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April 2014

CC253 A Guide for Local Government Officials and Community Leaders

Everett Peterson

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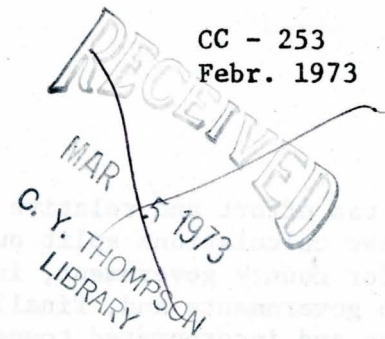
FEDERAL REVENUE SHARING^{1/}

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A Guide For Local Government
Officials and Community Leaders

JUN 17 1988

by
Everett E. Peterson
Extension Agr. Economist



Initial distribution of funds for the two entitlement periods in 1972, as allotted to state and local units of government under the revenue sharing act, will be made under interim regulations. Permanent regulations will be developed by the U.S. Department of the Treasury and issued through regular channels for entitlement periods beginning January 1, 1973. Local units can expect the first payments for 1972 in early December, with the second 1972 payment scheduled for January 1973.

Information in this publication applies largely to the first two entitlement periods, and is subject to changes that come with the adoption of permanent, more detailed regulations. Amendments to the Act can also be made by Congress.

1. What is the 1972 State and Local Fiscal Assistance Act (General Revenue Sharing Act)?

It is a program designed to return federally collected funds directly to state and local governments from the U.S. Treasury. It was signed into law by the President on October 20, 1972 after a conference committee resolved differences in earlier House and Senate versions.

It provides for \$30.2 billion to be returned to state and local units of government over a 5-year period beginning January 1, 1972. Approximately \$5.3 billion will be distributed for calendar year 1972 to the 50 states, District of Columbia, and 38,700 active units of local government.

2. What is the purpose of revenue sharing as far as local governments are concerned?

The purpose of revenue sharing is to provide state and local governments with funds for "priority" expenditures. These must be "necessary and ordinary" expenditures for maintenance and operation of services specified in the act, or capital expenditures authorized by state and local law.

3. Will all units of local government participate in revenue sharing?

Allocations will be made to state government and to all local units with general governmental functions: counties, cities, incorporated town and townships. Distribution will not be made to units whose share is less than \$200. Special districts or other local units with only specialized functions are not eligible to receive funds directly.

4. How much money will Nebraska receive and how was this determined?

The allocation to state and local governments in Nebraska is \$38.3 million for calendar year 1972. State government will receive one-third (about \$12.8 billion) while two thirds (about \$25.5 billion) is to be divided among all local units.

5. How is the allocation to local units calculated?

A three-factor formula is used to determine each local unit's share that takes into account county population,

^{1/}Adapted from EC-414, Cooperative Extension Service, Purdue University, W. Lafayette, Indiana.

general tax effort and relative income. Successive calculations split out the shares for county government, individual township governments and, finally, shares to cities and incorporated towns. These determinations are made by the U.S. Treasury Department utilizing latest available data. Payments are to be mailed directly to each state and local unit. Payments will not be the same as amounts originally established in September 1972. The first two entitlements are being recomputed using 1971 data, and payments will vary from early estimates made with older data.

6. Who administers the federal revenue sharing program?

A special "Office of Revenue Sharing" within the Department of the U.S. Treasury was created to administer the program. In addition to determining respective shares, it is also responsible for developing procedures to establish accountability for use of the money in line with provisions contained in the Act. Initially it will rely heavily on local and state accounting and auditing procedures.

7. Who will actually receive the money at the local level?

The funds will be mailed directly to the "chief executive officer" of each local unit from the U.S. Treasury or to someone else authorized by local officials. For counties this will be the president of the board of county commissioners; for cities -- the mayor; for towns -- the president of the town board of trustees; for townships -- the trustee. The money should then go into a special, separate trust fund and be spent from this account following standard accounting procedures now being used at the local level. Money used for investment purposes can be commingled with other funds at the time of investment.

8. Do local governments have to make out an application for the funds?

No. An address check was made by the U.S. Treasury to certify all local units and make sure the funds go to the proper places. No application forms need to be filed with U.S. Treasury, but some reports are due later on how the money was used.

9. What specifically can the money be used for, as stated in the final Act?

The revenue sharing act lists "high priority" expenditures for use of the money. Money must be used for "ordinary" and "necessary" purposes, which implies typical functions of government that are definitely required in the judgment of local officials.

A. For maintenance and operating expenses, the funds may be used for:

- 1) Public Safety -- including, but not limited to law enforcement, fire protection and building code enforcement
- 2) Environmental Protection -- including, but not limited to sewage disposal, sanitation and pollution abatement
- 3) Public Transportation -- including, but not limited to transit systems and streets and roads
- 4) Health
- 5) Recreation
- 6) Libraries
- 7) Social services for the poor and aged
- 8) Financial Administration -- including, but not limited to budgeting, auditing and tax collecting.

B. For capital expenditures authorized by law:

There are no categorical limitations on use of money for capital investments as long as they meet the "ordinary and necessary" test. This provides considerably more flexibility in making

capital expenditures than with maintenance and operating expenditures, although there is a stated preference for non-recurring capital expenditures.

10. What uses for funds are prohibited?

The Act lists only the above 8 categories as "high priority" maintenance and operating expenditures. Other expenditures are considered "nonpriority," and are not recommended. U.S. Treasury has not given any more specific guidelines on use of funds at this time. It has indicated that maintenance and operating funds could be used to pay salaries of local officials engaged in performing high priority functions, but should not be used by school corporations for operating purposes; should not go for direct welfare payments to the poor. No such limitation is placed on funds for capital expenditures.

11. Can revenue sharing payments be used as local matching funds for federal programs?

No. There are strong penalties against using revenue sharing funds as a local match for federal grant-in-aid programs. But revenue sharing funds may be used to supplement other federal programs.

12. Can revenue sharing funds be used to reduce local taxes?

Yes. Although, this was not the primary purpose of the revenue sharing act. Using payments to reduce property taxes will reduce future entitlement because the allocation formula takes into account "general tax effort." If the tax effort factor is updated and the new lower general tax effort factor, resulting from lower property taxes, is incorporated in the allocation formula, revenue sharing funds would be reduced in the future to the local unit.

13. How can revenue sharing funds be used to lower local taxes?

Units may act in reducing local taxes by substituting revenue sharing funds for local tax revenues. It is suggested that such action be taken at the end of the unit's fiscal year. (June 30 in the case of counties; July 31 in the case of cities) However, a reduction may be achieved prior to the end of the year but such action must be taken under the Uniform Budget Act. In either case, the State Auditor should be contacted before proceeding.

14. Can revenue sharing funds be invested in interest bearing accounts?

Yes. However, recipient units of government must use or obligate funds and interest earned from such funds within 24 months from the date received, unless granted an extension by the U.S. Treasury.

15. Who decides on how the money will be used locally?

The same way expenditure decisions are made for other tax revenues. At the county level the board of county commissioners will initiate and design proposals and then request authorization from the county council for use of funds. In cities the mayor and the city council work out these decisions with the council having final authority. In towns the board of trustees controls use of the money. At the township level the township trustee and the township advisory board will work out these decisions.

16. How might local officials go about deciding on uses for the money?

They should carefully study all alternatives before making commitments since they have almost 2 years to decide. Suggestions and proposals will come from many different groups and all deserve a fair and impartial hearing.

17. What are some other restrictions?

- A. Non-discrimination -- Local governments cannot use funds in a manner that discriminates on the basis of race, color, national origin or sex.
- B. Prevailing wage rates paid -- Wages paid on revenue sharing funded programs cannot be lower than prevailing rates of pay for persons employed in other similar jobs by that local government.
- C. Davis-Bacon requirements -- All laborers and mechanics employed by contractors and subcontractors must be paid prevailing wage rates and governed by standards of the Davis-Bacon Act on projects financed by 25 percent or more of revenue sharing funds.

18. What kinds of reports will be required?

Early in 1973 each local unit will submit a report to the Treasury Department detailing how it plans to use 1973 revenue funds. No plans need be submitted for the use of 1972 funds. At the end of each entitlement period, reports will be submitted to the Treasury on how monies have been spent or obligated. Both kinds of reports must be published in the local newspapers. Easy access to all papers, records, books and documents will be required, but other than random checks, the local unit will do its own audits along with any state auditing procedures.

19. What are the penalties for misuse of revenue sharing funds?

If a local government fails to comply with provisions of the Act, has had reasonable time for a hearing, and has not taken corrective action in 60 days, payments may be suspended.

If money is spent on non-priority expenditures, the Treasury may require

a payment back of 110% of the amount expended in violation of the intent of the Act. The local unit can repay such funds without additional penalty if done immediately upon notification of violation.

20. What can be done if a local unit feels it has not received an equitable share of funds?

Every reasonable effort will be made to correct difficulties that are brought to the attention of the Office of Revenue Sharing in the Department of the Treasury. With over 38,000 local units receiving allocations based on complicated formulas requiring considerable data, some mistakes are bound to occur. Formal procedures will be established to allow for redress and appeal.

21. Can the allocation formulas for distribution within a state be changed in the future?

Yes. A revised formula can be adopted by state legislative action, but it can be done only once. A state can tailor its allocation formula to favor local problem areas with special needs by increasing the weight given to: 1) relative incomes; 2) population; or 3) taxes raised locally. The same formula has to be used state wide.

22. Does revenue sharing affect financial aids from state to local governments?

No. States cannot reduce aids to local government from non-revenue sharing funds under a state "maintenance of effort" requirement. There is no "maintenance of effort" requirement for local governments which means they can reduce their tax collections.

23. What is the "Social Services" part of the revenue sharing Act?

A special program to expand social services is part of the Act. An authorization of \$2.5 billion was made, but still

must go through an annual appropriation process before the program is funded. A number of eligible services are included, such as family planning, child care, programs for retarded persons, narcotics and alcoholic treatment, and foster homes. Funds would be distributed to the states on a straight population basis and would require 25% state matching funds. Details on this program have not yet been announced.

24. What is the so-called "piggyback" feature of the revenue sharing bill?

The "piggyback" provision provides for Federal administration and collection of State individual income taxes in those cases where the States request the service. The collection service would start when 5% of the residents in one or more states elected to file state income taxes with Federal returns for 1972.