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October 1978

AUG 16 1979

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GENERAL REVENUE SHARING

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General Revenue Sharing first became available in 1972, under provisions of the State and Local Fiscal Assistance Act. It is a means by which the Federal Government can share its revenue with state and local governments, supplementing their tax dollars. Its purpose is to increase local financial resources to deal with community problems at local and state levels.

The issue has often been raised that using federal assistance to deal with local problems is incongruous. However, community problems don't necessarily begin or end at the boundaries of a community. Jurisdiction over them often spills over the boundaries of specific units of local government.

For example, migration, pollution, health and poverty are often local problems, but ones which local units of government can't deal with effectively, because they simply don't have the resources. Federal aid not only allows local governments to draw on larger resources, but also helps establish uniform national goals and standards for dealing with particular situations.

State Allocation Formulas

Unless the state refuses its allocation, each state automatically receives a share of the total funds available for the year based on one of two formulas--a three factor formula prepared by the Senate or a five factor formula prepared by the House of Representatives (Table 1). The three factor formula incorporates state population, state and local government tax effort and relative per capita income. The five factor formula includes state population, urbanized population, relative per capita income, state income tax collection and state and local government tax effort. The three factor formula generally favors rural states while the five factor formula tends to favor those with more urban populations. By law, the states are allowed to choose the one that is most beneficial to them. Idaho generally uses the Senate's three factor formula.

Division of Funds—County Share Formula

One third of the total allocated to the state is kept by the state government for its use. However, the state may choose to spend all or any part of its share for local functions. The remaining two thirds is divided among the counties via the following formula:

County Area Share =

$$\frac{(\text{County Population}) \times (\text{GTEF}) (\text{RIF}) \text{ for the county}}{\text{the sum of the products of} \\ (\text{County Population}) \times (\text{GTEF}) (\text{RIF}) \text{ for all counties}}$$

Where:

$$\text{GTEF} = \text{General Tax Effort Factor} = \frac{\text{Net taxes collected (state + local)}}{\text{Aggregate personal income}}$$

$$\text{RIF} = \text{Relative Income Factor} = \frac{\text{Per capita income of United States}}{\text{Per capita income of that state}}$$

Thus, the formula takes into account the number of people served, per capita income and the extent to which a local jurisdiction is willing to finance its own programs.

Table 1.

THREE FACTOR FORMULA

$$\text{Each state's share} = \$5.3 \text{ billion} \times \frac{(\text{Population}) (\text{GTEF}) (\text{RIF}) \text{ of a state}}{\text{Sum of products of} \\ (\text{Population}) (\text{GTEF}) (\text{RIF}) \text{ of all the states}}$$

FIVE FACTOR FORMULA

- | | |
|-------------------------|--|
| 1. 1/3 of \$3.5 billion | 1. Population |
| 2. 1/3 of \$3.5 billion | 2. Urbanized population |
| 3. 1/3 of \$3.5 billion | 3. Population weighted inversely for per capita income |
| 4. 1/2 of \$1.8 billion | 4. Income tax collection |
| 5. 1/2 of \$1.8 billion | 5. General tax effort |

The state's share of each part is determined as follows:

First part: Each state's share =

$$1/3 (\$3.5 \text{ billion}) \times \frac{\text{Population of state}}{\text{Population of all states}}$$

Second part: Each state's share =

$$1/3 (\$3.5 \text{ billion}) \times \frac{\text{Urban population of state}}{\text{Urban population of all states}}$$

Third part: Each state's share =

$$1/3 (\$3.5 \text{ billion}) \times \frac{(\text{State population}) (\text{National per capita income})}{(\text{State per capita income of all states})}$$

Fourth part: Each state's share =

$$1/2 (\$1.8 \text{ billion}) \times \frac{\text{State income tax}}{\text{All states' income tax}}$$

Fifth part: Each state's share =

$$1/2 (\$1.8 \text{ billion}) \times \frac{\text{General tax effort of state}}{\text{General tax effort of all states}}$$

52
53
322

Each county's share is further divided among the three following: (1) *Indian tribes*, in the proportion the tribe's population bears on the total population of the county. (2) *County government*, based on the ratio of county and adjusted taxes to the total of all city and county taxes within the county. (3) *Cities*, based on population, general tax effort and relative income. If a county government doesn't have any Indian population, its share is divided between county government and the cities.

Use of Funds

Local government officials make the final decisions about the use of revenue sharing moneys, within guidelines established by Congress. The purposes for which such money may be used are wide in scope and include any ordinary or necessary capital expenditures authorized by law, and ordinary and necessary maintenance and operating expenses for the following categories:¹

Public Safety (police, courts, corrections, crime prevention, fire protection, civil defense, inspection of buildings, plumbing, electrical facilities, gas lines, boilers and elevators).

Environmental Protection (smoke regulation, inspection of water supply, sanitary engineering, pollution control, sewerage, street cleaning, waste collection, refuse disposal or waste recycling).

Public Transportation (highways, bridges, streets, grade crossings, snow and ice removal, transit systems).

Health (prevention, diagnosis, evaluation and treatment of medical and mental health conditions, physical rehabilitation services, including the handicapped and blind and environmental programs in public health).

Recreation (participation and spectator sports programs, art, music and dance exhibitions, arts and crafts and other cultural activities, museums and zoos, park and playground activities).

Libraries (bookmobile operations, purchase of new books or development of specialized education programs for the blind and handicapped and the upgrading of general book collections).

Social Services for the Poor or Aged (food, clothing, shelter, day care or job training).

Financial Administration (expenses for accounting, auditing, budgeting, investing, tax collection and fiscal affairs).

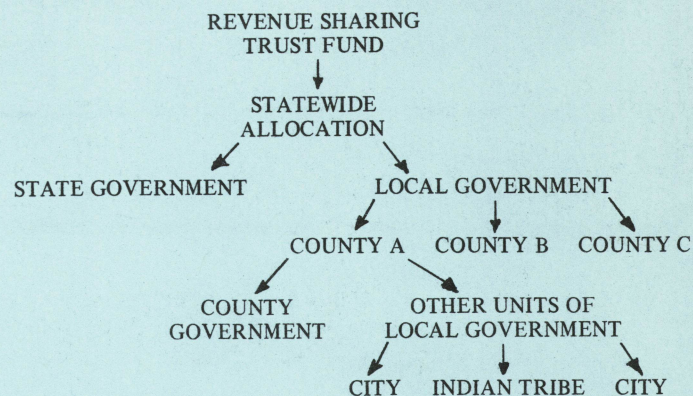
The foregoing list of items on which revenue sharing money can be spent is not meant to be an exhaustive one, but merely suggests some of the many different projects which may benefit a local community through such resources.

Requirements for Receiving Funds

Most of the requirements for receiving revenue sharing funds are designed to insure non-discrimination and traceability of funds. No program funded by revenue sharing money can permit discrimination on the basis of race, color, national origin or sex.

¹General Revenue Sharing and Civil Rights. 1976. Office of Revenue Sharing. Department of the Treasury, U. S. Government Printing Office, Washington, DC.

Table 2. Distribution of Revenue Sharing Funds.



1. Division to county areas is based on population, tax effort and relative income.
2. County government and other units of local government division is based on proportional share of county area adjusted taxes.
3. City division based on population, tax effort and relative income.

In addition, the wages paid on any construction project must meet the prevailing wage standards for comparable work if 25% or more of the project's funding comes from revenue sharing.

A revenue sharing trust fund has to be established and all money placed in the fund must be accounted for. Lastly, a planned use report must be prepared and published in local newspapers before the beginning of each entitlement period and an actual use report must be prepared at the end of each entitlement period.

Summary

General Revenue Sharing has proved to be beneficial to communities by increasing resources available for dealing with local problems. Revenue sharing dollars can be used many ways. Local officials make the final decisions about where and how to use them.

Allocations are made to the states through one of two formulas and the states may choose the one which will aid them most. The money received by the state is further divided until each taxing unit receives a share.

Observers note that revenue sharing has also been helpful in establishing national goals and standards for dealing with specific situations.

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