essential programs make continuation of this program extremely important to the State of Florida. Should these funds be discontinued, the State would be forced to either curtail needed programs or increase the tax burden at a most inappropriate time.

Concurrent with reenactment of the State and Local Assistance Act, several program improvements should be made. In order to facilitate program planning and fiscal responsibility, the program should be made permanent rather than continued on a short-term basis. Also, some measures must be taken to reduce the disparities in the distribution among the states. Some states receive as much as 73 percent per capita above other states. Not receiving an equal per capita share of these funds will cost Florida almost $43 million during the July 1, 1975 - June 30, 1976 entitlement period and several states receive less per capita than Florida. The causes of these disparities are many, complex, and subtle but could be easily rectified by merely placing reasonable limits on the amount of the differential per capita state shares. In a general revenue sharing program, no state area should receive on a per capita basis more than 105 percent of the national average or less than 95 percent. This would insure that no state would receive over 10 percent per capita more than any other state.

Florida's use of the State Government portion of the Federal Revenue funds has been judicious and conservative. However, in order that you may fully understand the need for the reenactment of this measure, I would like to give you the benefit of how our Federal Revenue Sharing funds have been used to date. For the period 1972-73 through 1974-75, State Government received $182,940,956. Through the management of these funds we were able to earn $14,112,089 in interest, an increase of almost 8 percent.

As you are aware, there has been a deficit in classroom space in our local school programs in Florida for several years. As a result of this need, I made the recommendation at the time Federal Revenue Sharing was first enacted to dedicate all revenues from this source to the elimination of this classroom deficit. With the exception of approximately $28,000,000 all of the funds received through Fiscal Year 1974-75 have been appropriated by the Legislature for school construction. In my budget for the Fiscal Year 1975-76, I recommended that $75,000,000 be made available in that year to continue the construction program. The economic situation was such that the Legislature did not agree with this recommendation; therefore, it appropriated some $62,000,000 from this source for Operations of the local school programs in lieu of providing the funds for Fixed Capital Outlay purposes. The remaining $13,000,000 was appropriated for recurring costs at the State level.

The fact that Federal Revenue Sharing funds for the 1975-76 Fiscal Year have been appropriated for operating costs, which are recurring, means that the entire character of the use of the funds has changed and any reduction will have a significant impact on the State of Florida. The $75,000,000 appropriated for the 1975-76 Fiscal Year represents about 3.4 percent of our General Revenue budget. More important is the fact that the $62,000,000 for the operation of the local school program represents about 6 percent of the General Revenue appropriations for the K-12 Program. This simply means that the State of Florida will be faced with several options in the event the Federal Revenue Sharing Program is discontinued and none of these are desirable. These options are:

(1) Increase taxes to offset the loss of revenue from this source.

(2) Reduce expenditures primarily in the human services area.

(3) Increase local property taxes to offset the loss to the school program.

(4) Decrease level of funding for the school program.

I believe the above indicates that it is extremely crucial to the State of Florida that the Federal Revenue Sharing Act be reenacted. As a minimum, I urge you to consider this as a priority item in the months ahead and to do all within your means to see that this program is reenacted in a form that will provide revenue at least equal to the current levels of allocation. While I would like to see some of the inequities removed from the present formula as outlined herein, I believe the extension of this bill is the number one priority.

Sincerely,

Governor

ROA/lcw

cc: Honorable Bill Brock

Office of the Governor
Atlanta, Georgia 30334

George Busbee
GOVERNOR

Norman Underwood
EXECUTIVE SECRETARY

August 5, 1975

Mr. Lee Galeotos
National Governors' Conference
1150 17th Street, N. W.
Washington, D. C. 20036

Dear Mr. Galeotos:

Revenue Sharing Funds received by the State of Georgia have become a critical source of income. We receive approximately $44 million each fiscal year.

Originally, we assigned Revenue Sharing Funds to non-recurring expenditures such as capital outlay and other "one shot" items of expenditure. Due to the limited number of "one shot" items appropriated in the last fiscal year and this fiscal year, we are having to assign Revenue Sharing Funds to operating programs which we must continue, such as Employees' and Teachers' Retirement contributions.

Should Georgia lose $44 million of income per year, we would be forced to make drastic budgetary reductions at a time when we have already experienced severe cutbacks to anticipated revenues due to the recession. The only other alternative would be to increase taxes in Georgia. Either of these alternatives would have a detrimental impact, especially in light of the economic difficulties we still face in the State.

The information provided to you in this letter is intended to express our position relative to any effort by Congress to reduce or eliminate Revenue Sharing Funds anticipated by this State. Your assistance in communicating our position will be appreciated.

Sincerely,

George Busbee

George Busbee

GB/csk

THE IMPACT OF REVENUE SHARING ON THE STATE OF HAWAII

The State of Hawaii has received $27.7 million in General Revenue sharing funds through June 30, 1975 - an average of approximately $9.2 million per year.

Although revenue sharing payments comprise less than 2 percent of our State General Fund resources, they have been helpful during the outset of the program in 1972 when the State was in a difficult fiscal situation.

	Revenue Sharing Payments	General Fund Balance w/ Rev. Shar.	General Fund Balance w/o Rev. Sharing
1971-72	-	(19,888,408)	(19,888,408)
1972-73	9,864,868	(8,738,632)	(18,603,500)
1973-74	8,971,520	13,817,963	(5,018,425)
1974-75	8,932,978	83,474,326(E)	55,704,960(E)

As shown above, the general fund deficits in fiscal years 1972 and 1973 would have been carried over into fiscal 1974, had it not been for revenue sharing funds. The large increase in general fund surplus for fiscal year 1975 resulted from a combination of budget constraints imposed earlier in the fiscal period and the unexpected increase in general fund tax revenues.

All of the State's revenue sharing monies received through fiscal 1975 have been used to reduce debt service costs. The application of revenue sharing payments to debt retirement has resulted in an equal amount of State funds to be used elsewhere since revenue sharing funds are included as part of our general fund resources. It would be difficult however, to point out specific activities for which these funds were used.

THE IMPACT OF REVENUE SHARING ON THE STATE OF ILLINOIS

The State of Illinois receives slightly in excess of $100 million each year in General Revenue Sharing funds. All of these monies go into the State's general funds for the support of elementary and secondary education in Illinois. Discontinuation of the revenue sharing program would necessitate increasing general revenues raised from state sources by 2.6 percent in order to maintain programs at their budgeted levels for FY76.

Revenue sharing payments amount to only 2 percent of total appropriations from the general funds, but at the same time are equivalent to 25 percent of the projected increase in revenues over FY75. Elimination of revenue sharing would require Illinois to cutback on state services and aid to local governments and/or increase state taxes. Based upon FY76 budgeted levels, each of the following actions by itself would offset the loss of General Revenue Sharing funds:

- Reduce distributive aid to local elementary and secondary schools by 9 percent.
- Eliminate Special Education reimbursement to local schools.
- Eliminate all Children and Family Services.
- Eliminate Local Government Distributive Aid (state revenue sharing).
- Eliminate all general aid to Community Colleges.
- Reduce Aid to Families with Dependent Children by 30 percent.
- Reduce Medicaid payments by 28 percent.
- Raise state personal income taxes by 7.6 percent.
- Increase the state sales tax by 6.6 percent.

Governor Walker is strongly opposed to increasing taxes in Illinois and therefore that alternative to offsetting a loss of revenue sharing is not a real option for Illinois. Tax increases which would offset such a loss are included for comparative purposes only.

THE IMPACT OF REVENUE SHARING

ON THE STATE OF IDAHO

Virtually all of the $8.47 million which the State of Idaho has been receiving in General Revenue Sharing for the past three years, including FY 1976, goes directly to the support of public school education in Idaho.

In Fiscal Year 1975, Idaho's share of General Revenue Sharing amounted to 8.3 percent of the total State aid to public schools.

In Fiscal Year 1974, Idaho's share of General Revenue Sharing amounted to 9.5 percent of the total State aid to public schools. In Fiscal Year 1976, it is estimated it will total 6.5 percent.

This percentage decline, in spite of the constant Revenue Sharing figure, is due to the fact that State aid to local education increased 15.5 percent in FY 1974 over FY 1973; 12 percent in FY 1975 over 1974; and 12.7 percent (estimated) in FY 1976 over FY 1975.

Conversely, State General Revenue Sharing represented 14.7 percent of the total local funds spent on public education in FY 1974, 15.8 percent in FY 1975, and an estimated 16.2 percent in FY 1976. As State aid increases, public schools are less dependent upon local support--which comes from the property tax in general.

Although local support of public education, as a percentage of the entire cost of public education, has dropped from 41.9 percent in FY 1970 to 28.1 percent in FY 1976 (estimated), the actual amount of local funds raised, principally by the property tax, for local education has increased 21.9 percent, or a total of $9,106,000, between FY 1970 and FY 1976. Without the use of State General Revenue Sharing, the increase in FY 1976 over FY 1970 would be 41.6 percent, or $17,306,000, if local school districts were to share the additional burden. Without the State's General Revenue Sharing in FY 1976, the school districts would have to increase property taxes by 16.2 percent in order to maintain the same level of spending.

If the State of Idaho were to make up the loss of General Revenue Sharing funds which now go to public education, the effect on the State tax structure (primarily income and sales tax) could be judged by the percentage relationship of General Revenue Sharing to these State sources of income.

Lee

RECEIVED SEP 2 2 1975

OFFICE OF THE GOVERNOR
INDIANAPOLIS, INDIANA 46204

OTIS R. BOWEN, M. D.
GOVERNOR

TO: Indiana Congressional Delegation
National Governors Conference

FROM: Otis R. Bowen, M.D. ORB.
Governor

RE: The Impact of Revenue Sharing on the State of Indiana

DATE: September 18, 1975

In view of the numerous commentaries, articles, and proposals which are being circulated concerning the reenactment of a General Revenue Sharing program, it seems most appropriate at this time to express to you some of my thoughts, as Governor of Indiana, relating to the impact of the present General Revenue Sharing program on this state and its local governmental units. State government has received over $133 million in General Revenue Sharing funds since the first payments were issued in December, 1972. In addition, the state has earned over $12 million in interest on the General Revenue Sharing funds which it has received. Furthermore, the state is expected to receive $42,838,313 in General Revenue Sharing funds for the 1975-76 fiscal year. As you know, state government receives approximately one third (1/3) of the total amount of General Revenue Sharing for which Indiana is eligible. Therefore, in Indiana, local governmental units have received in excess of $266 million since December, 1972. The anticipated General Revenue Sharing receipts for local governments in Indiana for the 1975-76 fiscal year exceeds $85 million.

It has been the procedure in Indiana to consider the General Revenue Sharing funds as an added source of revenue for state government. We believe that, in handling the funds in this manner, we are complying with the intent of the present General Revenue Sharing legislation. The program is not to be considered a categorical program, and therefore should not be treated as one. By incorporating the anticipated receipt of General Revenue Sharing funds into the total state revenue projection, we have encouraged and achieved better state planning for the expenditure of such Revenue Sharing funds. The Revenue Sharing funds have, in this way, been appropriated by the Indiana General Assembly, and have been expended for various priority projects. The following paragraph is a summarization of the major expenditures of General Revenue Sharing funds. These figures were derived by consolidating the three actual use reports which have been filed by the State of Indiana with the United States Department of the Treasury, Office of Revenue Sharing. These figures only apply to the General Revenue Sharing funds received by state government.

<u>General Revenue Sharing Expenditures</u>

Education	$ 14,576,637.00
Health and Hospitals	$ 6,670,022.23
Recreation	$ 233,955.00
Transportation	$ 65,003.00
Public Safety	$ 406,535.00
Corrections	$ 3,134,098.00
Financial Administration	$ 2,101,564.00
General Government	$ 17,933,441.24
Veterans Bonus	$ 16,966,817.75

Local governmental units in Indiana have chosen to expend General Revenue Sharing to finance a variety of local projects, including the purchase of fire and emergency equipment, increase in social service activities, capital construction and repair, and the implementation of various recreational projects.

The availability of General Revenue Sharing funds has enabled all units of government to either provide new services or expand existing services. For some units of government, these activities would most likely not have been possible at this time without the General Revenue Sharing funds. Therefore, I am supporting the immediate passage of legislation to continue the present General Revenue Sharing program. In terms of effective planning, it becomes imperative to both state and local governments to have the renewal of the General Revenue Sharing program in time to include (in their overall revenue projections) the anticipated Revenue Sharing receipts for the last six (6) months of fiscal year 1976-77. The current program is now scheduled to terminate December 31, 1976. In conclusion, I respectfully request your support for the continuation of the General Revenue Sharing program.

ORB:mm

cc: Senate co-sponsors of S. 1625
House co-sponsors of H.R. 6558

IMPACT OF REVENUE SHARING ON STATE OF IOWA

The State of Iowa receives approximately $28 million in revenue sharing each year while local governments in the state receive $56 million. The state's share has been passed through to local school districts while the local funds have been used for a variety of needs. In the immediate past, the local funds have been partially used to support operating expense. The use of these funds, combined with other state pass-through moneys, have somewhat stabilized property taxes.

The termination of the revenue sharing program would impact on:

1. Local property taxes as local governments would have to raise the funds through the only source available to them.

2. The state's ability to maintain the level of pass-through funds to the schools.

3. If the pass-through funds were maintained, then a tax increase would be necessary. It would amount to approximately 6% of individual income tax collections or 30% of corporate income tax. This would cover the state portion only and local property taxes would still have to be increased.

All of the State of Iowa's U.S. Senators and Representatives are on record as favoring revenue sharing extension in some form. It is imperative that this be accomplished this calendar year, for a delay until 1976 would subject this program to annual appropriations, if at all. State and local budgets would be finalized long before these funds are available which would create problems in the system.

The basic concept that state and local governments know their needs better than the federal government remains valid. This was the cornerstone used in the passage of the original act and should be used again. The problems that are raised in opposition to the program can be resolved, either through additional legislation or more monitoring by the Office of Revenue Sharing.

Excert from Governor Bennett's
Budget Message to the Legislature
on January 19, 1976

FEDERAL REVENUE SHARING

In the budget which I have prepared and presented and in the projections which I have made for this five-year period I have not anticipated that federal revenue sharing will be continued beyond its current expiration date. In my view to do so, at least on essential and ongoing programs, would be most perfidious. Congress has had the recommendation of the President for the continuation of this program for some time and has not acted. Individual senators and representatives have introduced their own and separate proposals and Congress has not acted. Forces are at large in Washington which condemn federal revenue sharing and seek to replace it with their own special interest, bureaucrat-building categorical grants. Likewise, forces are at large which seek to eliminate the program in its entirety in a quest for federal fiscal responsibility. Still other forces seek modification of the program both as to formula and as to division. The results of the interaction of these pressures is most speculative and it would be dangerous indeed for this state to assume the continued receipt of federal revenue sharing funds based upon past amounts and past allocations.

At the same time the possibility does exist that federal revenue sharing will continue and in an effort to analyze how these funds might be used, separate projections have been made as to currently contemplated but projected commitments which cannot be funded from the general funds of this state but which are highly desirable if funds are available. This projection appears in the detailed budget explanation.

In brief they include a proposal to commence the gradual funding of judicial reform in 1978, as well as the assumption of anticipated lost federal aid to libraries in that year. They also include the commencement of a needed capital improvement program in our penal institutions, a program which would span a number of years in its implementation. Three buildings at our institutions of higher learning have been programmed for commenced construction in the years contemplated by this projection as well as the construction of a new printing plant.

All of these projects are well supported on the basis of need but, in my view, their priority is such that their implementation can be legitimately made to depend upon federal revenue sharing funds or upon unforeseen revenue improvement.

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S

United States Senate

WASHINGTON, D.C. 20510

STANDING COMMITTEES:
AGRICULTURE AND FORESTRY
BUDGET
FINANCE
POST OFFICE AND CIVIL SERVICE

SELECT AND SPECIAL COMMITTEE
NUTRITION AND HUMAN NEEDS

October 21, 1975

The Honorable Russell B. Long, Chairman
The Committee on Finance
United States Senate
2227 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. Chairman:

The failure of Congress to act on the renewal of general revenue sharing before the end of this year may pose a severe dilemma for state and local budget planners. While the revenue sharing program, as enacted in the State and Local Fiscal Assistance Act, does not expire until December 31, 1976, it is imperative that the program's future be determined well in advance of that date in consideration of the long lead time required by local budget planners. A little known provision of the Congressional Budget Control Act, which goes into effect on January 1, prevents Congress from appropriating funds for the upcoming fiscal year until after the first Congressional Budget Resolution. This resolution will not be adopted until the second week of May. Given this timetable, it is altogether possible that the matter will not come to a final vote until next summer.

A delay of this duration will wreak havoc in the budgetary and planning process of state and local governments. The crises will be particularly acute for those recipients on a July 1 fiscal calendar. Officials of these governments must begin their budget planning for fiscal 1977 this fall. Constrained to balance their budgets, local officials cannot gamble on the continuance of shared revenues; they must assume a cessation of the program and impose the necessary budgetary adjustments. Indeed, Mayor John Poelker of St. Louis recently told the House Subcommittee on Intergovernmental Relations that if Congress fails to renew general revenue sharing by the end of this year, cities all across the nation will be forced to raise property taxes, reduce essential services and postpone capital improvement projects. The same situation applies to county and state governments.

If a final determination is unduly postponed, the Senate Finance Committee will have to bear a large measure of responsibility for the budgetary chaos that will result at the state and local level. I therefore urge you to schedule hearings on the renewal of general revenue sharing as soon as possible.

Sincerely yours,

Bob Dole

BOB DOLE
United States Senator

BD:sjv
cc: Mr. Hathaway
Mr. Packwood

GENERAL REVENUE SHARING
STATE OF KANSAS

General Revenue Sharing has provided the State of Kansas a total of $66.2 million of revenue to date. The State has received $60.5 million in General Revenue Sharing distributions and these funds have earned an additional $5.7 million in interest.

Over $29 million is being used to provide property tax relief for qualified citizens; $22.6 million is allocated to fund capital improvements at state colleges and universities and $10.0 million is to support teacher retirement benefits at the local level. Development of a justice complex to house the Supreme Court and the Attorney General of the State of Kansas has received $2.0 million and $.3 million has provided aid to local libraries.

Some of these programs represent commitments which require fiscal support with or without continuation of General Revenue Sharing. In other areas, anticipated improvements and new programs will not be initiated without continued sharing. General state aid to local school districts has increased by $76 million (76%) over the past two years and under state equalization is scheduled for further increases. Discontinuation of General Revenue Sharing could have an impact on future aid in this area. However, as flexibility is a major strength of General Revenue Sharing, identification of specific programs ultimately affected through elimination of the program would be speculation. It is certain that discontinuance of General Revenue Sharing will require shifts in funding resulting in program cuts or increased tax measures.

THE IMPACT OF REVENUE SHARING
ON THE
COMMONWEALTH OF KENTUCKY

As of June 30, 1975, the Commonwealth of Kentucky had received nearly $120 million in general revenue sharing funds. For fiscal year 1975-76 the Commonwealth expects to receive approximately $36.6 million, which amounts to nearly 4% of the general fund estimate for this year.

The initial revenue sharing payments received were accumulated until the 1974 General Assembly was able to appropriate them. All revenue sharing funds that would be available to the Commonwealth by June 30, 1976, were appropriated at that time. By far, the major portion of available revenue sharing funds were budgeted for non-recurring capital construction projects and operating expenses, while a smaller amount was budgeted for recurring program costs.

However, if revenue sharing is not continued, the potential impact would be substantial, especially if applied to a single functional area. This is illustrated by the following examples in which the impact of a $36.6 million loss was estimated in the areas of justice, human resources, higher education, and education and the arts:

a) Justice--cancelling the construction of a new maximum security prison; the closing of four minimum security correctional institutions; cancelling improvements and renovation at the state's 90-year-old maximum security penitentiary; postponing the purchase of 500 state police vehicles designed to replace those beyond the point of adequate serviceability; forcing additional overtime by state police and correctional officers due to deferred filling of vacancies;

b) Human Resources--closing all psychiatric hospitals, mental retardation facilities, social service resident treatment centers, and TB hospitals;

c) Higher Education--raising of tuition rates at eight public institutions which may lead to lower enrollments and in turn may jeopardize revenue bonds dependent on student fees for debt service payments;

d) Education and the Arts--loss of counseling and financial aid for adult education students, food services for elementary and secondary education students, the school lunch program for disadvantaged students, the state library for the blind, the Eastern Kentucky Comprehensive Rehabilitation Center, Kentucky Industries for the Blind, and the state library program.

THE IMPACT OF REVENUE SHARING IN LOUISIANA

The State of Louisiana has received $146,000,000 in Federal Revenue Sharing since the inception of the program. Approximately 90% of these funds have been used to repair existing state highways and bridges.

The maintenance program had fallen well below minimum requirements due to budgetary limitations. Louisiana, being an alluvial state into which 2/3 of the nation's rivers drain, experiences a rapid deterioration of its surface transportation structures. The majority of funds available was used, in the past, to finance the construction of the interstate system. Additional construction was made possible by the issuance of approximately $400 million in bonds which are services from general revenues.

If revenue sharing stops, the highway system would deteriorate in two or three years to a point where vehicular traffic would be limited or at a minimum safety level. This, of course, would have a negative economic effect to the business community since a high volume of manufactured products and services are dependent upon the road network.

If approximately $50 million per year were diverted from general revenues to highway maintenance, the following possibilities exist:

> Imposition of additional taxes to support the program;

Reduction of the number of exceptional children for which the state will provide service;

Reduction of the number of day care centers now in operation;

Curtailment of programs involving the aged;

Curtailment of support for nursing homes;

Reduction of support to local health programs.

Since state revenues will increase by a projected 1.8 percent, it is evident that the additional 30-35 million dollars will barely sustain normal inflation and could not provide for program growth. The issuance of additional bonds would inflict an added drain on general revenues and could be serviced only by imposition of additional taxes.

State of Maine
Executive Department
Augusta, Maine
04330

JAMES B. LONGLEY
GOVERNOR

August 28, 1975

Mr. Lee Galeotos
National Governor's Conference
1150 17th Street, N.W.
Washington, D.C. 20036

Dear Mr. Galeotos:

This letter is in response to Governor Ray's request for comments on continuation of General Revenue Sharing legislation.

As you know, Maine's congressional delegation has co-sponsored S. 1625 and H.R. 6558.

Since 1972 Maine government has received over 124 million dollars in General Revenue Sharing funds. The State's share of this exceeds 41 million dollars.

To do away with one of the few Federal programs that attempt to return a part of government from Washington to the people would be most unfortunate.

Without a doubt, state and local governments would either have to cut programs or increase taxes in order to make up the loss. Under the present economy and inflation, an increase in taxes would be imposing a definite hardship that most Maine citizens would find almost criminal. Maine is very proud to have a balanced State budget with no tax increase.

Any of the following would make up the loss of 13.5 million dollars in the State's General budget appropriation.

1. Increase individual income tax by 27 percent.
2. Increase corporate income tax by 91 percent.
3. Decrease state support of local schools by 11.7 percent.
4. Eliminate 88 percent of Aid to Families with Dependent Children.
5. Abolish 96 percent of all state agencies dealing with economic development such as the Development Office, Department of Agriculture, Department of Marine Resource, etc.

Lee

STATE OF MARYLAND
EXECUTIVE DEPARTMENT
ANNAPOLIS, MARYLAND 21404

MARVIN MANDEL
GOVERNOR

October 28, 1975

The Honorable J. Glenn Beall, Jr.
362 Old Senate Office Building
Washington, D. C. 20510

Dear Senator Beall:

Enclosed for your information are tables arraying by category the expenditure of General Revenue Sharing Funds by each of Maryland's twenty-three counties and Baltimore City governments. We have monitored this program in Maryland and are convinced that the funds have been well spent.

The uses of these funds have been diverse but targeted to the individual needs of the county: for the construction of a county nursing home in Frederick, for indigent health services in Baltimore, for child day-care centers in Prince George's, for increased police protection in the greater Baltimore City parks, for land on which to build a new school in St. Mary's, and for expansion of library programs in Dorchester. Across the State, governments have been able to improve service or reduce property tax burdens as a result of Revenue Sharing.

The program not only allows State and local governments to target spending to priority areas but also allows government to do it efficiently without significant expensive grant administration. The State receives approximately $40 million a year under Revenue Sharing and administers the program with less than two man-weeks of effort. One of our State agencies has a three-person section just to administer the $17 million in categorical grants it receives!

The General Revenue Sharing Program is now being reconsidered for renewal. I urge you to support the program.

I also strongly urge you to support the renewal of the program this year. Renewal this calendar year is critical to State governments such as Maryland. By early January, I must present a balanced Fiscal 1977 budget to the General Assembly. If Revenue Sharing is not renewed, $23 million we have counted on in our planning will not be in the estimates prepared by the Board of Revenue Estimates. Although this sum may not be large relative to Maryland's total budget, it is 25 percent anticipated revenue growth! It is clear from our initial budget reviews that such a significant reduction in revenue growth will lead to important program cutbacks.

If I can be of any assistance in this matter, please do not hesitate to call on me.

Sincerely,

Governor

THE IMPACT OF FEDERAL GENERAL REVENUE SHARING ON STATE AND LOCAL GOVERNMENTS IN MICHIGAN

Michigan's state and 1800 local governments have received $867 million in General Revenue Sharing funds to date.

The State of Michigan has received approximately $90 million each year and is expected to receive a total of $424 million in federal funds under the existing program as authorized by the "State and Local Fiscal Assistance Act of 1972." All of the General Revenue Sharing funds received to date have been used to support operating expenditures in education, through partial financing of Michigan public school employee retirement system.

General Revenue Sharing funds account for 3.0 percent of the State's General Fund/General Purpose resources for fiscal year 1975-76, but they represent 18 percent of available increased resources. General Revenue Sharing funds comprise 38 percent of the total fiscal year 1975-76 state contribution to the public school employees retirement system.

Without continuation of General Revenue Sharing at current or increased funding levels, Michigan will be faced with possible program cutbacks in already financially stranded public services, increases in state tax resources (state income and corporate income taxes), or both. If General Revenue Sharing to states is not continued beyond 1976, Michigan will lose $90 million of income per year.

Termination of General Revenue Sharing could result in any one of the following state actions to compensate for the loss of GRS funds:

- Increase state personal income tax collections by 7 percent
- Increase state corporate income tax collections by 25 percent
- Decrease state contributions for the public school employees retirement system by 38 percent
- Increase state sales tax collections by 9 percent
- Abolish state public health programs
- Reduce state mental programs by 33 percent
- Abolish programs in the State Departments of Labor and Commerce
- Eliminate as state correctional programs or natural resources programs
- Reduce state support to higher education by 15 percent

The Impact of Revenue Sharing on Missouri

By the end of the sixth entitlement period, Missouri will have received \$504.8 million from the revenue sharing program. \$168.3 million of that amount went directly to the state. The \$157.9 million appropriated so far represents approximately 5% of the state's total discretionary funds available for the three fiscal years.

Revenue sharing funds in Missouri have primarily been used for capital improvements. Prior to the start of the revenue sharing program, Missouri spent only \$10 to \$15 million annually on capital improvements. This low level capital effort resulted from the fact that unlike most states with large annual capital construction programs whose legislatures can approve general obligation bonds, in Missouri such bonds can be issued only through a constitutional amendment approved by the voters. Since 1955 Missouri voters have approved proposals for general obligations bonds only twice. Thus, revenue sharing has enabled us to make some progress in our capital programs.

Education has been the major benefactor; \$25.8 million was appropriated to the Department of Higher Education in FY 1975 along with \$4.4 million to the Department of Elementary and Secondary Education. Large appropriations also went to the Department of Mental Health (\$6.3 million) and to the Department of Social Services (\$5 million).

Of the \$59.5 million capital improvements budget for FY 1975, \$51.5 million (86.5%) was revenue sharing. Besides building and remodeling on college campuses, 25 group homes for the mentally handicapped were constructed, repair and renovation was performed on 9 state schools for retarded children, and improvements were made to 6 state adult and juvenile correctional institutions.

For FY 1976, \$42.0 million of revenue sharing was appropriated, again mostly for capital improvements (78.2% of that budget). Expenditures will be made for construction, renovation or improvement to 5 state schools for the severely handicapped, Missouri School for the Deaf, Missouri School for the Blind, 4 state hospitals, 3 mental health centers, 4 state schools and hospitals, 9 regional mental health diagnostic clinics, and 4 correctional institutions. In addition, \$7.5 million will be used to construct the first phase of a new medium security correctional institution and \$3.5 million to construct 24 group homes for the mentally retarded.

Finally, \$3 million annually has been transferred to local water and sewer districts since the revenue sharing program began. These grants provide for maintenance and construction of water and waste treatment facilities.

But these are only examples of direct uses of revenue sharing money. Because the program is so flexible, it is difficult, if not impossible, to measure the true effect. For example, the \$10-15 million annual general revenue expenditure for capital improvements was "freed up" under revenue sharing, allowing increased expenditures in other areas. Since 1973, ADC payments have increased, a new law guaranteeing education opportunities for the handicapped has passed, and tax relief for the elderly has been implemented, all without increasing taxes.

Assuming reenactment of the program, it is currently anticipated that the state will continue to spend annually about $45 million for capital improvements, of which about 78% will be from revenue sharing funds. One third of that will be for recurring and necessary repairs and major maintenance. It is obvious that cutting out 78% of this expected expenditure (by not renewing revenue sharing) would be disasterous both programmatically and economically. If revenue sharing is not renewed, several projects for which planning funds were appropriated this year, will not be built: a $6.4 million law school building at the University of Missouri-Kansas City, a $3.8 million nursing school training facility and a $1 million journalism school addition at the University of Missouri-Columbia. Completion of the medium security correctional institution will also be jeopardized. Other sources of revenue will have to be found to replace revenue sharing, either by raising taxes or by reduced spending in other programs. Both are unsatisfactory alternatives.

THE CAPITOL

JACKSON

BILL WALLER
GOVERNOR

December 23, 1975

Mr. James L. Martin, Director
State-Federal Affairs
National Governors' Conference
1150 Seventeenth Street, N.W., Suite 600
Washington, D. C. 20036

Dear Jim:

The State of Mississippi and her political subdivisions have supported the revenue sharing program, and they continue to do so. The Mississippi delegation in Congress has supported that position.

During the life of the revenue sharing program, the State has benefited greatly by being able to construct from those funds capital improvements that otherwise would not have been available during this period of time. Although the State has not used revenue sharing funds for recurring expenses, or the possibility thereof, the municipalities and counties within the State have relied upon revenue sharing for parts of their operating expenses. Some of them will be required to reduce or eliminate services, or in the alternative, to impose additional taxes in order to accommodate those services.

Sincerely,

Herman

Herman C. Glazier
Executive Assistant

EFFECT OF DISCONTINUING GENERAL REVENUE SHARING IN MONTANA

The state of Montana has committed General Revenue Sharing funds in FY76 in the following areas:

Support of State Mental Hospitals	$3.0 million
Public School Support	$3.5 million
Capital Construction	$3.9 million

In FY77, all Revenue Sharing Funds are appropriated to support public schools. A funding level is established for public school support and any decrease in General Fund or Revenue sharing support automatically triggers an increase in the state property tax levy.

We have moved to using general revenue sharing in this way in order to assure that ongoing state programs are not built up to levels which cannot be supported by existing state revenue. This fiscally sound plan cushions the state from the consequences of precipitous fluctuations in federal funding.

This is not to say that a loss of revenue sharing would not be felt by all programs. It does, however, give us a broad range of alternatives to consider. We could cut public school support, or if that were unacceptable other state programs could be reduced to provide General Fund for the schools. Another alternative could be either income or property tax increases.

To summarize, Montana state government has been careful not to allow the Revenue Sharing Program to inflate the level of state supported services beyond the limit of current state revenues. The immediate effect of discontinuance of general revenue sharing would be to increase the statewide property tax levy for support of public schools.

THE IMPACT OF REVENUE SHARING ON THE STATE OF NEVADA

Between December, 1972 and July, 1975, the State of Nevada received over $14.9 million in General Revenue Sharing Funds. Since the initial receipts from revenue sharing were not anticipated in 1971 when the State's 1973 operating budget was established, the first $4.8 million received from revenue sharing was treated as "surplus" and budgeted for capital construction projects at the State Prison and Nevada Mental Health Institute. However, since fiscal 1973, all revenue sharing money received has been distributed to Nevada's 17 local school districts to support elementary and secondary education.

In fiscal 1974-75, the State distributed almost $58 million to these school districts. Of this $58 million, $4.5 million, or 7.8% of the total distribution, were revenue sharing dollars. General Revenue Sharing contributed over $35.20 of basic support per enrollee.

In establishing school budgets through 1976-77, the 1975 Legislature continued the practice of allocating 100% of the State's revenue sharing receipts to the support of elementary and secondary education. Fully aware that General Revenue Sharing expired at the end of calendar 1976, the Legislature, neverthless, budgeted a full fiscal year's allocation -- $4.5 million -- for 1976-77.

Without a continuation of the program, there would be a revenue shortfall of $2.25 million in fiscal 1977 and at least a $4.5 million shortfall every year thereafter. This revenue loss would have to be compensated for by reduced State programs, reduced State aid to local governments, particularly education, or increased taxes.

With a 1975-76 General Fund operating budget of $184.6 million, a loss of revenue sharing could be compensated for by any one of the following actions:

- Close down 280 of the 506 State support special education program units.
- Reduce State distributions to local school districts by over 6%.
- Increase the State's share of the sales tax by 10%.
- Close two of the State's three community colleges.
- Eliminate all State health programs, all State grants to local health departments, and close the Southern Nevada Mental Health Center.
- Abolish all State conservation, natural resource and agricultural programs, including closure of all State Parks.
- Reduce assistance payments in the AFDC program by over sixty percent.

It is unlikely, however, that any one program area would absorb the entire loss. Instead reductions would probably be made across the whole range of State activities, thereby lowering service levels in all program areas.

IMPACT OF REVENUE SHARING

ON THE STATE OF NEW MEXICO

State government in New Mexico received approximately $41 million in revenue sharing funds through June, 1975. The state's entitlement for the current fiscal year is $13.4 million, or 2.8 per cent of expected revenues available for general purposes. Between the fiscal years 1972 and 1975, funds available for general purposes increased by 51 per cent; general revenue sharing funds were responsible for 9 per cent of this growth. However, the impact of revenue sharing money was greater than the figures indicate, because much of the revenue growth was not anticipated and could not be reflected in plans to expand programs funded by state government. The approximate annual allocations of revenue sharing funds were known and could be fully budgeted.

Most revenue sharing money was nominally allocated to state support of public schools. During the period 1972-1975, the State undertook substantial ungrading of its operating support for public schools and extensively revised its allocation formula to better reflect the needs of individual school districts. Progress in public school funding cannot be attributed to revenue sharing, but revenue sharing funds, along with growth in the states own-source revenues, may have helped to "grease the skids" for the reform. In addition, the availability of revenue sharing funds probably was instrumental in establishing, for the first time, a state fund to help equalize public school facilities (however, revenue sharing money was not formally allocated to this purpose). Undoubtedly, the impact of revenue sharing would have been greater had the state been assured of its continuation.

The State's revenue situation has been relatively favorable in recent years, partly because of benefits derived from the oil and gas industry. In recent months, however, revenue growth has slowed noticably, which suggests that the impact of shared revenues in the future may well be greater than it has been in the past. The loss of such funds would most likely result in some form of cross-the-board curtailments. Because education absorbs nearly two-thirds of the state's general funds, this important area would likely be seriously affected--a serious consequence in a state that ranks 49th in per capita personal income.

NEW YORK STATE POSITION ON REVENUE SHARING

The State and Local Assistance Act of 1972 was a landmark piece of legislation aimed at redressing the fiscal imbalance between the Federal government and the states. It is unique among Federal assistance programs. It permits state and local governments, within broad limits, to determine their own priorities. It recognizes that the most urgent needs in Oregon may not be the same as the most urgent needs in Tennessee; that New York City is different from El Paso.

Revenue sharing has an important place in the array of Federal grant programs. It targets funds to areas most in need of them; it ameliorates the fiscal disparities among jurisdictions; it reduces the pressure to increase State and local taxes, which tend to be regressive; and unlike categorical grants which tend to reorder State and local priorities, revenue sharing provides flexibility.

Continuing Need for the Program

When the revenue sharing bill was being considered by the Congress during 1971 and 1972, most state and local governments had their backs to the fiscal wall. By the time the bill had passed, the economic situation had eased for some of those governments. Even then, however, states were not enjoying robust fiscal health, despite impressions to the contrary.

Now with revenues diminished by the recession and costs for goods and services pushed up by double-digit inflation, the fiscal situation has reached crisis proportions in most major cities and in many states. In state after state and in many local governments, services have been cut back and personnel have been laid off or vacancies left unfilled. A survey conducted by the Joint Economic Committee earlier this year clearly indicated the drastic impact of the then current economic conditions. The survey found that the combined state and local sector was expected to enact $3.6 billion in tax increases and reduce expenditures by $3.3 billion from current service levels.

In New York State, we have instituted a hiring freeze and have cut State employment by nearly 6,000. Despite stringent economies in State government, because the State legislature refused to increase State taxes, New York faces a budget deficit of $650 million by the end of this fiscal year.

While some economic forecasts predict a gradual recovery from the current recession, that recovery will be hindered if state and local governments are forced to increase taxes and further curtail their work forces. State and local taxes do not respond as quickly or as significantly as Federal taxes to changes in the economy. The gradual rise in state and local revenues that can be expected from the improving economic conditions will not accommodate the impact of inflation on state and local budgets.

The need for revenue sharing is therefore greater than when the law was first enacted.

Prompt Action Necessary

Although the law is not scheduled to expire until December 1976, re-enactment is essential at this session of the Congress. State and local governments need to know, when they are preparing their budgets, whether or not revenue sharing will continue beyond December; they need to know how much they can expect to receive so that they can include it in their budgets. Unless revenue sharing is enacted this session, state and local governments will begin to cut back on services and increase taxes to cushion the impact of the loss in case the program is not extended.

To illustrate the drastic implications of delay, the $235 million annual revenue sharing payment to New York State represents 2 1/4 percent of the General Fund expenditures. However, revenue sharing money is allocated only to State Purposes expenditures, i.e., none of it is used for local assistance, which makes up the bulk of total State expenditures. The loss of $235 million in revenue sharing would be the equivalent, therefore, of a 10 percent across-the-board cut in State salaries.

The impact on New York City and other hard-pressed communities in the State would be no less drastic. Thousands of employees would have to be laid off, facilities would have to close, and services be severely curtailed.

Permanent Funding

One of the most serious problems in intergovernmental relations is the cliff-hanging uncertainty of Federal funding. Fiscal uncertainty cripples the planning process, thereby reducing the benefit the funds could have. At the present time, revenue sharing is a five-year permanent appropriation, i.e., funds were appropriated in 1972 to cover the period from January 1, 1971 through December 31, 1976, eliminating the need for annual appropriations.

Revenue sharing should be permanently funded by a fixed percentage of adjusted gross taxable income. Such a base would not be affected by changing tax policies and would provide a stable base that would not be eroded by inflation. With permanent funding, state and local governments could implement long-range programs, overhaul their tax structures to make them less onerous to the poor and elderly, or undertake innovative programs which they cannot do now.

Conclusion

There is no more pressing matter before the Congress than the re-enactment of Federal Revenue Sharing. By prompt re-enactment, Congress would reaffirm its faith in the Federal system and restore the faith of state and local officials that the national government is truly concerned about the public services that state and local governments provide to their citizens.

I therefore urge your support of S. 1625 and H.R. 6558 together with support for an amendment for permanent funding of the program.

The Impact of Revenue Sharing on the State of North Carolina

State government in North Carolina had received as of June 30, 1975 a total of $162.4 million in General Revenue Sharing funds. In addition, the state's entitlement for Fiscal Year 1976 is $51.7 million and the expected entitlement for Fiscal Year 1977 is $41.4 million (assuming no extension of the General Revenue Sharing program).

Therefore, under provisions of the existing legislation, North Carolina is expected to receive a grand total of $255.5 million over the duration of the current program -- approximately $51.0 million each year.

In North Carolina the state legislature has already appropriated the state's total entitlement of $255.5 million. Of this amount, 47.2 % was appropriated for education, a function heavily supported at the state level. A major effort in improving and upgrading corrections and mental health facilities has been undertaken with revenue sharing funds. These two categories accounted for 22% of the state's total entitlement. Other categories funded by General Revenue Sharing included general government land acquisition and construction ($55.7 million), improvement of state port facilities ($12.7 million), park land acquisition ($5.0 million), and agricultural facilities ($5.4 million).

Revenue sharing payments comprise 3.0 percent of the state's Fiscal Year 1976 General Fund resources, but they equal 35.9 percent of the available increased resources for that year. If the General Revenue Sharing program is not continued, North Carolina will lose approximately $51.0 million of income per year under the current formula. At Fiscal Year 1976 budgeted levels, any one of the following actions would compensate for this loss:

--- Increase state individual income tax by 8.0 percent.

--- Increase total state taxes by 3.0 percent.

--- Reduce adult corrections program by 76 percent.

--- Reduce mental health program by 42 percent.

--- Abolish all state mental health hospitals.

--- Reduce higher education funding by 19 percent.

--- Reduce state funding of public schools by 5.5 percent.

--- Increase in-state tuition by 130.6 percent.

DES:dh

STATE OF NORTH CAROLINA: POSITION ON RENEWAL

OF FEDERAL REVENUE SHARING

BACKGROUND

I. Program Description

The "State and Local Fiscal Assistance Act of 1972" (PL 92-512) was signed into law on October 20, 1972 and expires December 1976. Known as "general revenue sharing", this legislation is designed to share federal revenue with state and local governments. Enactment of the legislation included an appropriation of $30,212,500,000 including $150 million annual increases spread over five years.

The allocation for each state is based on a formula which includes population, per capita income, and tax effort. Within each state, one-third of the funds was allocated to state governments and two-thirds went to counties, cities, and towns. State governments are allowed to use these funds for any purpose for which they can expend their own tax revenues. Local governments are restricted to eight priority program areas but can finance from revenue sharing any ordinary and necessary capital expenditures authorized by law.

II. Renewal Proposals

The Administration has proposed that the program be extended basically in its present form for another five and three-quarters years and is pressing for early renewal during calendar year 1975. Prior to the start of hearings on the program, several bills aimed at making slight program changes were introduced in Congress. As of yet, none of these bills has attracted substantial support. Major proposals are not likely to emerge until after the hearings in the House have ended.

III. National Governors' Conference Position

The National Governors' Conference went on record in 1965 in support of the principle that the federal government share a portion of its revenues with the States, unfettered as to functions for which it is used.

The Conference reiterated its strong support and calls upon the Congress and the Administration to keep General Revenue Sharing free of categorical restrictions and cumbersome administrative guidelines.

Specifically, the Conference applauds language in the act which calls for reliance on the laws and procedures used by state and local governments in administering their own funds as the basis for administering revenue sharing. The Conference feels this language to be the basic foundation of General Revenue Sharing and thus all administrative regulations and procedures should build upon this principle. States are particularly concerned that federal accounting regulations not impose additional requirements on existing state accounting practices.

Further, the National Governors' Conference has called upon Congress to reenact General Revenue Sharing legislation during the first session of the Ninety-Fourth Congress to provide States adequate lead time for proper budget preparation. Reenactment should include features sought by the National Governors' Conference during debate over the current program. These include: funding based on a fixed percentage of federal income tax collections, a permanent program not requiring periodic reenactment, and clear statement of congressional intent that the program not be viewed as a substitute for existing categorical grants-in-aid. Finally, because the most valued feature of the program is the fact that funding is known in advance, revenue sharing should be specifically excepted from new congressional budget procedures requiring that advance spending authority be subject to annual appropriations review.

In principle, the State of North Carolina endorses the National Governors' Conference position.

IV. General Revenue Sharing in North Carolina

During the five-year period established by the 1972 legislation, the State of North Carolina and 563 units of local government (100 counties and 463 municipalities) will receive $759 million. On an annual basis, these funds account for nearly 3.0 percent of the State's General Fund resources and more than 14.0 percent of local tax levies. Clearly, shared federal revenues are an important supplement to state and local government resources in North Carolina.

The real impact of general revenue sharing in North Carolina is difficult to determine. Actual Use Reports show that North Carolina governments have made balanced use of their funds largely for capital expenditures in education, health, public safety, and corrections. These reports are very misleading regarding capital items, though. The State government's entitlements were merged with other revenues in the regular budget process. But, due to uncertainty about the permanency of the program, sound budgetary practices required that revenue-sharing dollars be placed into non-recurring expense items. It takes very informed judgment, though, to identify exactly which projects or programs would not have been funded in the absence of revenue-sharing.

Revenue sharing in North Carolina has actually meant the most progressive step forward in public education in our State's history, with a statewide kindergarten program, reduction in class size, an increase in commitments to exceptional children, and an overall equalization of educational opportunities among school districts. It has also meant great strides in mental health programs and in a broad prison reform effort.

Moreover, the substantial expenditure (nearly 50 percent) of the State's entitlement on public education, capital items or otherwise, has taken some of the edge off the burden of regressive property taxes. Also, if the combined effect of State and local expenditures of their funds results in enabling local governments to avoid an increase, or cut regressive local taxes, then the program will have introduced an important progressive element.

In summary, the real positive impacts of revenue-sharing in North Carolina are manifested in many ways and go far beyond the specific, reported uses of the funds.

MAJOR PROGRAM ISSUES

1. Duration of extension and method of funding: In the interest of early reenactment, North Carolina strongly supports the continuation of the present general revenue sharing program for a period of at least five more years. In principle, though, the policy position adopted by the National Governors' Conference is most preferred. The ideal program would be funded from a permanent trust fund.

2. Appropriation level: The program should be continued at the current funding level with modest annual increases, as proposed by the Administration

3. Number of eligible units of government: As defined in the 1972 Act, all general purpose units of local government should be eligible to receive GRS funds. North Carolina is basically a rural state with many small towns. Currently 563 units of local government are participating in the program. They are depending on these funds to meet their obligations. A change to restrict funding to only the larger units of government would not be in the best interest of North Carolina.

4. Formula: Even though the formula has provided satisfactory levels of funding to North Carolina and significant fiscal equalization nationwide, there are some features which are either inequitable or do not effectively serve the broad purposes of the program. At this point, though, no proposals have been made to alter the formula; therefore, judgment will be reserved on the merits of the present formula until alternative methods have been fully considered.

The present formula should not be completely revamped considering the massive data-collection, improvements, and review efforts that have been undertaken at all levels of government.

5. Floor and ceiling provision: The current law stipulates that no city or township can receive less than 20 percent or more than 145 percent of the statewide per capita payment of shared revenue. The maximum and minimum limits should be retained as they are in the present law.

6. The designation of priority categories in the present law governing the use of revenue sharing funds by local governments is neither necessary nor useful.

However, this has not posed major problems; therefore, the elimination of these categories is advisable, but is not considered a critical issue.

7. Prohibition on matching: The prohibition in the existing law on the use of general revenue sharing funds to obtain federal matching grants should be repealed. A precedent for this is the Housing and Community Development Act of 1974, which allows community development funds to match other federal programs. The prohibition discourages the use of general revenue sharing funds for social programs since many of the social programs are joint state/federal or local/federal matching programs. This provision is a major reason that general revenue sharing is critized for not being used for social programming.

8. Civil Rights: The 1972 legislation provided adequate civil rights protection and there is no reason to change the language. If change is deemed necessary by the Congress, entitlements should not be withheld until a judicial determination is rendered.

9. Reporting: The two required reports - (1) Planned Use Report and (2) Actual Use Report - were designed as a way to secure accountability and public interest in the use of general revenue sharing funds. There is some question regarding the effectiveness of these reports; however, they have presented few major problems. Thus, there is no reason to change the reporting requirements which are adequate and administratively feasible. Congress has a right to require accountability for funds it appropriates and also to encourage citizen participation in the determination of how funds are spent. However, alternative methods to achieve accountability and citizen participation could present significant administrative difficulties to recipient governments which would run counter to the basic philosophy of general revenue sharing.

SUMMARY OF STATE POSITION

For:
- Establish GRS as a permanent program
- Retain existing eligible units of government
- Removal of prohibition on using GRS funds to match federal grants
- Retention of present reporting and public accountability requirements

Against:
- Major revamping of the present formulae. Early reenactment is essential, especially for local governments. Major revamping would impede early renewal.
- Altering floor and ceiling provisions

THE IMPACT OF REVENUE SHARING

ON THE

STATE OF NORTH DAKOTA

The State of North Dakota and its minor subdivisions have received $80 million in General Revenue Sharing funds to date.

The State share of these dollars has been primarily earmarked for the support of elementary and secondary education. Revenue sharing payments comprise eight percent of the foundation aid program to education.

Revenue sharing payments comprise 2.7 percent of the State's 1975-77 General Fund resources. In addition, revenue sharing accounts for between fifteen and twenty percent of county budget needs and eight to ten percent of city budgets.

Without a continuation of revenue sharing, North Dakota would have to reduce support to local school districts or increase state income taxes or sales taxes. Local governments would have to reduce services or increase property taxes.

The non-renewal of the Revenue Sharing Act would mean a loss to all units of government in North Dakota of approximately $19 million per year.

Lee

STATE OF NORTH DAKOTA

EXECUTIVE OFFICE

BISMARCK

RECEIVED OCT 6 1975

ARTHUR A. LINK
Governor

October 1, 1975

The Honorable Jack Brooks
United States Congressman
2157 Rayburn Office Building
Washington, D. C. 20515

Dear Congressman Brooks:

I am deeply concerned about the future of the State and Local Fiscal Assistance Act of 1972 (P.L. 92-512) soon to be discussed before the House Committee on Government Operations. I feel that General Revenue Sharing should be extended on a permanent basis with the current provision which distributes one-third of the allocation to the state government and two-thirds of the allocation to general purpose local governments remaining intact.

Also, I would urge that you take advantage of the Congressional Budget Act of 1974 special provision which would make General Revenue Sharing a permanent program outside of the regular appropriations process. One of the main strengths of the current General Revenue Sharing program is that multiple-year full funding allows state and local governments to better plan for constant and known future funding levels. Exemption of General Revenue Sharing from the Budget Act would still allow for good congressional fiscal control as the total and annual federal revenue sharing outlays would be known to the Senate and House Committee and could be considered by them in each year's budget.

In addition, National Science Foundation research indicates that inflation has actually subtracted more than revenue sharing has added to government purchasing power. For this reason, I would urge as did the Advisory Commission on Intergovernmental Relations, that a percentage of federal adjusted gross income factor be built into the revenue sharing program to provide "inflation insurance" for state and local governments.

Lastly, I would urge that you remove the "eight functional categories" restrictions on local governments. These restrictive categories effectively prohibit specific local response to a specific local fiscal problem which may not fall under one of the priority categories but yet be of paramount interest to that local unit of government.

The Honorable Jack Brooks
Washington, D. C. 20515

October 1, 1975

There is no question that in North Dakota at least, local governments are taxing themselves to their statutory limit. A non-continuation of funding for General Revenue Sharing would simply mean a reduction of basic, essential services to the people of North Dakota. A loss of the state share of General Revenue Sharing would translate into a decrease in the quality of elementary and secondary education for thousands of our young people.

For these reasons I urge you to take action to renew this positive fiscal legislation as soon as possible.

Sincerely yours,

ARTHUR A. LINK
Governor

A. A. L.

AAL:csw

cc: Milton R. Young
Quentin N. Burdick
Mark Andrews
James A. R. Johnson
Senator Bill Brock

IMPACT OF REVENUE SHARING ON OKLAHOMA

Without Revenue Sharing Funds:

<u>Fiscal Year 1976</u>

We would have been unable to qualify for Federal Highway Funds made available by the release of previous impoundments

$8.6 Million would not have been available for rebuilding correctional facilities destroyed by rioting

Funds available for Higher Education would have been $6.8 Million less

Financial support of public schools would have been $13.6 Million less

<u>Fiscal Year 1977</u>

Less funds available for:

Higher Education	$ 6.5 Million
Public Schools	$13.0 Million

<u>Fiscal Year 1978</u>

Less funds available for:

Higher Education	$ 8.0 Million
Public Schools	$16.1 Million

THE IMPACT OF REVENUE SHARING ON THE STATE OF OREGON

The State of Oregon has received over $57 million in General Revenue Sharing Funds to date - approximately $22 million each year. All of this money has been used to support local schools operating expenditures.

Even with revenue sharing, inflation in school operating costs has eroded the state's support in this area. The 1973 Legislature, for example, appropriated an amount expected to provide more than 30 percent of school districts' expenditures. As it turned out, the amount (including Revenue Sharing Funds) provides only 27 or 28 percent of school costs.

Revenue sharing payments comprise 2.7 percent of the state's 1975-77 General Fund resources, but they equal 19 percent of the available increased resources. Similarly, revenue sharing comprises 10 percent of the total 1975-77 state contribution, to local schools, but revenue sharing is 39 percent of the increase budgeted for state school support.

Without a continuation of revenue sharing, Oregon will have to cut programs at the state level, reduce support to local school districts with accompanying increases in property taxes, or increase state income taxes. If revenue sharing to states is not continued Oregon will lose $22 million of income per year. At 1975-77 budgeted levels, any one of the following actions would compensate for this loss:

- Reduce state support of local schools by 10 percent.
- Raise state personal income tax by five percent.
- Increase tuition in the state colleges and universities by 59 percent.
- Reduce Aid to Dependent Children payments from 90 percent of need standard to 57 percent.
- Shut down 60 percent of medical services to needy persons.
- Abolish the state's entire environmental control and natural resources program.
- Eliminate all local mental health programs and close two of six mental health hospitals.
- Abolish all adult and juvenile corrections programs.
- Reduce the state's foster, group home and day care programs for children by two-thirds.

ED/BAM
4-7-75

September 5, 1974

Mr. Terry Smith
National Governor's Conference
1150 Seventeenth Street, NW
Washington, D.C. 20036

Dear Terry:

As requested in the telephone conversation today, following are the beginning balances, revenues, expenditures and ending balances for Oregon's General Fund for the 1971-73 and 1973-75 biennia:

General Fund	1971-73	1973-75
Beginning balances		
Federal Revenue Sharing	$ --	$ 22,160,463
General Fund	6,086,445	64,380,108
Total	$ 6,086,445	$ 86,540,571
Revenues		
Federal Revenue Sharing	$ 22,160,463*	$ 42,200,000*
General Fund	852,560,617	1,198,192,522
Total	$874,721,080	$1,240,392,522
Expenditures		
Federal Revenue Sharing	$ --	$ 63,229,007
General Fund	794,266,954	1,129,118,842
Total	$794,266,954	$1,192,347,849
Ending balances		
Federal Revenue Sharing	$ 22,160,463	$ 1,131,456
General Fund	64,380,108	133,453,788
Total	$ 86,540,571	$ 134,585,244

*All figures for Federal Revenue Sharing include interest earnings.

If you need anything else, let me know.

Sincerely,

Robert W. Smith
Administrator
Budget Division

RWS:ss

AIR MAIL

August 22, 1974

Mr. Terry Smith
National Governor's Conference
1150 Seventeenth Street, NW
Washington, D.C. 20036

Dear Terry:

Attached is the questionnaire you requested in your memo of August 14, 1974. As we discussed on the phone, I have adjusted the time frames in your questionnaire to fit our biennial appropriation structure in Oregon.

The numbers in item three appear to support Wilbur Mills' idea that federal revenue sharing to states has merely created state surpluses. Oregon is, however, one of the many states that control -- sometimes almost brutally -- expenditures to stay within our revenues. Also, we are on a biennial budget base so our expenditures are frozen while inflation has increased our income tax take greatly. We have increased our revenue estimate almost $90 million since February 1974.

On the other side of the coin, the pressures to spend this money are increasing greatly. There is talk of a Special Session to raise welfare payments and state salaries. In any case, I am sure the Regular Session which convenes in January 1975 will approve some 1973-75 expenditure increases to compensate for the inflationary pressures.

In our state, federal revenue sharing was the final element that made it possible to significantly increase local school support payments and expand our circuit breaker property tax relief program. We have one of the highest income taxes of any state and the alternatives to continued revenue sharing will be to further raise our income taxes at the state level, raise property taxes at the local school district level or seriously erode existing kindergarten through 12 educational programs.

Sincerely,

Robert W. Smith
Administrator
Budget Division

RWS:tl
Attachment

PART 1: PUBLIC ANSWERS

(1) What, in summary, has been the impact of general revenue sharing on your state's finances?

Elementary and Secondary Education support increase - Increase in direct Property Tax Relief - Avoided major state tax increase - Probably avoided major breakdown in local school financing pattern.

(2) In your best judgment, what, if any, of the following situations would have occurred in the FY 1973-76 time frame if there had been no federal revenue sharing?

Higher Income Taxes
Higher Other Taxes
Less Support of Elementary and Secondary Education
Less tax relief

(3) What are your current estimates of the following for your state's general revenue fund?

(A)	End 1971-73 biennium "surplus" or "balance"	$ 86.5 million
(B)	Estimated End 1973-75 biennium "surplus" or "balance"	$ 134.5 million
(C)	1973-75 biennium revenues (excluding any balance carried over) minus 1973-75 biennium expenditures	$ 48.0 million*

NOTE: If (A) minus (C) is not equal to (B) explain why not.

(D)	1973-75 biennium revenues	$1,240.4 million
(E)	1973-75 biennium estimated general revenue sharing receipts included in (D)	$ 40.4 million

(4) What percentage of your 1973-75 biennium revenue sharing receipts would you estimate are financing on-going programs of the state that will have to be repeated in 1975-77 biennium and subsequent years, as distinct from one time projects or activities?

100 percent

*Surplus in 1973-75 results from increased revenue resulting from inflation, whereas the expenditures were controlled to stay within legislative appropriations. The surplus will probably be reduced by additional appropriations for Welfare and state employes' salaries when the Legislative Assembly meets in January 1975.

(5) If the Mills bill were to pass, denying roughly half the revenue sharing you anticipate in 1973-75 biennium, what would be the impact on your financial condition?

Reduction in state aid to Elementary and Secondary Education with accompanying increase in school property taxes or major state tax increases.

(6) In your best judgment, what, if any, of the following situations would occur in the FY 1976-78 time frame if revenue sharing is not renewed?

Higher Income Taxes
Higher Other Taxes
Less Support of Elementary and Secondary Education
Less tax relief

(7) OPTIONAL. Please add any comments you have on the desirability of continuing general revenue sharing.

The continued receipt of Revenue Sharing money is an absolute necessity if the state is to maintain its assistance to local school districts. Moreover, the present inflationary trend is placing a strain on future expenditures such that it will not be possible to continue existing state services without continued Revenue Sharing payments. On top of this, the state has already experienced cutbacks in social service programs because of federal aid reductions in this area.

CONFIDENTIAL SECTION

(1) Please assess (using percentage probabilities-e.g. 50%) the likelihood of the following:

	With renewed revenue sharing	Without Revenue Shar After December 1976
Your 1975-77 biennium budget showing expenditures greater than receipts	-0-*	-0-*
A 1975-77 biennium tax increase	50%	100%
Your 1977-79 biennium budget showing expenditures greater than receipts	-0-*	-0-*
Your 1977-79 biennium tax increase	5%	50%

(2) If you predict any probability tax increase in the above questions please list in order of probability which tax (e.g. sales, income etc.) you feel would likely be raised.

(A) Income tax
(B) Property taxes
(C) Miscellaneous

*State Constitution requires expenditures to be within projected resources.

OFFICE OF THE GOVERNOR
STATE CAPITOL
SALEM 97310

October 3, 1975

ROBERT W. STRAUB
GOVERNOR

The Honorable L. H. Fountain
Chairman
Intergovernmental Relations
Subcommittee
Government Operations Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The purpose of this letter is to express my concern over bills before Congress which would either eliminate the Revenue Sharing Program entirely or dilute its effectiveness. Included in this concern is my apprehension over the possibility that state governments might be excluded from receiving Revenue Sharing entitlements under future legislation.

This latter possibility concerns me greatly for several reasons. First, Revenue Sharing entitlements have allowed needed program expansion and increased state support for a host of social service and educational programs. The elimination of the entitlements would certainly necessitate retrenchments in these areas. Also, the entitlements have allowed the state to increase its financial support to local school districts for primary and secondary educational programs. The integrity of this fiscal partnership will be seriously jeopardized should the state lose Revenue Sharing money.

I am enclosing some material which my office provided to the National Governors' Conference regarding the impact of Revenue Sharing on the state. As indicated in this information, Revenue Sharing payments comprise 2.7 percent of the state's 1975-77 General Fund resources but equal 19 percent of the available increased resources. All of this money is earmarked for support to local school districts in meeting their operating costs. This is not to say, however, that the impact has been entirely in the area of local school support. The entitlements have allowed the state to expand programs in the human resources area. This would not have been possible without Revenue Sharing money.

To say that the state could get along without future entitlements is not a realistic premise. Since most of the social services (including public assistance, mental health, public health, corrections and vocational rehabilitation programs) are provided by state government in Oregon, it would not be possible for us to meet even our base budget programs in the future without continued Revenue Sharing payments. Even at that, the existing entitlements will not even begin to address the mounting program demands in this area. These include soaring populations in the state's correctional institutions, escalating needs for more community mental health programs, and increasing numbers of people needing public assistance and medical assistance as a result of the unemployment situation and the Indochina Refugee problem.

Also, even with Revenue Sharing, inflation in school operating costs has eroded the state's support in this area. It will be impossible to maintain a 30 percent support level of local school operating expenses without future entitlements. In fact, the loss of such funds will probably necessitate absolute dollar reductions in this program of support. This will certainly place local school districts in a terrific bind. In spite of increased support brought about by Revenue Sharing funds, many school district operating levies have been going down to defeat for the second and third time. At the present time several schools are facing the very real prospect of shutting down if funds are not provided. This is a time when the state should be increasing its support for schools, not reducing it.

In short, Representative Fountain, without a continuation of Revenue Sharing, Oregon will have no choice but to cut programs at the state level and will be forced to reduce support to local school districts. The latter will bring about increases in local property taxes, bringing about even more resistance from voters in school elections.

I'm sure I join the governors of the other states in urging the continuation of Revenue Sharing payments to both states and local units of government.

Sincerely,

Governor

RWS:d
Attachments

cc: Oregon's Congressional Delegation
National Governors' Conference

COMMONWEALTH OF PENNSYLVANIA

FEDERAL REVENUE SHARING

Federal Revenue Sharing is an essential ingredient in the Commonwealth's budget, and without it either vital programs would have to be cut, or taxes raised substantially.

Since enactment in 1972 the State has received $330 million in Revenue Sharing. This fiscal year $110 million in federal funds will go to a number of programs in the education, health, environment and justice fields.

Since Revenue Sharing funds are relatively free of Federal restrictions, they can be used generally for broad state purposes. If the program is not extended next year, it is unlikely that other Federal programs will be enacted to offset fully, if at all, the loss of Revenue Sharing funds. In fact, enacting other programs might actually exacerbate the fiscal plight of the states if additional state matching were required.

In the current year, Revenue Sharing funds have been used to increase substantially the Commonwealth's special education expenditures as part of a court-mandated program to guarantee a right to education to retarded and handicapped persons.

In addition Revenue Sharing funds were used for:

--a program of aid to countries by reimbursing county court costs;

--extension of a program of sewage treatment plant grants to municipalities;

--occupational disease payments.

If Revenue Sharing were terminated, it would be most difficult to continue these programs without increasing taxes. Since the Commonwealth's long-range General Fund projections show substantial deficits in both 1976-77 and 1977-78, it would be impossible to absorb the Revenue Sharing programs into the General Fund. To compensate for the loss of Revenue Sharing funds, a 10 percent increase in income tax rates, from the present 2.1 percent to 2.3 percent, would be necessary.

It would also be difficult, if not impossible, to terminate programs supported by Revenue Sharing since most are legislatively mandated and the Special Education program is mandated by the Federal courts.

Pennsylvania and virtually every other state and major unit of local government needs to know as quickly as possible that GRS money will continue to be made available to them. We would hope that the Congress will act quickly and positively on the issue. Our budgets must be placed before our legislatures early in the coming year for fiscal 1977. We cannot plan intelligently until we know what the Congress has provided.

Under today's circumstances, revenue sharing has become indispensable. We urge its extension for the next five years, with its basic funding structure intact. Hopefully, the American economy will again be healthy and with sustained balanced growth assured when the program expires in 1982. At that time, the Congress once more can review the process to determine whether the program should again be renewed.

# # #

THE IMPACT OF REVENUE SHARING ON THE STATE OF RHODE ISLAND

The State of Rhode Island has received $28,912,290 in General Revenue Sharing to date. General Revenue Sharing received $9,108,642 in fiscal year 1975.

In Rhode Island General Revenue Sharing funds have been programmed to stabilize the state's tax structure. The deepening financial crisis with its concomitant decrease in tax revenues has made this function increasingly critical to our state's economy.

General Revenue Sharing amounted to about 2% of the total budget for fiscal year 1975. This represents an amount approximately equal to:

- 59% of the total expended on General Public Assistance

- 75% of the total budget of the Department of Health

- 76% of the total budget of the Department of Community Affairs

- 81% of the total budget of Rhode Island Junior College

- 87% of the total budget of the Department of Corrections

- $1,971,364 more than the entire budget of the Department of Natural Resources.

GENERAL REVENUE SHARING

FISCAL IMPACT ON SOUTH DAKOTA

General revenue sharing has had a significant financial impact on South Dakota. State governments receipts which total about 8.7 million dollars annually account for about 6.5 percent of the total general fund receipts.

The State is using their total allocation of revenue sharing funds for State aid for elementary and secondary education. Local school districts receive slightly over 16 percent of their total operating revenue in the form of State aid. The elimination of revenue sharing funds allocated in the form of pass through State aid to education would reduce State support by 33 percent. South Dakota is already 49th in the nation in State support for elementary and secondary education.

If State aid payments were reduced due to elimination of general revenue sharing the school districts would have to raise property taxes by an average of 7 percent in order to maintain their current service level. However, one-fourth of the districts in South Dakota are at the statutorial maximum property tax mill levy and could only reduce services if State aid were cut back.

The State would face several alternatives to reducing State aid. The loss of revenue sharing's 8.7 million dollars translates to the following types of fiscal impact on State government.

- eliminate entire State funding for the combined departments of Public Safety, Natural Resources, Parks & Forestry, Agriculture, and Health.
- eliminate total State welfare assistance payments.
- eliminate total State medical service payments.
- reduce State support for higher education by 23 percent.
- reduce State support for corrections and mental health institutions by 50 percent.
- increase sales tax by 10 percent.
- increase higher education tuition by 100 percent.

RWP:sdh
8/19/75

The Impact of General Revenue Sharing on the State of Tennessee

The State government of Tennessee has received $118.5 million in General Revenue Sharing funds as of June 30, 1975. These funds have been expended in the following manner:

1. 45% in support of State and local educational programs,

2. 48% for State and local roads and highway programs, and

3. 7% in support of State environmental programs.

During Fiscal Years 1974 and 1975, General Revenue Sharing funds comprised 2.7% of the State's available funds.

General Revenue Sharing funds represented 4.2% of the State's education expenditures for Fiscal Years 1974 and 1975, and 7.1% of the State's Department of Transportation budget for this same period.

If the General Revenue Sharing program is discontinued, the State government will loose $40 million annually at a time when severe fiscal problems are already being experienced. These fiscal problems can be attributed to the following factors:

1. Rapidly increasing cost of providing vital State services,

2. State revenues are not reaching projected levels because of current economic conditions, and

3. Increased commitment of State resources to provide for the needs of those citizens seriously affected by the current economic situation.

If the State government were to experience a $40 million reduction in its current budget, brought about by the termination in the General Revenue Sharing program, only two alternatives could be pursued:

1. A severe reduction in vital State services,

2. The imposition of an increased tax burden upon Tennessee's citizens.

Alternative Number 1: A reduction of State services:

1. A reduction of the State's health and social services programs by 10%, or

2. Elimination of the natural resources and recreational program, or

3. A 4% reduction in the State's educational program commitment.

<u>Alternative Number 2:</u> Increased tax effort:

1. An increase of 3.5% of the State's total tax effort, or

2. Increase the State sales tax by 7%, or

3. Increase the gas and user tax effort by 24%, or

4. Increase the State excise tax by 30%.

STATE OF UTAH
OFFICE OF THE GOVERNOR
SALT LAKE CITY

CALVIN L. RAMPTON
GOVERNOR

December 29, 1975

Steve Farber
Executive Director
National Governors' Conference
1150 - 17th Street N.W.
Washington D.C. 20036

Dear Steve:

I am pleased to respond to Governor Ray's request that each state make an assessment of the loss of general revenue sharing monies on state operations.

Revenue sharing has allowed state and local governments to participate in the tax yield from the income tax which is the most equitable and lucrative tax that governments can impose. Fifty eight percent of the Federal Budget comes from income tax. The Federal tax on corporate and individual incomes is so high that it has nearly preempted the field, leaving state and local government with only a relatively small opportunity to avail themselves of this most progressive of taxes. The majority of our state governments raise more of their revenue from sales and use taxes than from any other single source. Most of them have a graduated income tax, but the return is low, compared with the federal rate. In addition, the states generally impose gasoline taxes, other special use taxes, and a variety of special license charges and fees, plus some property tax. The principal source of revenue for local units of government is the property tax. In many states there are provisions for local income taxes and local sales and use taxes; but because of the near preemption of these fields by the National and the State Governments, the local levies are small and yield only a fraction of the necessary revenue to finance these governments. The property tax plus various fees, therefore, become the principal source of revenue of almost all units of local government that are subsidiary to the state.

In Utah we have passed along the revenue sharing principle by using our revenue sharing money for education and abolishing the state property tax thereby opening this source of revenue exclusively to local governments.

I would like to see the property tax abolished altogether, because I believe it is the most inequitable and least responsive of the taxes governments impose, but this can only be possible if the federal government will provide state and local governments with a stable and progressive source of revenue derived from the income tax. This is what general revenue sharing can provide and I urge its re-enactment on a permanent basis.

Sincerely,

Governor

THE IMPACT OF REVENUE SHARING
ON THE
STATE OF VERMONT

The State of Vermont receives approximately $5.8 million annually in general revenue sharing support. From the inception of the program through June 1975, the State has received approximately $17.7 million.

Revenue sharing is primarily used to fund a property tax relief program which assists the elderly and other income qualified citizens to meet their property tax requirements. This program assists over 25,000 claimants annually. If revenue sharing payments were to cease, this program could be severely impaired.

In fiscal year 1975 revenue sharing payments equaled approximately 3.8% of the State's General Fund. To raise an equivalent sum, personal income tax collection would have to increase by 11.4% or sales tax revenue would have to rise an additional 20.4 percent. This can only be achieved through substantial tax increases. However, since the State of Vermont ended fiscal year 1975 with a $9.6 million deficit and fiscal year 1976 may produce another substantial deficit, any increased revenue would have to be used for debt retirement.

In the State of Vermont $5.8 million represents more than the combined General Fund support for the entire Agency of Environmental Conservation, Agency of Development and Community Affairs, and the Auditor of Accounts.

COMMONWEALTH of VIRGINIA

Office of the Governor

Richmond 23219

Maurice B. Rowe
Secretary of Administration

REVENUE SHARING AND THE STATE OF VIRGINIA

The State of Virginia received approximately $41 million in general revenue sharing funds during the fiscal year 1975. These monies have been utilized to support local schools' operating expenses, thus allowing the State needed flexibility to ensure the high quality of other programs funded from the general treasury.

However, due to inflationary pressures and revenue short-falls, the Commonwealth is confronting a serious challenge to its fiscal stability. A projected $60 million deficit for the 1974-76 biennium has forced austerity measures and curtailments in almost all program activities despite revenue increases of 35.7 percent in the 1974-76 beinnium over the previous biennium's general fund total.

Cautious revenue projections for the 1976-78 beinnium indicate some recovery from the program cut-backs. However, the aggregate Executive Department 1976-78 biennium requests for general tax support far exceeds the estimated revenue. Therefore, the Commonwealth's inability to meet projected cost escalations and to provide essential support for State and State-aided local programs is in jeopardy. Some programmatic areas facing fiscal stringency include Medicaid, elementary-secondary education, and Social Security-retirement-insurance for State employees. In order to provide for the present level of Medicaid services in the 1976-78 biennium, an estimated $70 million increase is required. For elementary-secondary education, a restrained departmental proposal calls for an increase of more than $277 million. Strict maintenance of Social Security-retirement-insurance programs for State employees would require an additional estimated $71 million.

General revenue sharing represents an important new source of revenue for the State. Termination of the present revenue-sharing aid will occur in the early part of the 1976-78 biennium. If these revenues are ended, Virginia's loss will approximate $54 million. It is apparent from the experience with the current expenditure reduction program that the greatest dollar impact will fall upon programs for education, health (including mental health and mental retardation), and for low-income citizens and correctional activities.

October 9, 1975

REVENUE SHARING
The Impact on the State of
Washington if Discontinued

The State of Washington has received approximately $100 million in Revenue Sharing funds to date, which has been used to support local school district operations. During the 1975-77 biennium, it is estimated that the state will receive $63 million which is budgeted for the Teachers' Retirement System, a part of the total education program.

Although the revenue sharing receipts represent only about two percent of the estimated State General Fund revenues for the 1975-77 biennium, the impact on state operations if revenue sharing were discontinued would be significant. The budget for the biennium recently adopted by the Legislature is balanced. However, the estimated surplus at June 30, 1977, is negligible. Any reduction in revenues that are anticipated would require a reduction in spending since the State Constitution requires that expenditures not exceed revenues for the biennium plus any available surplus.

If revenue sharing is eliminated, the State of Washington would be required to reassess its priorities and services. The State is now operating on a very austere budget, and any expenditure reductions would create difficulties. The budget currently in existence was adopted only after many months of careful review and reductions. It does not contain cost of living or other across-the-board salary increases; it contains few new programs; and does not even provide for additional workload in all areas.

If revenue sharing stops, we have two primary alternatives which are to raise taxes or reduce expenditures, or perhaps a combination of the two. The first option is a difficult one, since the State's primary revenue source is the sales tax and any increase would create hardship on many of the citizens. If expenditures are reduced, again the impact would be most severe on those least able to afford it. For example, if the support at the state level for schools is reduced, most districts would be required to find alternative revenue sources, the primary one is the property tax. The average citizen again is faced with increased taxes. We can also reduce aid in our Human Resources area. However, if we do many people living now in a marginal manner would be forced to a very sub-standard way of life. Such options are not realistic!

Some extreme examples of how the State of Washington could adjust for a $64 million reduction in revenues as a result of the discontinuance of Federal Revenue Sharing are detailed below. They are examples only. If revenue sharing was discontinued, a total review of the budget would be required and no doubt a combination of many of the items listed below would occur to realize the expenditure reduction required. Some examples are:

1. Reduce state employee salaries. A severe morale problem would no doubt occur, since based on the latest salary survey, state employees are paid less then prevailing rates.

2. Initiate a reduction-in-force. Demonstrated workload would discourage such a move, which if enacted again could lead to employee problems.

3. Eliminate General Fund state support to local governments. Since local units of government are also facing a financial crisis, such a move could create havoc at the local level.

4. Reduce state contribution to the employee retirement systems. The systems, now on a relatively sound basis, would have their actuarially sound basis jeopardized. Further, there would be extreme pressures from employee organizations.

5. Reduce the general apportionment for schools by six percent. As indicated above, hardships would be encountered at the local level since alternative sources would be necessary.

6. Raise the state sales tax. There is much resistance from various elements to such a proposal.

7. Increase the motor vehicle tax by 50 percent. Again, the citizens least able to pay would be impacted quite heavily.

8. Reduce the Mental Health program by 82 percent. Any effort at significant reduction would not be humane, since citizens receiving aid through this program are among our least fortunate.

9. Reduce Income Maintenance by 28 percent. The level of subsistence is at a minimum level now.

10. Reduce the Medical Assistance program by 30 percent. We cannot deprive the unfortunate to such an extent.

Some options are listed above. However, any action would need to be carefully thought through and no doubt a combination of many items would utlimately be used to combat a cut-off of Revenue Sharing. The potential problems would be large, and require much detailed analysis. Hopefully, the concept of Revenue Sharing will be continued, since if not, the consequences will be felt at all levels of government.

STATE OF WEST VIRGINIA
OFFICE OF THE GOVERNOR
CHARLESTON 25305

RECEIVED
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GOVERNOR'S OFFICE

August 20, 1975

ARCH A. MOORE, JR.
GOVERNOR

The Honorable Robert D. Ray
Governor of Iowa
State Capitol
Des Moines, Iowa 50319

Dear Goveror Ray:

I am happy to respond to your letter concerning continuation of general revenue sharing, which is one of the prime objectives of the National Governors' Conference.

The State of West Virginia, as of this writing, has received $87,560,213 from revenue sharing. These moneys have been invested and have earned approximately $7.5 million since the beginning of Federal Revenue Sharing.

I have recommended to the West Virginia Legislature and appropriations in the amount of $73,913,791 have been made against the above mentioned receipts. This has relieved quite a strain on the General Revenue (general taxes) Budget of the State of West Virginia. Also, this has made quite an impact on special projects which I feel are necessary and just absolutely could not be funded from the General Revenue Fund.

The State of West Virginia has appropriated revenue sharing moneys primarily for capital outlay. Outlined below are the appropriations and types:

A.	Special Bridge Replacement and Road Services	$22,261,258
B.	Construction and repairs to State Park System	9,506,200
C.	Capital improvements to Mental Health Facilities	2,440,000
D.	Construction and repairs to State Public Hospitals	301,000
E.	Construction and repairs to Correctional Facilities	1,230,250
F.	Construction and repairs to Higher Education Facilities	2,878,000

OFFICE OF THE GOVERNOR

G.	Construction of Charleston Area Medical Center of West Virginia University Medical School	$3,124,000
H.	Construction of Agricultural Facilities and Lab	1,200,000
I.	Special Housing Development Fund	2,000,000
J.	Construction of Cafeteria Facilities in State Capitol Building	1,000,000
K.	Public Water Improvements (local and statewide)	1,000,000
L.	Miscellaneous Projects	1,973,000

Also, I am happy to say that the State of West Virginia absolutely saved between $23 to $30 million by paying the Vietnam bonus from revenue sharing, thus eliminating having to amortize for a period of 25 years. This is a real cash savings.

I feel that if this program is not continued, many important catch-up projects would lay dormant and one of many special projects, the State Fiscal Assistance Act must, in my opinion, become a reality. We must urge that Congress continue this program.

If this program were to be discontinued, the State of West Virginia would have to enact taxes in the Road Fund for continued replacement of obsolete bridges. The state park system would be required to increase costs for visitors, etc. Higher education facilities would require an increase in both in-state and out-of-state tuition. The Medical Center of Charleston would require additional taxation on soft drinks and tuition and fees. The special housing development fund which is a quasi state board would grind to a halt. The public water improvements would be forced to be funded by the county and local levels and the mental health construction would be restricted to just a few areas instead of many locations throughout the state.

I hope these highlights will help us in convincing Congress of the need for continuing the revenue sharing program.

Sincerely yours,

Arch

Arch A. Moore, Jr.
Governor

AAMJR:sm

WHAT GENERAL REVENUE SHARING MEANS TO WYOMING

Since 1972, the Wyoming state government has received approximately $15.9 million in General Revenue Sharing Funds. During this same time period, local governments in Wyoming received about $31.8 million from the GRS program. During FY 1975, revenue sharing funds comprised approximately 3.8% of the state's General Fund revenue, while constituting 12% of a typical county's general revenue and 3.5% of a typical municipality's budget.

Should the State and Local Fiscal Assistance Act be allowed to expire at the end of 1976, the State of Wyoming will lose about $3.5 million in General Fund revenues each year, while annual losses to Wyoming local governments will exceed $6.5 million.

To ensure compliance with regulations governing expenditure of GRS funds as set forth in the Act, the state utilizes these funds primarily for support of capital outlay projects and the operating budgets of state agencies which do not receive any other type of federal assistance. Similarly, the bulk of local government expenditures are in the form of capital outlays or one-time expenditures that reduce the cost of government operation.

Of $5.9 million in accumulated GRS funds available to the state for expenditure during FY 1975, $478,000 (8.1%) was budgeted for the WICHE program, $3,128,282 (53%) was budgeted for operations of general government, and $2,282,233 (38.9%) was budgeted for capital outlays. Revenue sharing funds provided 100% of the budgets for the Department of Revenue and Taxation and the Board of Charities and Reform.

Certainly, discontinuation of the revenue sharing program will not induce elimination of state programs supported by GRS funding (i.e. it is unlikely the state will operate without a Department of Revenue and Taxation). However, in order to maintain service levels, it is likely some alternative revenue measure will be needed to capture the 3.8% loss in General Fund revenue.* Furthermore, it is doubtful that expiration of the Act will result in reduced federal income tax burdens to the public. The taxpayer, then is pushed further into his cruel dilemma of higher taxes without proportional increase in service levels.

Therefore, it would seem to be in Wyoming's best interest to promote swift and deliberate action toward Congress' renewal of the State and Local Fiscal Assistance Act of 1972.

*Indeed, loss of revenue sharing funds in not the only force exerting upward pressures on taxes. Inflation erodes the tax dollar as well. Elimination of revenue sharing funds, therefore, only serves to exacerbate an already precarious fiscal predicament imposed upon state and local governments.