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EXTENDING AND AMENDING THE STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972, AS AMENDED

SEPTEMBER 30 (legislative day, JUNE 12), 1980.—Ordered to be printed

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

REPORT

together with

ADDITIONAL VIEWS

[To accompany S. 2574]

The Committee on Finance, to which was referred the bill (S. 2574) to extend and amend the State and Local Fiscal Assistance Act of 1972, as amended, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

I. SUMMARY

The Committee believes that our Federal system of government, composed of Federal, State, and local governments, has been strengthened by the provision of unrestricted fiscal assistance on a continuing and certain basis. By providing Federal funds with few limitations, the Committee believes that State and local governments may more effectively meet the diverse needs and priorities of the nation. The bill as amended by the Committee, extends the 1972 Act to achieve this result. In addition to providing continued, financial assistance to State and local governments, the Committee has made certain changes in the 1972 Act which are designed to strengthen and clarify the legislation.

EXTENSION, FUNDING, AND AMOUNTS

The Committee amendment to S. 2574, continues general revenue sharing entitlements to local units of government for five more years. Entitlement payments of $4.6 billion per year are provided to units of local government for fiscal years 1981 through 1985. Payments to State

governments are provided through an authorization for an appropriation of $2.3 billion per year for fiscal years 1982 through 1985; no provision is made for payments to State governments under the general revenue sharing (GRS) program for fiscal year 1981. The Committee amendment retains the noncontiguous State adjustment amount at a level of $3.3 million per year and authorizes a rise in that amount to $4.9 million per year when the State share of revenue sharing is fully funded. In addition, the Committee amendment authorizes an appropriation of $25 million per year for fiscal years 1982 through 1985 to be distributed to Puerto Rico, Guam, the Virgin Islands, American Samoa, the Commonwealth of the Northern Mariana Islands and the Trust Territory of the Pacific Islands.

DISTRIBUTION OF FUNDS

Basically the Committee continues the present provisions relating to the distribution of funds. As a result, the distribution of funds to the States will continue to be based on one of two formulas: one is based on population, on tax effort, and on need (inverse per capita income); the other is based on population, urbanization, need, relative use of income taxes, and tax effort.

State governments will receive one-third of the funds, when, by appropriation, the State share is funded for an entitlement period. In addition to the State share, funds will be distributed among the counties, cities, and other units of local government generally on the basis of population, tax effort and need. Three relatively minor changes to the distribution formulas have been made on the basis of the experience to date and to reflect the elimination of payments to State governments for fiscal year 1981.

First, the Committee amendment places a "cap" on the amount of adjusted taxes which can be included in the calculation of the tax effort factor. This limit is set at 250 percent of the statewide average adjusted taxes for similar jurisdictions. This provision would not apply to a jurisdiction with per capita adjusted taxes under $250, or to a jurisdiction that is the sole local government for its geographic area.

Second, the Committee amendment provided that excess funds created under the operation of the budget constraint (i.e., GRS payments cannot exceed 50 percent of a recipient's adjusted taxes plus intergovernmental transfers) on local governments should be reallocated to unconstrained local governments throughout the State instead of to the State government as is currently done.

Third, to reflect the discontinuance of the State entitlement for fiscal year 1981, the Committee modified the allocation for separate law enforcement officers in Louisiana. Funds for this allocation will come from the parish government entitlements instead of from the funds of both the State and parish governments.

In addition, the Committee amendment authorizes revenue sharing payments to Puerto Rico and other Territories, distributed on the basis of population.

ACCOUNTING AND AUDITING REQUIREMENTS

The Committee amendment retains the current auditing requirement but gives the Secretary of the Treasury authority to waive the requirement in certain circumstances.

REPORTS AND STUDIES

The Committee amendment eliminates the annual use report requirement but directs the Secretary of the Treasury to report to Congress on the fiscal impact of revenue sharing funds on State and local governments. In addition, the Committee requests the Advisory Commission on Intergovernmental Relations to examine the feasibility of optional GRS payments in lieu of categorical grants to State governments.

COUNTERCYCLICAL FISCAL ASSISTANCE

S. 2574 adds a new title authorizing a countercyclical fiscal assistance program with payments to State and local governments during periods of economic recession. The program is authorized for five years. Funds available for payment will be distributed quarterly based on available unemployment data. When the average rate of unemployment for the United States (seasonally adjusted)* equals or exceeds 7.5 percent for one calendar quarter the program provides for the distribution of $125 million, plus an additional $30 million for each one-tenth of one percent by which the rate of unemployment exceeds 7.5 percent. One percent of the total funds appropriated for any fiscal year or calendar quarter is set aside for distribution to Puerto Rico, Guam, American Samoa and the Virgin Islands. The total funds authorized during the five-year extension may not exceed $1 billion per fiscal year.

The distribution of antirecession funds, when the national rate of unemployment is at least 7.5 percent, is based on the difference between local and State-wide unemployment rates and 4.5 percent and the general revenue sharing distribution formula data factors. However, eligibility for payments is restricted to governments with unemployment rates of 6.0 percent or more. The Committee has concluded that this method of distributing funds will be effective in targeting assistance to those governments most in need. State governments will receive one-third of the total antirecession funds allocated. Each local government in a Standard Metropolitan Statistical Area with a higher rate of unemployment when determined on the basis of the current population survey methodology used before January 1, 1978 will be assigned such higher rate in determining its allocation.

A limitation on eligibility based on per capita income has been included. A government may not receive funding under this bill if the per capita income within its jurisdiction exceeds 150 percent of the national per capita income level, except in Alaska and Hawaii where special provisions are made due to noncomparable per capita income levels. This provision will prevent more well-to-do governments from receiving funding.

Further, the minimum quarterly allocation has been set at $2,500. This will provide that governments will not receive limited amounts that would be inadequate to assist in maintaining services.

Most of the administrative provisions of the previous antirecession fiscal assistance program have been incorporated, including provisions

*Reference in this report to "the average rate of unemployment for the United States" and similar references to national unemployment other than annual rates, are intended to refer to such rates seasonally adjusted as provided by the Bureau of Labor Statistics on a quarterly basis.

relating to the use of payments, nondiscrimination and labor standards. Special reports, which have been found to create an excessive paperwork burden for recipients, and provision for program studies and recommendations already completed, are eliminated. The Secretary of Labor, the Bureau of the Census, and the Office of Personnel Management are directed to provide information and necessary data. The Secretary of Labor is also directed to determine and assign the unemployment rates necessary for the administration of the act.

II. Reasons for the Bill

FISCAL PROBLEMS OF STATE AND LOCAL GOVERNMENTS

Over the past 8¾ years, the nation has suffered 2 recessions of great magnitude. Not only has the private sector been adversely affected, but so too has the public sector. Rapidly rising service costs coupled with sluggish or declining tax bases have meant that State and local governments have had to raise tax rates and/or cut services. Demand for public services is more elastic than the availability of revenues to finance them. Thus, because of inflation, demand, and other factors, expenditure requirements tend to outpace revenues. On the revenue side, State and local governments have tended to rely on revenue sources that do not grow as the economy does. This is especialy true of local governments which tend to rely very heavily on property taxes for revenue.

To assist State and local governments in meeting these increased service demands, the Committee amendment extends the GRS program for 5 years.

The Federal government, too, has been adversely affected by these recessions. Though inflation continues to push revenues higher, this is more than offset by necessarily higher costs of some social and defense programs. Though Presidential and Congressional attempts to balance the budget for fiscal year 1981 appear to be thwarted, the Committee, in an effort to hold down the size of the Federal deficit, has chosen not to authorize a State share of general revenue sharing for fiscal year 1981.

The Committee, however, recognizes that State participation in the program is an integral part of the Federal fiscal system, and has, therefore, authorized State participation in the program for fiscal years 1982 through 1985.

The Committee amendment authorizes a stand-by countercyclical fiscal assistance program of payments to State and local governments that are adversely affected by a national recession. This assistance is intended to help compensate State and local governments for the decline in tax revenues and increase in necessary expenditures which normally occur when the number of unemployed reach high levels. Where the severity of the downturn causes large gaps between the budgeted expenditures and revenues of a number of State and local governments, such assistance would help these governments avoid extensive service reductions which could intensify the national recession. To help those governments most in need and yet avoid unnecessary expenditures, the Committee amendment employs a formula that matches the amount and distribution of assistance to the actual course of the recession.

The Committee has also provided for the forgiveness of a $28.1 million debt owed by 26 States which has been outstanding since 1836.

The debt arose under the Act of June 23, 1836 whereby surplus Federal funds were placed on deposit with the 26 States in the Union at that time. Prior to June 25, 1910, the Secretary of the Treasury carried the total of the surplus revenue as part of his cash accountability but labeled it "Unavailable funds of the General Treasury". After the Act of June 25, 1910, the Treasury was relieved of accountability but the States were not relieved of liability. Since a demand for repayment would create severe problems for many States which no longer have a record of these funds, spent them on establishing schools or had them liquidated during the Civil War, the Committee has determined that the States should be relieved of liability. Since the Treasury is no longer accountable for the debt, it is not carried as an asset of the United States. Forgiveness of the debt would in no way affect the balance in the Treasury, nor would it affect the public debt.

III. General Explanation

GENERAL REVENUE SHARING

A. Extension, funding and amounts (Sec. 101 of the Committee amendment and Sec. 105 of present law)

The general revenue sharing program was established under the authority of the State and Local Fiscal Assistance Act of 1972 (Public Law 92–512) and was extended with changes to the nondiscrimination, audit, and public participation provisions by the State and Local Fiscal Assistance Amendments of 1976 (Public Law 94–488). The 1972 Act appropriated $30.2 billion for aid to State and local governments covering the period January 1, 1972 through December 31, 1976. The 1976 Amendments extended the program through September 30, 1980 and earmarked $25.6 billion for payments during the 3¾ years of the extension. The payments started at an annual rate of $5.3 billion for calendar year 1972 and increased until they reached a $6.8 billion annual rate for fiscal year 1977. The payments for fiscal years 1978, 1979, and 1980 were set at the 1977 level. Payments under the Act terminate at the end of fiscal year 1980.[1]

The following tabulation shows the amounts of aid made available for distribution to State and local governments during each entitlement period.

Entitlement period	Start	End	Duration	Amount (billions)
1	January 1972	June 1972	6 mo	$2.650
2	July 1972	December 1972	6 mo	2.650
3	January 1973	June 1973	6 mo	2.987
4	July 1973	June 1974	1 yr	6.050
5	July 1974	June 1975	1 yr	6.200
6	July 1975	June 1976	1 yr	6.350
7	July 1976	December 1976	6 mo	3.325
8	January 1977	September 1977	9 mo	4.987
9	October 1977	September 1978	1 yr	6.850
10	October 1978	September 1979	1 yr	6.850
11	October 1979	September 1980	1 yr	6.850

Source: U.S. Treasury Department, Office of Revenue Sharing.

[1] Under Sec. 102 of the Act, revenue sharing payments are made in at least four installments over the "entitlement period" which is the Federal fiscal year. The Act permits the Treasury Department to make these payments as late as 5 days after the end of each quarter. The Treasury Department practice has been to make payments of equal size with some amount (e.g., 5 percent) held back to account for corrections to data, etc. after the close of each quarter. Accordingly, the last checks under the 1972 Act, as amended, will be mailed out in early October 1980.

To insure that a constant source of funds from the Federal government to the States and localities is available over the entire term of the program, a trust fund was created and a commitment made to appropriate the funds each fiscal year. This assurance that the funds will not be withheld in whole or in part enable recipient governments to realistically budget their revenues and expenditures. Though technically the moneys must be appropriated each fiscal year, this has been contemplated to be pro forma in nature; the good faith of the Federal government has been pledged to pay this money for the duration of the program. The use of the entitlement procedure has guaranteed the provision of funds at the stipulated amounts for each of the entitlement periods.

In considering the renewal of revenue sharing, the Committee has sought to balance its concern that the program be periodically reviewed, and thus made controllable, with the concern that State and local governments be provided sufficient certainty so that they can plan and use revenue sharing funds most effectively. By renewing the local entitlement of 5 years and authorizing an advanced appropriation for the State share for 4 years, substantial certainty will continue to be available to State and local governments. Similarly, the Congress will be able to review the program prior to considering its renewal again.

Over the 8¾ years of the program, annual payments rose from $5.3 billion to $6.85 billion, a 29.2 percent increase. During this period, however, the Consumer Price Index rose by more than 101 percent, and the implicit price deflator for State and local purchases of goods and services (a price index for State and local government) rose by more than 81 percent. Thus the value of revenue sharing, once corrected for price changes, has declined over the period of its existence. However, the Committee, after examining the Federal fiscal condition, thought it inappropriate to increase the funding level at this time. The local entitlement is set at the current level of $4.6 billion per year; the State authorization is set at the current level of $2.3 billion per year; and the non-contiguous State adjustment is set at $3.3 million for years when there is no State share funding, and at $4.9 million per year for years when there is a State share—levels which reflect the current amount of funding for this part of the program.

EXPLANATION OF PROVISION

The Committee amendment provides for a 5 year (fiscal years 1981 through 1985) extension of entitlement payments to local governments, and a 4 year (fiscal years 1982 through 1985) forward funded authorization for payments to State governments. Payments under the non-contiguous State adjustment are provided for local governments in those States which qualify, along with an authorization for the State government adjustment amount when the State share is later funded. Table 1 shows the amounts available for local governments, State governments and under the non-contiguous adjustment for the years of the program extension.

TABLE 1.—AMOUNTS OF FUNDING PROVIDED IN THE COMMITTEE AMENDMENT

Entitlement period	Local entitlement (in billions)	State authorization	Noncontiguous adjustment	
			Local governments	State governments
(12) Oct. 1, 1980 to Sept. 30, 1981	$4,566.7	0	$3.28	0
(13) Oct. 1, 1981 to Sept. 30, 1982	4,566.7	$2,283.3	3.28	$1.64
(14) Oct. 1, 1982 to Sept. 30, 1983	4,566.7	2,283.3	3.28	1.64
15) Oct. 1, 1983 to Sept. 30, 1984	4,566.7	2,283.3	3.28	1.64
16) Oct. 1, 1984 to Sept. 30, 1985	4,566.7	2,283.3	3.28	1.64
Total	22,833.5	9,133.2	16.40	6.56

The bill as originally introduced provided the same amounts for the local government portion of the program but did not include any amount for the state government portion of the program. In addition, the original bill included $500 million per year for fiscal years 1981 and 1982 in "transition aid" to local governments to lessen the effect on them of the discontinuance of funding for State governments.

EFFECTIVE DATE

The committee amendment is effective for entitlement periods beginning on or after October 1, 1980.

PUERTO RICO AND TERRITORIES

Puerto Rico and the U.S. Territories participate in many Federal aid programs but have been excluded from the General Revenue Sharing program despite their demonstrable need for Federal aid. These islands, with which we have made political covenants, have become increasingly important to our national defense over the 8¾ years since revenue sharing was first enacted. The Committee recognizes this importance and reaffirms the Federal commitment to these covenants by authorizing $25 million per year for 4 years as revenue sharing payments to Puerto Rico and the Territories.[2]

[2] The term "territory" may be used to describe any area over which the United States exercises sovereignty. In territorial affairs parlance, there have been capital "T" territories (incorporated territories) and lower case "t" territories or possessions (unincorported). The distinction between the two is that the incorporated territory refers to an area which the Congress "incorporated" into the United States by making the U.S. Constitution applicable to it. The last two incorporated territories were Alaska and Hawaii. "Uncorporated" means the U.S. Constitution has not been expressly and fully extended to a territory. Unincorporated territories may be further categorized as "organized," which means that the Congress has provided an organic act for such territories, which serves the same purpose as a Constitution does for States, and "unorganized," which describes those territories for which no organic legislation has been enacted.

Puerto Rico.—Puerto Rico a commonwealth of the United States, is the easternmost island of the West Indies group known as the Greater Antilles. Its residents are citizens of the United States and are represented in the Congress by a nonvoting Resident Commissioner.

The Virgin Islands of the United States.—The Virgin Islands of the United States, an organized, unincorporated territory of the United States, were sold to the United States by Denmark in 1917 for a payment of $25 million. The people of the Virgin Islands have been citizens of the United States since 1917. The Virgin Islands has an elected governor, a unicameral legislature, a nonvoting Delegate to the United States Congress, and is self-governing.

Guam.—Guam, an organized, unincorporated territory of the United States, was ceded to the United States by Spain in 1898 at the end of the Spanish-American War.

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EXPLANATION OF PROVISION

The Committee amendment authorizes an appropriation on a forward-funded basis, of $25 million per year for fiscal years 1982 through 1985 to be distributed on the basis of population of local governments in Puerto Rico, and to the territorial governments of Guam, American Samoa, the Virgin Islands, the Northern Mariana Islands and the Trust Territories.

B. Distribution of funds (Secs. 101 and 102 of the committee amendment and secs. 102, 105, 106, 107, 108, and 109 of present law)

1. *Interstate allocation.*—Under present law, the amount available to each State area for each entitlement period is allocated on the basis of whichever of two formulas, the "five-factor" formula or the "three-factor" formula, yields the greater portion of the amount available for the entitlement period. (These formulas allocate funds to a State geographic area for the use of the State government and all the units of local government in the State. The division of funds between the State government and the units of local government is discussed below.)

The "five-factor" formula, in part, is based on the need of the States and localities and, in part, was an incentive device to encourage more progressive tax systems. Under this formula, the need of States and their localities is measured by taking into account population, the extent of urbanization, and the extent of relative poverty (measured by population inversely weighted by relative per capita income). The incentive feature in the formula is designed to encourage greater use of State individual income taxes. For distribution purposes, the three items in this formula designed to measure need are given a weight of about 22 percent (giving the three items a combined weight of two-thirds the total) while the two incentive factors, individual income taxes and general tax effort, are each given a weight of about 17 percent (and together a weight of about one-third of the total).

In determining the distribution of the aid based on income tax collections, the Act provides that 15 percent of the individual income tax collections of each State is to be taken into consideration. However, to prevent particular States from securing either an unduly large or unduly low allocation as a result of this factor, the amount of such income taxes actually taken into consideration cannot exceed 6 percent of the Federal individual income tax liabilities attributable to the

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Residents of Guam are citizens of the United States and are represented in the Congress by a nonvoting Delegate.

American Somoa.—American Somoa, an unincorporated and unorganized territory of the United States, since 1899, has its own constitution, and its people are U.S. nationals. American Somoa is administered by the Department of the Interior through a governor appointed by the Secretary of the Interior.

Trust Territory of the Pacific Islands (TTPI) (Micronesia).—The Trust Territory of the Pacific Islands a "strategic" trusteeship established by a Trusteeship Agreement between the United States and the United Nations Security Council, is composed of over 2,100 islands covering an area of ocean approximately the size of the continental United States. The Agreement authorizes the United States to extend as it may deem appropriate its laws to Micronesia but the Congress must specifically extend such laws to TTPI before they will be applicable there. The objective of the Agreement is to bring the people of TTPI ultimately to a position of self-government.

The TTPI is administered by a High Commissioner appointed by the Secretary of the Interior and the United States asserts no claim or sovereignty over it.

The Northern Mariana Islands have entered into a covenant with the United States whereby they will become a commonwealth of the United States when the Trusteeship agreement is terminated sometime within the next 2 years. At that time, the other areas of the trust territory will become in "free association" with the United States.

State or fall below 1 percent of these Federal income tax liabilities. The latter 1 percent floor provides a minimum factor for States which do not impose individual income taxes.

The "three factor" formula distributes the funds to State areas on the basis of population weighted by general tax effort and weighted still further by inverse relative per capita income. This formula is designed to place more emphasis than the first formula on relative need and fiscal capacity. Also, in measuring tax effort, it differs from the first formula in that it does not place any special emphasis on the use of State income taxes as distinguished from any other taxes. Finally, this formula, instead of taking urbanization into account, uses general tax effort as a means of increasing distributions to those States in which larger cities are located.

Under both the three-factor and five-factor formulas, if the State is eligible for the non-contiguous state adjustment—Alaska and Hawaii only—the basic allocation is increased by the percentage increase in base pay allowance allowed civilian employees of the U.S. government under 5 U.S.C. 5941. Currently this is 15 percent for Hawaii and 25 percent for Alaska. The full fiscal year appropriation for this adjustment is $4.9 million, some of which may not be used because the percentage increase of the basic allocation may require less. This adjustment is taken into account after the larger of the two formula amounts is chosen and after it is scaled to the aggregate amounts available. Table 2 displays payments to Alaska and Hawaii for the 8¾ years of the program under this provision.

TABLE 2.—PAYMENTS TO ALASKA AND HAWAII UNDER THE NONCONTIGUOUS STATE ADJUSTMENT PROVISION OF CURRENT LAW

Entitlement period	Payments to—		Total payment
	Alaska	Hawaii	
(1) Jan. 1 to June 30, 1972	$660, 567	0	$660, 567
(2) July 1 to Dec. 31, 1972	660, 567	0	660, 567
(3) Jan. 1 to June 30, 1973	741, 427	$1, 648, 573	2, 390, 000
(4) July 1, 1973 to June 30, 1974	1, 482, 855	3, 297, 145	4, 780, 000
(5) July 1, 1974 to June 30, 1975	0	0	0
(6) July 1, 1975 to June 30, 1976	0	0	0
(7) July 1. 1976 to Dec. 31, 1976	0	0	0
(8) Jan. 1. 1977 to Sept. 30, 1977	1, 444, 350	2, 140, 650	3, 585, 000
(9) Oct. 1, 1977 to Sept. 30, 1978	2, 233, 957	2, 689, 802	4, 923, 759
(10) Oct. 1, 1978 to Sept. 30, 1979	2, 414, 146	2, 509, 613	4, 923, 759
(11) Oct. 1, 1979 to Sept 30, 1980	2, 584, 623	2, 339, 136	4, 923, 759
Total	12, 222, 492	4, 624, 919	26, 847, 411

Source; U.S. Treasury Department, Office of Revenue Sharing.

2. Intrastate allocation.—Current law provides that the amount allocated to a State is divided two-thirds to the local government in that State and one-third to the State Government. Table 3 shows the distribution among the States of the aid funds for the States and localities through July 8, 1980.

The two-thirds available for allocation to the local government is then allotted among county areas [3] on the basis of the three factor

[3] For any part of the State where there is no county, the next unit of local government below the state level will be treated as a county. This allocation to county areas is intended to cover the entire geographic area of the State, whether or not there are active county governments. Thus, for example, San Francisco and Baltimore cities are treated as county areas, as are the independent cities in Virginia.

formula: population multiplied by general tax effort, and that product multiplied by inverse relative per capita income.

In the case of county areas, the population taken into account is the population of the county area, the tax effort taken into account is the "adjusted taxes"[4] raised by all units of general government in the county area divided by the total money income of the residents of the county area, and the per capita income is the total money income of the county area divided by the county area population.

In the case of a city or township, the population used refers to the population within its political boundaries; the tax effort used is the ratio of its adjusted taxes to the total money income of the residents of the city or township; the per capita income used is the ratio of total money income of the city or township divided by its relative population.

TABLE 3.—REVENUE SHARING PAYMENTS TO STATE AND LOCAL GOVERNMENTS THROUGH JULY 8, 1980

State name	State	Local governments	Totals
Alabama	$293,869,872	$587,627,411	$881,497,283
Alaska	37,228,793	73,073,676	110,302,469
Arizona	188,000,942	377,306,707	565,307,649
Arkansas	188,216,392	362,283,284	550,499,676
California	1,953,969,274	3,902,722,986	5,856,692,260
Colorado	194,670,773	389,382,065	584,052,838
Connecticut	228,682,646	456,945,691	685,628,337
Delaware	58,008,869	106,789,419	164,798,288
District of Columbia	230,687,778		230,687,778
Florida	537,569,074	1,074,018,910	1,611,587,984
Georgia	382,646,259	763,777,668	1,146,423,927
Hawaii	83,052,479	166,104,958	249,257,437
Idaho	69,177,760	138,213,296	207,391,056
Illinois	911,404,732	1,821,545,285	2,732,950,017
Indiana	374,174,148	747,545,313	1,121,719,441
Iowa	233,822,680	467,678,893	701,501,573
Kansas	164,410,025	328,665,110	493,075,135
Kentucky	314,961,656	564,126,642	897,088,298
Louisiana	383,952,268	809,061,932	1,193,014,200
Maine	111,201,692	222,193,730	333,395,422
Maryland	356,478,293	713,054,380	1,069,532,676
Massachusetts	571,611,094	1,414,639,972	1,713,251,063
Michigan	755,373,882	1,511,354,654	2,266,728,536
Minnesota	360,029,848	720,006,394	1,080,036,242
Mississippi	281,204,524	545,583,152	826,787,676
Missouri	337,158,004	673,666,237	1,010,824,241
Montana	68,403,715	136,824,668	205,228,383
Nebraska	120,239,436	239,665,165	359,894,601
Nevada	42,361,747	84,725,519	127,087,266
New Hampshire	58,789,431	117,572,002	176,361,433
New Jersey	570,591,674	1,140,779,295	1,711,370,969
New Mexico	116,315,613	226,362,816	342,678,429
New York	2,010,693,600	4,021,192,707	6,031,886,307
North Carolina	449,990,103	899,990,076	1,349,980,179
North Dakota	56,742,092	113,380,936	170,123,028
Ohio	723,454,810	1,447,366,020	2,170,820,830
Oklahoma	199,524,395	398,753,870	598,278,265
Oregon	189,331,597	378,813,928	568,145,525
Pennsylvania	924,691,763	1,846,336,022	2,771,027,785
Rhode Island	78,728,327	157,379,645	236,107,972
South Carolina	247,565,771	487,870,554	735,436,325
South Dakota	67,835,511	135,882,160	203,717,671
Tennessee	335,675,036	673,855,016	1,009,530,052
Texas	872,819,219	1,742,085,316	2,614,904,535
Utah	105,651,936	211,228,417	316,880,353
Vermont	52,521,534	104,484,495	157,006,029
Virginia	362,940,848	742,278,136	1,105,218,984
Washington	259,361,796	518,653,286	778,015,082
West Virginia	202,388,492	307,209,577	509,598,069
Wisconsin	438,135,075	875,509,516	1,313,644,591
Wyoming	32,278,517	64,615,444	96,893,961
National total	18,188,595,795	35,737,172,351	53,925,768,146

Source: U.S. Treasury Department, Office of Revenue Sharing.

[4] "Adjusted taxes" means all tax revenues minus the amount attributable to finance education.

Inverse per capita income is the ratio of the larger geographic unit's per capita income to that of the jurisdiction for which an allocation is being computed. Thus, in the case of a county area allocation, inverse per capita income is the ratio of State per capita income to the county per capita income in question.

Once each county area allocation has been determined, allocation among types of governments (county, city, township, and Indian tribes and Alaskan Native villages which perform substantial governmental functions) is made. If there are any Indian tribes or Alaskan Native villages, an allocation is made first on the basis of total tribal population as a percentage of the county area population. The remainder of the county area allocation is then divided among the county governments, all cities (if any), and all townships (if any) on the basis of their adjusted taxes.

In addition to the general formula provisions, there are several special provisions which affect the distribution of funds.

First, the Act provides that the Secretary of the Treasury may make payments on the basis of estimates but proper adjustment must be made if it is later determined a government was under or overpaid. The Secretary may reserve up to one-half of one percent of each State area's entitlement, to be held in individual adjustment reserves for each State, as a set aside to insure that there will be a reserve of sufficient funds available to pay any adjustment which may arise.

Second, the Act provides that the waived entitlements of cities, townships, Indian Tribes, and Alaskan Native villages go to the government of the county in which they are located.

Third, the office of the sheriff for each of the Louisiana parishes, except the parish of Orleans [5] is treated as a unit of government eligible to receive revenue sharing funds. This office receives 15 percent [6] of what would otherwise be the entitlement of the parish government. The entitlements of the parish government and of the State government are reduced by half the amount going to the sheriff. In this way, the total amount distributed to Louisiana's governments does not exceed Louisiana's entitlement under the interstate distribution formula.

And fourth, a State may by law alter its intrastate allocation formula once during the program. Instead of using the three-factor formula, a State may use an average of population times tax effort and population times inverse per capita income. The change, which must be made for the entire State, may be solely at the county area level, solely at the sub-county level, or both; however, the maximum and minimum limitations may not be changed. To date, no State has elected to modify the formula provided in the Act.

3. Definitions—Interstate data.—The population of a State is the total resident population as determined by the Bureau of the Census. The population data are estimates which are updated annually by the Bureau of the Census, and published in *Current Population Reports, Series P–25.* Urbanized population of a State is the amount of that State's population which is classified as an urbanized area by the

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[5] The parish of Orleans receives an additional amount equal to 7½ percent of what would otherwise be the entitlement of such parish. The entitlement of the State government is reduced by a corresponding amount.

[6] The office of the sheriff of East Baton Rouge Parish receives 7½ percent of what would otherwise be the entitlement of four cities within that parish. The entitlement of each of those four cities and of the State government is reduced by 3.75 percent.

Bureau of the Census. Urbanized population data is based on complete population enumeration and subsequent classification of population density. Urbanized population data is available only from a decennial census. The per capita income of a State is the ratio of the estimated total money income received by all persons residing in the State to the estimated resident population of the State. The estimates are developed by utilizing information obtained by the place of residence questions on the IRS 1040 forms in conjunction with other administrative records. Sec. 144 of the 1972 Act requires that State, county, city or township place of residence be provided annually by taxpayers on the 1040 and 1040A individual income tax forms.

The State individual income tax of a State is the tax imposed upon the income of individuals by the State according to Section 164(a)(3) of the Internal Revenue Code of 1954. Actual calendar year collections data are published annually by the Bureau of the Census in their *Quarterly Summary of State and Local Tax Revenue* reports. The Federal individual income tax liability of a State is the total annual Federal individual income tax after credits attributed to the residents of the State by IRS. Calendar year estimates are obtained annually from the Internal Revenue Service's publication, *Statistics of Income*. State and local taxes data are the compulsory contributions exacted by a State (or local government of the State) for public purposes other than employer or employee assessments, contributions to finance retirement and social insurance systems, and special assessments for capital outlay. State and local taxes data are updated annually and published by the Bureau of the Census in their publication *Government Finances*. The general tax effort factor of a State is the State and local taxes of the State divided by the aggregate personal income of the State. The aggregate personal income of a State is the income of individuals of the State as determined by the Department of Commerce for National income accounts purposes.

4. Definition—Intrastate data.—The population of a unit of local government is the total resident population as determined by the Bureau of the Census. The estimates are developed by utilizing information derived from the place of residence questions on the IRS 1040 forms in conjunction with information from other administrative records. Annual revisions are also made to the population data to reflect boundary changes and annexations. The Bureau of the Census conducts an annual Boundary and Annexation Survey, the results of which are utilized to update the boundaries and thereby the population and per capita income data for local governments.

The per capita income for a local government is the ratio of estimated total money income received by the residents of the jurisdiction to the estimated total population of the jurisdiction as determined by the Bureau of the Census. The estimates are developed by utilizing information derived from the place of residence questioned on the IRS 1040 forms in conjunction with other administrative records. Sec. 144 of the Act requires that State, county, city, or township place of residence be provided by taxpayers on the 1040 and 1040A individual income tax forms. Annual revisions are made to per capita income data which reflect updated boundaries of the local governments. The updated geography information is collected by the Bureau of the Census in their annual Boundary and Annexation Survey.

The adjusted taxes of a local government are the total taxes received by the government excluding taxes for schools and other educational purposes. Adjusted taxes data are collected annually by the Bureau of the Census in their General Revenue Sharing Survey.

The intergovernmental transfers of a local government are the total amounts received from other governments (other than revenue sharing) for use for either specific functions or general financial support. These data are collected annually by the Bureau of the Census in their

7. *Utilization of new data.*—Current law (Sec. 109(a)(7) and 109(c)(2)) requires that the data used be the most recently available, and that where such data provided by the Bureau of the Census are not current enough or not comprehensive enough to provide equitable allocations for all recipient governments, the Secretary may use additional data, including data based on estimates as provided by regulations. The Secretary, however, must use tax data which relates to the period ending before the entitlement period in question. Thus, the Secretary must use tax data throughout an entitlement period without introducing a new data base (e.g. for a more recent period) until the beginning of the next entitlement period. Except as otherwise provided by regulations, computations of allocations for an entitlement period are required by current law to be made 3 month prior to the beginning of the entitlement period. Table 4 displays the data element base periods used for each entitlement period.

TABLE 4.—GENERAL REVENUE SHARING—DATA ELEMENT BASE PERIODS, ENTITLEMENT PERIODS 1 TO 11

	Entitlement period—										
	1—Jan. 1, to June 30, 1972	2—July 1, to Dec. 31, 1972	3—Jan. 1, to June 30, 1973	4—July 1, 1973, to June 30, 1974	5—July 1, 1974, to June 30, 1975	6—July 1, 1975, to June 30, 1976	7—July 1, to Dec. 31, 1976	8—Jan. 1, to Sept. 30, 1977	9—Oct. 1, 1977, to Sept. 30, 1978	10—Oct. 1, 1978 to Sept. 30, 1979	11—Oct. 1, 1979 to Sept. 30, 1980
Data for intrastate allocations:											
Population	Apr. 1, 1970	Apr. 1, 1970	Apr. 1, 1970	Apr. 1, 1970	Apr. 1, 1970	July 1, 1973	July 1, 1973	July 1, 1973	July 1, 1975	July 1, 1976	July 1, 1978.
Per Capita income	CY 1969	CY 1969	CY 1969	CY 1969	CY 1969	CY 1972	CY 1972	CY 1972	CY 1974	CY 1975	CY 1975.
Adjusted taxes	FY 1971	FY 1971	FY 1971	FY 1972	FY 1973	FY 1974	FY 1975	FY 1975	FY 1976	FY 1977	FY 1975.
Intergovernmental transfers	FY 1971	FY 1971	FY 1971	FY 1972	FY 1973	FY 1974	FY 1975	FY 1975	FY 1976	FY 1977	FY 1978.
Data for interstate allocations:											
Population	Apr. 1, 1970	Apr. 1, 1970	July 1, 1972	July 1, 1972	July 1, 1973	July 1, 1974	July 1, 1975	July 1, 1975	July 1, 1976	July 1, 1977	July 1, 1978.
Urbanized population	Apr. 1, 1970	Apr. 1, 1970	Apr. 1, 1970	Apr. 1, 1970	Apr. 1, 1970	Apr. 1, 1970	Apr. 1, 1970	Apr. 1, 1970	Apr. 1, 1970	Apr. 1, 1970	Apr. 1, 1970.
Per capita income	CY 1969	CY 1969	CY 1969	CY 1969	CY 1969	CY 1972	CY 1972	CY 1972	CY 1974	CY 1975	CY 1975.
State individual income taxes	CY 1972	CY 1972	CY 1972	CY 1972	CY 1973	CY 1974	CY 1975	CY 1975	CY 1976	CY 1977	CY 1978.
Federal individual income tax liabilities	CY 1971	CY 1971	CY 1971	CY 1971	CY 1972	CY 1973	CY 1974	CY 1974	CY 1975	CY 1976	CY 1977.
State and local taxes	FY 1970–71	FY 1970–71	FY 1970–71	FY 1970–71	FY 1971–72	FY 1972–73	FY 1973–74	FY 1973–74	FY 1974–75	FY 1975–76	FY 1976–77.
General tax effort factor	FY 1970–71	FY 1970–71	FY 1970–71	FY 1970–71	FY 1971–72	FY 1972–73	FY 1973–74	FY 1973–74	FY 1974–75	FY 1975–76	FY 1976–77.

Note: CY refers to a calendar year, and FY refers to the 12 months period beginning on July 1.

Source: U.S. Treasury Department, Office of Revenue Sharing.

In reviewing the allocation of funds under present law, the committee determined that the allocation formulas have worked well and only two minor revisions have been made.

Tax enclaves.—The current revenue sharing formula credits several hundred relatively small jurisdictions with very high tax effort, but in fact their citizens are not subject to onerous tax burdens. These jurisdictions are "tax enclaves" that export large proportions of their taxes. The committee concluded that a formula modification was necessary so that the tax effort factor of these jurisdictions more accurately reflects the actual tax burden borne by their residents. Accordingly, the committee amendment revises the amount of adjusted taxes of a jurisdiction which may be taken into consideration in the determination of the tax effort of that jurisdiction. Jurisdictions with adjusted taxes above 250 percent of the statewide average adjusted taxes for similar jurisdictions will receive credit for a tax level less than 250 percent but at least the state average adjusted tax level for similar jurisdictions.

Census undercount.—Population as determined by the Bureau of the Census is used as a data factor in the calculating of allocations for State and local governments. Though the 1980 census data is not yet ready, preliminary indications are that an undercount of at least the magnitude experienced with the 1970 census may occur. As a result, the Committee amendment directs the Secretary of the Treasury to request the Bureau of the Census to make an appropriate adjustment to the census population data to reflect a reasonable estimate of the number of persons not counted in the 1980 census for purposes of calculating allocations for the next entitlement period beginning after receipt of such estimates. It is not the Committee's intention to require that this adjustment be used for purposes other than this Act.

In addition to the formula modification described above, the committee made two minor formula changes to reflect the fact that no funds are allocated to State governments in fiscal year 1981.

Reallocation of excess funds.—Under present law, a government cannot receive GRS funds in excess of 50 percent of its total adjusted tax and intergovernmental revenues. As a result of this limitation, certain units of local government are not eligible to receive their full entitlements and under present law these excess funds are reallocated to State governments. The committee amendment reallocates these excess funds among all units of local government within a State eligible to receive additional revenue sharing funds.

Funding of certain separate law enforcement officers.—In general, the office of the sheriff for each of the Louisiana parishes receives an amount equal to 15 percent of the full entitlement of the parish government. The entitlements of the parish government and of the State government are then reduced by an amount equal to one-half the amount allocated to the sheriff. The committee amendment provides that for fiscal year 1981 and for any year thereafter in which there is no funding for the State share of general revenue sharing, the office of the Sheriff of each of the parishes would receive an amount equal to 13.5 percent of the full entitlement of the government of the parish in which it is located. The entitlement of the parish government would then be reduced by that amount. For fiscal years in which the

State share is fully funded, the office of the sheriff would be funded in the same manner as under present law.

EXPLANATION OF PROVISIONS

Tax enclaves.—Under the committee amendment, adjusted taxes included in the calculation of tax effort for a jurisdiction will be reduced by one dollar per capita below 250 percent of the per capita adjusted taxes of similar jurisdictions in the State (counties, cities, or townships) for each dollar that its per capita adjusted taxes exceed 250 percent of that statewide average. No jurisdiction would be reduced below the average per capita taxes of similar jurisdictions in the State.

This provision would not apply to a jurisdiction that is the sole local government for its geographic area (e.g., a city-county government), or to a jurisdiction with per capita adjusted taxes below $250. The $250 limitation is designed to protect counties and townships that provide relatively high levels of services in States where the overwhelming majority of similar governments provide only very limited services. The sole government limitation protects jurisdictions whose taxes are high simply because they are responsible for services that are provided by two or more overlapping jurisdictions elsewhere in the State.

Table 5 displays information on the income and tax levels in selected tax enclaves.

TABLE 5.—SELECTED TAX ENCLAVES[1]

	Per capita adjust taxes	Per capita income	Taxes as percent of income
Industry City, Calif	$25,252	$4,419	571
Vernon City, Calif	22,977	7,233	318
Bay Lake City, Fla	2,533	6,682	40
Bedford Park Village, Ill	3,072	6,827	45
Grand Falls Plantation, Maine	2,080	3,352	62
Waterville Valley, N.H	1,327	6,996	19
Teterboro, N.J	12,895	5,157	250
Saltaire Village, N.Y	5,182	12,976	40

[1] Based on entitlement period 10 (fiscal year 1979) data elements.

Source: U.S. Department of the Treasury, Office of State and Local Finance.

Census undercount.—The committee amendment to Sec. 109(a)(1) provides that the Secretary of the Treasury shall request the Bureau of the Census to begin adjusting population data to include a reasonable estimate of the number of resident persons not counted in the 1980 census as soon as this is practicable. The Secretary shall use these estimates in the calculation of allocations for the next entitlement period beginning after the receipt of such estimates. It is the understanding of the committee that such adjustments to the 1980 census counts and subsequent population estimates may be available from the Census Bureau in time to be used in the allocations for entitlement period 14 (October 1, 1982 to September 30, 1983).

Reallocation of excess funds.—The committee amendment to Sec. 108(b)(7)(C) provides that where a revenue sharing payment to a unit of local government is reduced due to the 50 percent budget constraint on entitlements in Sec. 108(b)(6)(C) and the county government cannot receive additional funds, the amount of the reduction

shall be added prorata to the entitlements of other units in the State. The prorata distribution is to be calculated in accordance with the revenue sharing allocation formula. If no other units may receive the amount due to this allocation limitation, the amount shall be used to proportionately increase the allocations of all the local governments in the State, notwithstanding the constraints otherwise applicable. This provision is to apply whether or not the State share is funded for fiscal years 1982 through 1985.

Allocations to certain separate law enforcement officers in Louisiana.—The committee amendment with respect to the Louisiana sheriff offices provides that for fiscal year 1981 and any year thereafter in which the State share is not funded, such sheriff offices (except those in Orleans Parish) shall receive 13.5 percent of what would otherwise be the entitlement of the government of the parish in which it is located. This amount is to be deducted from the entitlement of the parish government. In the case of the Parish of East Baton Rouge, the office of the sheriff shall receive 6.75 percent of the entitlements of the cities of Baker Town, Baton Rouge and Zachary, the entitlements of such cities being reduced by an equal amount. No provision is made for the office of the sheriff of Orleans Parish since it is not a separate law enforcement office. For fiscal years in which the State government share of the program is fully funded, the office of the sheriff for each of the Louisiana parishes would be funded in the same manner as under present law.

EFFECTIVE DATE

These provisions would be effective for entitlement periods beginning on or after October 1, 1980.

C. Auditing Requirements (Sec. 103 of the Committee amendment and Sec. 123(c) of current law.)

Current law requires each unit of government which receives $25,000 or more in revenue sharing funds for any federal fiscal year to obtain an independent financial and compliance audit of all its financial statements, in accordance with generally accepted auditing standards, at least once every three years. A series of audits which aggregate the entire financial activity of the recipient government and which are performed over not more than three fiscal years meet this requirement. Other federally-required independent audits in accordance with generally accepted auditing standards are also acceptable. Where a recipient government's financial statements are subject to an independent audit under State or local law, such audits will fulfill the GRS requirement if such audits are conducted in accordance with generally accepted auditing standards and includes a brief description of the auditing standards. If a recipient government is unauditable, under either the general audit requirement or under State or local audit requirements, the Secretary may waive the audit requirement if the recipient government agrees to make substantial progress toward becoming auditable.

The Committee recognizes that the 1976 amendments and the quality control efforts of the Office of Revenue Sharing (ORS) have markedly improved the financial audits of 11,000 State and local governments. The Committee believes that limited resources should be

concentrated on accelerating full compliance with standards that improve the financial management of local governments.

The Committee amendment retains the audit provision of present law requiring one audit every three years. In addition, the Secretary of the Treasury would be provided with authority to waive the audit requirement where it would involve the repeating of a substandard audit performed by a State agency—if the agency has taken action to comply with the requirement that audits be conducted in accordance with generally accepted auditing standards, or has demonstrated progress toward meeting those standards. This waiver provision would include audits which are conducted by independent auditors under the oversight of State agencies resposible for monitoring and reviewing completed audits.

In addition, the Committee wishes to make it clear that independent public accountants in Kansas who are licensed under State law shall, under certain limited circumstances, qualify as "independent public accountants" for purposes of conducting required audits under the GRS programs.

EXPLANATION OF PROVISION

The Committee amendment would authorize the Secretary to waive the need to repeat an audit of expenditures for a fiscal year prior to fiscal year 1980 by a State agency that (1) has brought its procedures into compliance with generally accepted auditing standards or (2) has demonstrated acceptable progress toward meeting those standards. This waiver authority shall apply to those financial accounts that have been either partially or fully audited pursuant to the 1976 amendments. The Committee intends that partial waivers should be available to those jurisdictions that submitted partial audits and full waivers available to those jurisdictions that have submitted full audits provided that those jurisdictions have shown how current procedural deficiencies will be corrected in audits beginning with fiscal year 1980.

The Committee also intends that the words "such government is audited by a State audit agency . . . " in this section shall be interpreted to include audits that are conducted by employees of a State audit agency as well as audits that are conducted by other independent auditors under the oversight of State agencies that establish standards, and monitor and review completed audits.

The Committee is aware of a situation in Michigan where the State agency responsible for auditing county governments will not perform revenue sharing audits after 1980. It is intended that Michigan counties shall qualify for the aforementioned waivers if revenue sharing audits for fiscal year 1980 and subsequent years are performed in accordance with generally accepted auditing standards.

The Committee also agreed to a limited exception to the Treasury Department definition of an independent public accountant for purposes of section 123 of the State and Local Fiscal Assistance Act of 1972, as amended. The Treasury Department regulation defining this term, 31 CFR 51.101(c)(2), states that a licensed public accountant may qualify as an independent public accountant only if licensed or certified on or before December 31, 1970. Under the exception approved by the Committee, a licensed public accountant could also qualify as an independent public accountant, solely for purposes of an audit prepared and submitted to the Office of Revenue Sharing on or before

September 1, 1980, if the following conditions are met. First, the licensed public accountant must have been licensed not later than June 28, 1975, by a regulatory authority of a State. Second, the licensed public accountant must have had not less than twelve hours of college accounting and not less than three years of work experience in public accounting. Third, the licensed public accountant must have passed an examination covering principles of municipal government accounting and relevant laws of the State. Fourth, the licensed public accountant must have not less than fifteen hours each year of continuing education in order to maintain his license. Provided all of these conditions are met, the licensed public accountant shall qualify as an independent public accountant for purposes of an audit prepared and submitted to the Office of Revenue Sharing on or before September 1, 1980, notwithstanding his failure to comply with the December 31, 1970 cutoff date set forth in the above Treasury regulation. It is not the intention of the Committee that this exception would be available to a licensed public accountant with respect to any future audits. The Committee supports the standards for independent audits prescribed by the Treasury Department and the Comptroller General, and its action should not be construed as a modification of those standards or an attempt to prescribe a rule of general applicability. This exception is designed to deal with a problem in the State of Kansas that has come to the attention of the Committee.

D. Reports (Section 103 of the Committee amendment and Section 121 of present law)

The Act requires each government to file an actual use report showing the amounts and purposes for which the funds were appropriated, spent, or obligated, the relationship of those funds to the relevant functional items in the government's budget, and any differences between the actual and proposed use of the funds. The Committee found that the information required in the actual use reports does not necessarily represent the actual fiscal impact of the funds on the budgets of recipient governments. Accordingly, the Committee amendments would eliminate this requirement. To replace the actual use report the Committee would require the Secretary of the Treasury to make 2 reports to the Congress, in 1982 and 1984, assessing the fiscal impact of GRS funds on State and local governments.

EXPLANATION OF PROVISIONS.

The Committee amendment would eliminate the actual use report requirement found in sec. 121(a) of current law. In addition, the amendment adds a new provision to the Act which requires that the Secretary report to Congress in 1982 and 1984 on the operation and status of the Trust Fund and include an assessment of the fiscal impact of Revenue Sharing funds on State and local governments.

The Committee also agreed to direct the Advisory Committee on Intergovernmental Relations to conduct a one-year study of the possibility of preserving revenue sharing funds for States that elect to trade off on a dollar-for-dollar basis categorical grant funds which they would be otherwise eligible to receive. While the Committee has voted to authorize GRS payments to State governments beginning in 1982, such payments would no longer be in the nature of an entitle-

ment. Allowing a trade-off for categorical grant funds could keep the States in the revenue sharing program on an entitlement basis, would be consistent with one of the original goals of revenue sharing: to substitute flexible, general purpose fiscal assistance for a myriad of Federal grants for State and local governments.

The Committee expects that the ACIR study will examine the most efficient means of administering a trade-off option, the most appropriate way to relate that option to the budget cycles of state and local governments, and to identify the types of categorical programs that are deemed appropriate for a trade-off election by the States. The Advisory Commission may also wish to examine the feasibility and desirability of providing a similar option for local governments. The Committee believes this study will produce valuable insight into the system of Federal aid to States and localities, and will assist both Congress and the Advisory Commission in their ongoing review of the issues of Federal grant consolidation and reform. The ACIR study may also indicate whether the proposal would be an effective means of maintaining budget control over Federal grant programs.

ANTIRECESSION FISCAL ASSISTANCE

1. *Extension, funding, amounts and suspension (section 201 of the committee amendment).*—The committee amendment authorizes an appropriation of up to $1 billion per year for fiscal years 1981 through 1985 in antirecession fiscal assistance payments to State and local governments. The amount of money authorized is $125 million per calendar quarter, plus $30 million for each whole one-tenth percentage point by which the average rate of unemployment for the calendar quarter that ended three months before the beginning of such quarter exceeded 7.5 percent. An aggregate limitation of $1 billion is established on the amount that may be appropriated for any fiscal year.

Payments under the program will be suspended when the national unemployment rate falls below 7.5 percent for the calendar quarter ending three months before that payment quarter. Payments are to be resumed after a suspension for any calendar quarter in which national unemployment reaches a rate of 7.5 percent or more.

The Bureau of Labor Statistics' unemployment rate for calendar year 1979 and the first two quarters of calendar year 1980, along with the Congressional Budget Office's projections of national unemployment are as follows:

Unemployment rates—quarterly averages

	Percent
1979:	
1st quarter	5.8
2d quarter	5.8
3d quarter	5.8
4th quarter	5.8
1980:	
1st quarter	6.1
2d quarter	7.5

Unemployment rates—CBO forecast for fourth quarter 1980 and 1981

	Percent
1980	8.4 to 9.4
1981	8.4 to 9.4

EFFECTIVE DATE

The committee amendment is effective for calendar quarters beginning on or after October 1, 1980.

2. Reservation and allocation to the States.—The antirecession allocation formula with respect to State governments provides one-third of the amount authorized, less amounts reserved for the "territories", is to be reserved for the State governments. From this amount the Secretary of the Treasury will allocate to each individual State government a percentage of the amount reserved for all States equal to the quotient resulting from the division of the product of the amount by which the State's unemployment rate exceeds 4.5 percent multiplied by that State's general sharing formula amount for the most recently completed entitlement period by the sum of such products for all the States.

3. Reservation and allocation to local governments.—The allocation formula with respect to amounts reserved for the "territories", is to be distributed among local governments with an unemployment rate of 6.0 percent or more. This allocation is based on a percentage of the amount reserved for all local governments equal to the quotient resulting from the division of the product of the amount by which a particular local government's unemployment rate exceeds 4.5 percent multiplied by that local government's general revenue formula factors by the sum of such products for all local governments.

4. Definition of Local Unemployment Rates, and Allocations Based on Pre-1978 Methodology.

The terms "State unemployment rate" and "local government unemployment rate" are used to make allocations, as well as to determine whether payments to an individual government is suspended because its unemployment rate is below 6.0 percent. Those definitions are amended to provide that local unemployment rates for governments which encompass, or are located within, a standard metropolitan statistical area or central city are to be adjusted whenever the application of the current population survey methodolgy for calculating unemployment rates used before January 1, 1978 applicable to those SMSA's and cities would result in a higher unemployment rate.

As of January 1, 1978, the Bureau of Labor Statistics terminated the use of current population survey (CPS) data on an annual average basis as the method of determining unemployment rates for the above-referenced areas. That change in methodology resulted in the determination of significantly reduced unemployment rates for some areas. The reduction in some instances was very substantial. Consequently, allocations to some governments would be reduced simply as a result of this change. To help those jurisdictions adversely affected by this change, the former law is amended to provide that the Secretary must use their unemployment rates as calculated by the CPS methodology used prior to January 1, 1978.

No amounts may be allocated to any government with a per capita income level that is more than 150 percent of the United States per capita income level. For the noncontiguous States of Alaska and Hawaii, the maximum allowable per capita income level for an eligible local government is increased by the average State percentage of basic pay which civilian employees of the United States Government receive

as an allowance under section 5941 of title 5, U.S. Code. This limitation on allocations is not applicable to local governments in Alaska that have local unemployment rates in excess of 10 percent. In allocating funds, the per capita income limitation is to be applied to allocations before the minimum payment limitation.

There are several references in the committee's bill to an "appropriate" fiscal year, six-month period, or calendar quarter. The committee intends that the Secretary shall determine which such time period is appropriate to administer these programs in accordance with the intentions of the Congress.

5. *Payments and Suspension of Payments to Individual Jurisdictions.*—The Secretary shall make payments to eligible State and local governments within five days of the commencement of a calendar quarter which begins 60 days after the enactment of this bill. Payments for periods which preceded enactment of this bill will be made as soon as practicable after the date of enactment. A State or unit of local government is eligible to receive payments only so long as its unemployment rate is 6.0 percent or more. If the rate is less than 6.0 percent for the appropriate six-month period, then payments to that government aresuspended for the calendar quarter beginning three months later. If the State or local unemployment rate thereafter increases to 6.0 percent or more for an appropriate six-months period, payments are to be resumed for the quarter beginning three months after the period with the increased unemployment rate. The committee amendment would suspend funding only if the average rate of unemployment for the appropriate six-month period was less than 6.0 percent.

6. *Data Provision Responsibilities and Program Studies.*—The Committee amendment requires the Secretary of Labor, through the Bureau of Labor Statistics, the Office of Personnel Management and the Bureau of the Census, to provide the Secretary of the Treasury with all the necessary unemployment rates and other data, and to calculate and designate all the necessary unemployment rates required for administration of the program.

7. *Territorial Allotment.*—The committee amendment includes Puerto Rico, Guam, American Samoa, and the Virgin Islands in the 5 year program based on population data. Under the committee amendment, these payments will be funded by setting aside funds from the national appropriations rather than by additional funding.

8. *Use of revenue sharing formula factors in allocation of countercyclical payments.*—To provide an allocation of countercyclical funds to State governments, S. 2574 uses each State's revenue sharing allocation multiplied by excess unemployment. For purposes of the interstate distribution of revenue sharing funds, this allocation is well matched to various measures of fiscal need and responsibilities. Howments to local governments introduces certain inequities into the allo ever, using revenue sharing allocations as a part of the formula for payments to local governments introduces certain inequities into the allocation of funds. Consequently, S. 2574 specifies the use of revenue sharing data elements in calculating countercyclical assistance payments.

Both the General Accounting Office and the Department of the Treasury have suggested that there are certain distortions and inequities built into the current revenue sharing formula. Arbitrary constraints guarantee some jurisdictions payments out of proportion to their fiscal responsibilities and limit funding to jurisdictions that have major responsibilities. Moreover, the tiering process incorporated into the GRS allocation system can result in jurisdictions in identical fiscal circumstances receiving different levels of funding.

Consequently, the use of revenue sharing payments in the countercyclical assistance program limits funds to those jurisdictions which are constrained and are suffering from high unemployment.

The committee does not believe it appropriate to modify the revenue sharing formula because of the fiscal disruptions that would occur for tens of thousands of local governments throughout the Nation. It does believe, however, that the formula constraints in the GRS program should not be used in the countercyclical program.

The General Accounting Office has pointed out to the Committee that the basic logic of the revenue sharing formula is sound and its data elements can be used to make an allocation of countercyclical assistance payments that is better designed to meet the needs of fiscally distressed local governments than actual revenue sharing payments. This allocation is made by multiplying each eligible local government's excess unemployment rate by the product of the three key variables in the revenue sharing formula: (1) population, (2) per capita income relative to the State per capita income, and (3) general tax effort.[7]

In general terms, the beneficiaries of this approach are a number of large cities with major fiscal problems—including Newark, Detroit, Baltimore, Boston, Philadelphia, and St. Louis—and many hard-pressed smaller communities, often in rural areas—for example, rural county governments in Georgia, North Carolina, and Kansas; and rural townships in Minnesota and South Dakota. Low- and moderate-income jurisdictions located in more wealthy county areas would also benefit from this procedure; for example, Yonkers (Westchester County, New York) and Atlanta (Fulton and DeKalb counties, Georgia).

The following table provides estimates of the interstate distribution of funds that would be provided by S. 2574 for the third quarter of 1980. Consistent with several private economic forecasts, these estimates are based on the assumption of a national unemployment rate of 7.8 percent for the third quarter of 1980. Given the provisions of S. 2574, this unemployment rate would generate a total distribution of funds of $215 million ($125 million plus $90 million for the 0.3 percent that the national rate exceeds 7.5). Allocations of these funds among the States and between State and local governments draws on two key sets of parameters: the interstate pattern of actual unemployment for the second quarter of 1980 and historical information on the concentration of unemployment within each State. By scaling the 1980 second quarter unemployment rates to a national rate of 7.8 percent, the allocation of funds to State governments is done in

[7] Allocation of payments to Indian tribes and Alaskan native villages use Revenue Sharing allocations to scale payments because full sets of data elements are not available for these governments.

a straight forward fashion. One third of the total payments is allocated in proportion to each State's Revenue Sharing entitlement times its excess unemployment (difference between the State's unemployment rate and 4.5 percent). To be eligible, States must have an unemployment rate that averaged over 6.0 percent for the first and second quarters of 1980. Estimates of the payments to local governments are made indirectly based on indicators of the concentration of unemployment within each State. Using these indicators. it is possible to develop ratios between the projected payments to State and local governments. These ratios were utilized to make rough estimates of payments to local government.

These estimated allocations provide a fairly valid projection of the total distribution of funds and how these funds are allocated among States. Specific estimates for some of the smaller States and the funding split between State governments and localities in the same State are somewhat less precise.

ESTIMATES OF QUARTERLY ALLOCATIONS OF COUNTERCYCLICAL PAYMENTS FOR 1ST CALENDAR QUARTER OF 1981: SENATE FINANCE COMMITTEE AMENDMENTS TO STATE AND LOCAL FISCAL ASSISTANCE ACT[1]

[In thousands]

State	State government allocation (1)	Local government allocation (2)	Total allocation (3)
United States	$70,950	$141,900	$215,000
Alabama	1,700	2,770	4,470
Alaska	500	720	1,220
Arizona	700	1,200	1,900
Arkansas	760	1,200	1,960
California	8,100	13,610	21,710
Colorado		1,250	1,250
Connecticut		1,340	1,336
Delaware	230	400	630
District of Columbia	230		230
Florida		3,520	3,520
Georgia	1,360	2,390	3,750
Hawaii		440	440
Idaho	390	720	1,110
Illinois	4,580	7,810	12,390
Indiana	3,180	5,170	8,350
Iowa	560	1,760	2,320
Kansas		100	100
Kentucky	1,040	1,640	2,680
Louisiana	1,580	2,770	4,350
Maine	500	820	1,320
Maryland	1,090	2,140	3,230
Massachusetts	1,290	2,140	3,430
Michigan	10,290	18,640	28,930
Minnesota	870	4,160	5,030
Mississippi	1,100	1,890	2,990
Missouri	1,230	2,020	3,250
Montana	180	280	460
Nebraska		90	90
Nevada		150	150
New Hampshire		80	80
New Jersey	2,800	5,170	7,970
New Mexico	470	780	1,250
New York	8,110	13,730	21,840
North Carolina	1,330	3,650	4,980
North Dakota		190	190

ESTIMATES OF QUARTERLY ALLOCATIONS OF COUNTERCYCLICAL PAYMENTS FOR 1ST CALENDAR QUARTER OF 1981: SENATE FINANCE COMMITTEE AMENDMENTS TO STATE AND LOCAL FISCAL ASSISTANCE ACT[1]—Continued

[In thousands]

State	State government allocation (1)	Local government allocation (2)	Total allocation (3)
Ohio	4,560	8,190	12,750
Oklahoma		340	340
Oregon	1,230	1,890	3,120
Pennsylvania	4,100	6,680	10,780
Rhode Island	310	480	790
South Carolina	960	1,640	2,600
South Dakota		60	60
Tennessee	1,430	2,390	3,820
Texas		3,920	3,920
Utah		340	340
Vermont	130	200	330
Virginia		2,730	2,730
Washington	1,340	2,270	3,610
West Virginia	1,120	1,230	2,350
Wisconsin	1,620	3,400	5,020
Wyoming		1,350	1,350
Terroritories			2,150

[1] A 7.8 percent national unemployment rate is assumed for the 3d quarter of 1980 which is the trigger for payments in the 1st calendar quarter of 1981. State unemployment rates are estimated on the basis of actual rates for the 2d quarter of 1980 and indicators of the intrastate concentration of unemployment are derived from the experience of the 1974–75 recession. The overall estimates of the interstate distribution of funds is approximately correct. However, the specific estimates for the smaller States and the funding split between the State government and localities in the same State are very crude approximations. For purposes of these estimates a quarterly payment of $125 million plus $30 million for each one-tenth of one percent national unemployment exceeds 7.5 percent is assumed. Territories would receive 1 percent of the total funds available. States receive one-third of the funds to be distributed and local units of government receive two-thirds of such funds. D.C. treated as State. Eligible State governments must have an unemployment rate that averaged over 6.0 percent for the first and second quarters of 1980. Allocation to State governments in proportion to excess unemployment rate (differences between 1980-III estimate and 4.5 percent) times EP 11 Revenue Sharing payments to all eligible State governments (Oct. 1979-Sept. 1980). State unemployment rates in 1980-III estimated as actual 1980-II rates plus (0.3) percent. State Government Distribution based on national pot of $215 million: $125 million plus $90 million for the 0.3 percent that the assumed 7.8 percent national unemployment rate exceeds 7.5 percent. 1 percent for territories ($2.15 million). State share $70.95 million. Local share: $141.90 million. Distribution for eligible State governments based on excess unemployment times Revenue Sharing; use result to allocate State share. Payments to Localities based on payments to localities (States eligible) and localities (States not eligible) during Antirecession Fiscal Assistance (ARFA) Q9 (July-Sept., 1978).

Source: U.S. Treasury Department, Office of State and Local Finence.

FORGIVENESS OF STATE INDEBTEDNESS

In the 1830's in the midst of a bitter struggle over the Bank of the United States, a large Federal surplus accumulated as a result of revenues received from the sale of public lands and from tariffs imposed on an expanding foreign trade. When the unrelenting efforts of President Andrew Jackson and his supporters in the Congress to destroy the Bank were borne to fruition in early 1836, the Federal government found itself without a central depository for its funds. John Calhoun, who had become a Senator from South Carolina after serving as Vice President under John Quincy Adams and during the first term of Andrew Jackson, proposed that the surplus funds be sent out to the States. After extensive floor debate the bill was referred to a select committee and later passed both Houses. The Act of June 23, 1836 (5 Stat. 55) provided that surplus monies over $5 million were to be deposited with the States in proportion to their representation in Congress. No provision was made for the payment of interest but the recipient States were required to issue certificates of deposit in which

they pledged their faith for the "safekeeping and repayment thereof . . . whenever the same shall be required by the Secretary of the Treasury. . . ."

Of the $37 million available for distribution, $28 million had been distributed before further payments were suspended by the Act of October 2, 1837 (5 Stat. 201) in response to a severe decline in revenues brought about by the Panic in 1837. In addition, this second Act provided that monies already transferred should remain on deposit with the States until otherwise directed by Congress.

The deposits with the States under the Act were carried as "unavailable funds" in the official accounts of the Office of the Treasurer of the United States from 1837 to 1910 when by the Act of June 25, 1910 (36 Stat. 776) the Treasurer's office was relieved of further accountability for these deposits. Since 1910, the deposits have been carried by the Treasury Department as a "memorandum asset account".

The States, however, were not discharged from this indebtedness. No action has ever been taken to discharge the liability or to demand repayment of the funds distributed and the States remain liable. The certificates of deposit continue to be held by the Treasurer of the United States. The following table shows the breakdown of funds distributed.

Money deposited with the various States pursuant to sections 13 and 14 of the act approved June 23, 1836, 5 Stat. 55

States:	*Total amount of deposits*
Alabama	$669, 086. 79
Arkansas	286, 751. 49
Connecticut	764, 670. 60
Delaware	286, 751. 49
Georgia	1, 051, 422. 09
Illinois	477, 919. 14
Indiana	860, 254. 44
Kentucky	1, 433, 757. 39
Louisiana	477, 919. 14
Maine	955, 838. 25
Maryland	955, 838. 25
Massachusetts	1, 338, 173. 58
Michigan	286, 751. 49
Mississippi	382, 335. 30
Missouri	382, 335. 30
New Hampshire	669, 086. 79
New Jersey	764, 670. 60
New York	4, 014, 520. 71
North Carolina	1, 433, 757. 39
Ohio	2, 007, 260. 34
Pennsylvania	2, 867, 514. 78
Rhode Island	382, 335. 30
South Carolina	1, 051, 422. 09
Tennessee	1, 433, 757. 39
Vermont	669, 086, 79
Virginia	2, 198, 427. 99
Total	28, 101, 644. 91

This provision would cancel liabilities for repayment of funds deposited with the States to the extent of $28.1 million.

EXPLANATION OF PROVISION

The Committee amendment would discharge 26 States of liabilities existing under the Act of June 23, 1836 (5 Stat. 55).

IV. Regulatory Impact of the Bill

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

The bill represents a continuation of the State and Local Fiscal Assistance program of 1972, as amended. This program does not involve the regulation of individuals or businesses. While the bill makes some changes in the formulas for providing fiscal assistance, the Committee does not anticipate that there will be any significant change in the paperwork requirements directly related to the claiming of grants. The bill does, however, eliminate certain unnecessary studies and reports so that the overall net impact of the bill should be a reduction in paperwork. The bill has no impact on privacy and no direct economic impact on individuals or businesses. Indirectly, however, it should benefit individuals and businesses by enabling State and localities to maintain healthier local economies.

V. Budgetary Impact of the Bill

In compliance with paragraph 11(a) of rule XXVI of the Standing Rules of the Senate and sections 308 and 403 of the Congressional Budget Act, the following statements are made relative to the costs and budgetary impact of the bill.

The bill contains an authorization for the appropriation of funds to provide grants to States and localities according to formulas specified in the bill. Entitlements totaling $23.0 billion would be provided for distribution to units of local government over fiscal years 1981–85 ($4.6 billion per year). Authorization for the appropriation of $9.2 billion covering fiscal years 1982–85 ($2.3 billion per year) would be provided for distribution to State governments.

An authorization for the appropriation of an additional $5 billion covering fiscal years 1981–85 is provided. The funds for State governments and the additional $5 billion for countercyclical assistance to State and local governments would be available only to the extent appropriations are actually made. In connection with the countercyclical assistance program the Committee estimates that the authorization and expenditures amounts will be $10 billion for fiscal year 1981, based on estimated levels of unemployment for fiscal years 1980 and 1981 used by the Senate Budget Committee in connection with the Second Concurrent Budget Resolution favorably reported by that Committee. The estimates of the Congressional Budget Office have not yet been received by the Committee.

VI. Vote of the Committee in Reporting the Bill

In compliance with paragraph 7(c) of rule XXVI of the Standing Rules of the Senate, the following statement is made relative to the vote by the Committee to report the bill.

The bill was ordered reported by a voice vote.

VII. Changes in Existing Law Made by the Bill, as Reported

In the opinion of the Committee, it is necessary in order to expedite the business of the Senate, to dispense with the requirements of

paragraph 12 of rule XXVI of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill, S. 2574 as reported by the Committee).

VIII. Additional Views of Senators Dole, Roth, and Wallop

In acting to renew the General Revenue Sharing program the Committee has done a considerable service to the cause of a rational system of Federal assistance to state and local governments. Revenue sharing has proven to be the most cost-efficient, simple and worthwhile form of aid to the governmental units that make up our Federal system. The Committee has acknowledged that the pertinent question is not whether the Federal Government will distribute some of its revenues back to States and localities, but what is the most effective way of so doing. The most effective way is the one with the fewest strings and the lowest administrative cost: and that is what revenue sharing is all about.

TAKE COGNIZANCE OF THE STATES

It is particularly significant that the Committee has voted overwhelmingly to restore State governments to the program beginning in 1982. This action recognizes the vital contribution of State governments to a healthy, functioning federal system. Both State and local governments are held responsible for the implementation of federal policy, and both are limited in their own initiatives by federal preemption of such a large portion of their tax bases. It is only proper, then, that both State and local governments should participate in General Revenue Sharing.

ANTIRECESSIONARY FISCAL ASSISTANCE

But while the Committee deserves congratulations for much of what it has done here, we are disturbed by its decision to add a separate title to this bill providing for countercyclical fiscal assistance in the amount of $1 billion per year for each of the next 5 years. Countercyclical aid is a complicated and controversial subject, and it seems unwise to link the renewal of revenue sharing to a proposal that has a somewhat troubled history.

Last year both the House and the Senate approved a standby program of antirecessionary fiscal assistance to cover the year 1980. However, the two Houses never went to conference on their widely-varying proposals for countercyclical aid, and the matter has been left there. One of the potential stumbling blocks was the difference in the formulas for triggering payments under the program. The House preferred to look at wages and salaries: the Senate looked to unemployment statistics. Now we are faced with the same disagreement. The House proposal to renew revenue sharing, H.R. 7112, as reported by the Committee on Government Operations, contains a countercyclical title including a triggering formula based on wages and salaries. The countercyclical title approved by the Finance Committee once again relies on unemployment figures. While it is possible that a compromise can be worked out between the two proposals, it is unwise to tie the fate of the entire revenue sharing program to the countercyclical title. This can only cause delay and uncertainty.

QUESTIONS OF VIABILITY

In either event, there are serious questions that have not been resolved concerning the viability of countercyclical aid, whatever formula is chosen. With wages and salaries as a trigger, there can be a 6 to 8 month delay in payout. Even unemployment figures are not available for about 2 months with respect to the States and 2 to 3 months with regard to localities. Both versions of this proposal run a serious risk of turning into procyclical funds in actual practice: they may be paid out too late to ameliorate the effects of recession, and may instead tend to reinforce an already strong recovery, with an obvious risk of exacerbating inflation. It is not at all clear that countercyclical aid is an effective means of combating recession. At least the question deserves considerably more detailed consideration than the Committee has given it.

NEED FOR CONSISTENCY ON THE BUDGET

We have another compelling reason to be concerned by the decision of the Committee to authorize $1 billion per year in countercyclical aid. The Committee clearly intends that this new spending program be triggered by the current recession, so that it would pay out in fiscal 1981. Yet the First Budget Resolution as adopted by the Senate contains no provision for such a fund: in short, the countercyclical title busts the 1981 budget. There is considerable irony in the fact that, at the same time that House and Senate conferees are meeting to resolve their differences on the way to comply with the First Budget Resolution, committees in both the House and the Senate are going full speed ahead with new spending programs that, if enacted, would make a mockery of the budget reconciliation process that Congress has sweated through this year. This is no way to keep faith with the American people, who demand spending restraint, and it is no way to maintain the integrity of the budget process.

If the Committee concludes that it is necessary to exceed the budget totals set forth in the First Budget Resolution in order to deal with the impact of the recession, it should do so forthrightly and in a manner that is likely to have a meaningful effect on the economy. The countercyclical title approved by the Finance Committee meets neither standard. The $1 billion authorized by the Committee would be better spent in a program that guarantees an immediate payout, such as revenue sharing for the States, 40 percent of which is passed on to localities in any case. The case for triggered countercyclical aid simply is not strong enough to warrant busting the budget, or to win our support. The public is increasingly skeptical of temporary, one-shot solutions to complex and deep-seated problems. The Committee has acted responsibility in this Congress by approving measures for spending restraint and tax reduction. That is the direction the Committee must continue to take if it is to meet the real long-term needs of the economy.

IX. Additional Views of Senator Dave Durenberger

The Finance Committee agreed to a major change in the General Revenue Sharing program: in the name of fiscal discipline, the Committee decided that State governments should not participate in the program in fiscal year 1981. In taking this action, the Committee ended the entitlement nature of the program for the States, and, while the

Committee authorized an appropriation to the States for fiscal year 1982 and succeeding years, the money will be available only if granted through the annual appropriations process.

I reluctantly supported the Committee action to delete funding for the States in the upcoming fiscal year. However, I strongly believe that it is imperative that the States continue to be part of the Revenue Sharing program, and strongly support the authorization authority for fiscal year 1982–85. To leave them out ignores the reality of the financial situation of most States today and it ignores the significant role States play in the intergovernmental system, especially in relation to their local governments.

In its Fiscal Survey of the States, 1978–79, the National Governor's Association and the National Association of State Budget Officers reported that the States began fiscal 1979 with balances that were higher than expected, and higher than at the beginning of fiscal 1978. The States began fiscal 1979 with a balance of $9.2 billion, some $2.6 billion greater than at the beginning of the prior fiscal period. Although at first glance it might appear that the States were in healthy fiscal condition, the beginning year balance hid some indications of the softness we now see so clearly. For example, 40 percent of the beginning surplus was a carry-over of California's 1978 unobligated balances. These were quickly used to shore up California's local governments in the wake of proposition 13. A significant portion of the balances were the result of inflation, and now several States have taken steps to index inflation out of their tax structures. In taking these actions the States serve as a model for the Federal Government.

Despite the relatively large balances at the beginning of fiscal 1979, the States realized that their expenditures were going to increase more than their revenues. They knew that they could expect revenues to increase by about 9 percent, but that expenditures would go up by 14 percent. Trimming of expenses would be in order.

In recent months, the recession has made it quite clear that many States must cut their budgets. In my own State of Minnesota, the Governor ordered a spending cut of $195 million. The cut was necessary because the State constitution requires that the budget be balanced. All but two States are required to balance their budgets.

Last months Iowa ordered a 3.6 percent across-the-board cut to erase a $62 million deficit. Wisconsin's reduction will amount to 4.4 percent because of a $150 million shortfall. Michigan will cut spending by 20 percent. One recent study showed that all state and local governments face a combined deficit of $11.7 billion in 1980 and $14.9 billion in 1981.

These cuts affect local governments, as well as state. In Minnesota, the State has been forced to cut aid to school districts by $89.2 million. Rehabilitation of the railroads will be postponed; six regional centers to help the deaf will not be opened. These are just 3 examples of the services the people of my State need—but won't receive.

The States must be included in the General Revenue Sharing program, not only because they are currently facing a financial crisis that is national in scope and tied to the fate of the national economy, but also because the States increasingly are assuming financial responsibility for services provided by their local governments.

One of the clear objectives of General Revenue Sharing and one of its signal successes has been that, in the last few years, most states have increased their aid to local governments. Others have taken over greater responsibility for financing schools and welfare; still others have enacted programs to target funds to distressed communities. As a group, in 1977, the latest year for which information is available, local governments received from 35 to 40 percent of their revenues from the State. In addition, states are responsible, to a much larger extent than local governments, for recession-related expenditures. 39 States, for example, pay all of the non-Federal share of AFDC payments and medicaid costs. Local governments have come to depend on this State-generated revenue.

Clearly, some States are financially healthy today and can be expected to remain in good health, primarily because they are endowed with oil, natural gas and other sources of energy. Texas, Alaska, California, and Louisiana will benefit tremendously over the next 10 years because of oil decontrol. Louisiana finances 20 percent of its budget from oil payments; Montana will be able to finance a large share of its expenditures at the expense of consumers in other States, due to its 30 percent severance tax. The state of Alaska, with its current budget surplus of $1 billion, expects a surplus of $28.5 billion by the end of this decade. The degree to which the basic purposes of GRS are altered by the energy independence efforts recently undertaken by this Nation, and the role of revenue sharing formula changes need to be examined. I supported the amendment offered by Senator Danforth to redefine "tax effort," not because it is the solution. It's not, because among other things it did not take into consideration State trust fund programs for depleting natural resources. I supported it because it illustrates the need for a solution. The issue of fiscal disparities among the States is one of the most serious issues facing the Nation. I believe this Committee should address it. A good place to start is with the General Revenue Sharing Formula.

In summary, I support the participation of the States in this Program. I believe it is essential that the States continue to be included, not only to ease their current economic problems, but because of their significant role in Federal-State-local relations.

DAVE DURENBERGER.