BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Changes In Revenue Sharing Formula Would Eliminate Payment Inequities; Improve Targeting Among Local Governments

Widespread inequities exist in revenue sharing payments to local governments. Similar governments within a State receive different revenue sharing payments, primarily because of their geographic location. To eliminate these disparities, GAO recommends that the Congress amend the Revenue Sharing Act by deleting the geographic tiering allocation procedures.

Provided that tiering is eliminated, GAO also recommends that the Congress amend the act by eliminating or modifying the revenue sharing formula's payment constraints. Such changes would provide more funds to cities, fiscally stressed governments, and low income governments providing at least moderate levels of public services. Funds would be directed away from townships, other limited service governments, and wealthier communities.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the equity and the targeting of the revenue sharing formula used to determine revenue sharing payments to over 39,000 local governments. We recommend legislative changes for consideration by the Congress during its current deliberations on reauthorizing the program.

We are providing copies of this report to the Secretary of the Treasury; the Director, Office of Revenue Sharing; the Director, Office of Management and Budget; and to appropriate congressional committees.

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

CHANGES IN REVENUE SHARING FORMULA WOULD ELIMINATE PAYMENT INEQUITIES; IMPROVE TARGETING AMONG LOCAL GOVERNMENTS

D I G E S T

Although the Revenue Sharing Act formula provides a reasonable approach for allocating funds, geographic tiering procedures used in applying the formula cause substantial differences in payments to similar local governments within a State. In addition, the act's limitations on the amount of entitlement payments generally penalize fiscally stressed governments and reward limited service governments. Removing tiering procedures and modifying these entitlement limitations would eliminate payment inequities and improve targeting of revenue sharing funds.

WIDESPREAD INEQUITIES ARE CAUSED BY ALLOCATION PROCEDURES

The revenue sharing formula, which allocates $6.9 billion annually in general financial assistance to over 39,000 State and local governments, is based on population, income, and tax effort. The formula rewards, on a per capita basis, lower income local governments and those governments which help themselves through tax effort. If the intrastate formula worked equitably, local governments with the same fiscal effort (combined effect of income and tax effort) would get the same per capita revenue sharing payments.

GAO's analyses show, however, that there are widespread differences in per capita revenue sharing payments to governments within a State which have the same fiscal efforts. For example, two small towns in Virginia have populations of about 8,000 and nearly identical fiscal efforts. Yet in 1979, one town received $19.92 per person compared to $13.44 for the other town. This amounted to a difference in their annual revenue sharing allocation of about $55,000.

Such inequities are prevalent nationwide. For example, extreme differences in per capita 1979

revenue sharing payments to cities with equal fiscal effort ranged from $2.52 in Rhode Island to $45.61 in Alaska. Local governments with equal fiscal efforts in 25 States have average differences in payments of at least $3.00 per capita. (See pp. 4 to 6.)

These inequities are created primarily by tiering allocation procedures whereby revenue sharing funds are first allocated to county geographic areas. Once the county area (not government) allocation is established, separate amounts are set aside for Indian tribes and Alaskan native villages, the county government, municipalities, and townships located in the county area.

These tiering procedures cause some significant allocation inequities because the total amounts set aside for counties, municipalities, and townships vary widely among county areas. Consequently, high fiscal effort governments located in low fiscal effort county areas compete for smaller amounts of revenue sharing funds than they would if they were located in a county area with the same or higher fiscal effort as their own.

GAO concludes that eliminating tiering procedures would lead to greater equity in revenue sharing payments. (See pp. 7 to 10.)

MODIFYING FORMULA CONSTRAINTS WOULD IMPROVE PAYMENT TARGETING

The Revenue Sharing Act contains a series of constraints or limitations on the amount of a recipient's payments. For example, most local governments may not receive a per capita allocation less than 20 percent or more than 145 percent of the per capita amount available for distribution to all local governments within the State. In addition, no local government may receive payments that are more than 50 percent of its budget. (See p. 1.)

Past studies by research groups and GAO have concluded that the revenue sharing formula constraints should be modified. In this report, GAO developed two alternative constraint modifications and analyzed their impact on various groups of governments. (See pp. 11 to 13.)

If the formula constraints were modified, generally more funds would go to cities, fiscally stressed governments, and low income governments providing at least moderate levels of public services. Funds would be directed away from townships, other limited service governments, and wealthier communities.

However, modifying formula constraints without eliminating tiering would lead to greater inequities in revenue sharing payments among similar governments within a State. GAO therefore concludes that modifying formula constraints should be made only in conjunction with elimination of tiering procedures.

Although major improvements in the targeting of revenue sharing funds would result, GAO's formula alternatives would only shift between $134 million and $220 million among losing and gaining recipients. This represents less than 5 percent of the local governments $4.6 billion share of revenue sharing funds. (See pp. 13 to 19.)

RECOMMENDATIONS TO THE CONGRESS

GAO recommends that the Congress amend the Revenue Sharing Act to eliminate the tiering procedures for fund allocations. GAO further recommends that the Congress amend the Revenue Sharing Act to eliminate or modify the allocation formula's constraints provided that the tiering procedures are eliminated. (See pp. 10 and 20.)

AGENCY COMMENTS

Department of the Treasury officials agreed with our recommendation that tiering should be eliminated. Based on the results of GAO's study presented by the Comptroller General in testimony before House and Senate subcommittees in March 1980, the Administration's bills to reauthorize the revenue sharing program beyond September 30, 1980 (H.R. 7112 and S. 2574) delete the tiering procedures. (See p. 10.)

Department officials believe the formula constraints should be modified. The Administration's bills contain several proposed changes to the allocation formula including reducing the 20 percent lower constraint to 10 percent, raising the 145 percent upper constraint to 175 percent, and lowering the 50 percent budget constraint to 25 percent. (See p. 20.)

Contents

CHAPTER 1

INTRODUCTION

Title I of the State and Local Fiscal Assistance Act of 1972, commonly known as the Revenue Sharing Act (31 U.S.C. 1221 et seq.), was enacted to provide general financial assistance to State and local governments. The revenue sharing program currently provides about $6.9 billion annually to over 39,000 recipient governments.

The calculations for allocating funds to State and local governments are based on complex formulas and procedures specified in the act. The three factors used in the formula to determine allocations to local governments are population; per capita income, which is used to measure a government's need; and adjusted taxes, which is used to measure a government's effort to meet its need. A local government's revenue sharing allocation generally increases as its population increases, as its per capita income decreases, and as its adjusted taxes increase.

THE ALLOCATION PROCESS

Funds are allocated to the 50 States and the District of Columbia by applying two formulas and using the formula which yields the higher amount for each State. The amounts are then proportionately adjusted to equal the funds available for distribution. After the total amount is determined for each State, one-third is allocated to the State government and two-thirds is allocated to local governments, including counties, municipalities, townships, Indian tribes, and Alaskan native villages.

To ensure that a local government does not receive an inordinately large share of the funds while another government receives almost none, the act places minimum and maximum constraints on the allocations. No local government, except county governments, may receive a per capita allocation of less than 20 percent or more than 145 percent of the average per capita amount available for distribution to all local governments within the State. In addition, no local government, including county governments, may receive payments that are more than 50 percent of the sum of its adjusted taxes (total taxes excluding tax revenues used for educational purposes) and intergovernmental transfers. Finally, a local government (other than a county government) will not receive revenue sharing funds if the annual payment would be less than $200.

The intrastate allocation process begins by a tiering process of dividing funds among geographic county areas. Once the county area (not county government) allocation is established, separate amounts are set aside for Indian tribes and Alaskan native villages, the county government, municipalities, and townships located in the county area.

This report evaluates only the intrastate formula for distributing revenue sharing funds to local governments. The scope of our review is presented in chapter 4. In March 1980, we testified on the results of our study before the House Subcommittee on Intergovernmental Relations and Human Resources and the Senate Subcommittee on Intergovernmental Relations.

CHAPTER 2

INTRASTATE FORMULA TIERING PROCEDURES DISTORT REVENUE SHARING ALLOCATIONS

The basic revenue sharing formula provides a reasonable approach for allocating funds. Geographic tiering procedures used in applying the formula, however, cause substantial differences in payments to similar local governments within a State. Eliminating these tiering procedures would result in more equitable revenue sharing allocations.

THE REVENUE SHARING FORMULA REWARDS FISCAL EFFORT

Population, income, and tax effort are the three elements of the intrastate revenue sharing formula. The formula rewards, on a per capita basis, lower income local governments and those governments which help themselves through tax effort.

An advantage of the formula is the interaction of the income and tax effort factors. The formula does not reward low income or high tax effort in isolation. Rather, the formula distributes funds on the basis of the interaction or combined effect of these factors which we refer to as fiscal effort. 1/

This interaction is illustrated in the following table. Low income government A with a low tax effort receives less per capita revenue sharing funds than higher income government B with high tax effort. Or, in another illustration, when the tax effort factors are the same, as in governments B and C, government C with the lower income receives the higher per capita revenue sharing payment.

1/The fiscal effort concept was introduced in a June 1980 GAO report entitled "The Impact of Tiering and Constraints on the Targeting of Revenue Sharing Aid" (PAD-80-9). In that report, we concluded that fiscal effort provides a reasonable approach for distributing revenue sharing funds.

Government	Per capita income	Relative income factor (note a)	General tax effort factor (note b)	Fiscal effort (note c)	Per capita entitlement (note d)
A	$2,000	2.000	0.0125	0.0250	$ 7.06
B	6,000	0.667	0.1125	0.0750	21.18
C	4,000	1.000	0.1125	0.1125	31.76

a/The average per capita income of $4,000 divided by each government's per capita income.

b/These figures are hypothetical for illustrative purposes. The general tax effort factor is computed by dividing a local government's adjusted taxes by its aggregate income.

c/Relative income factor multiplied by general tax effort factor.

d/Calculated using the intrastate revenue sharing formula assuming (1) each government has a population of 10,000; (2) the total allocation is $600,000 to be distributed among the three governments; and (3) no tiering procedures are involved.

There has been much discussion and study of the basic formula used to distribute revenue sharing funds. No consensus calling for fundamental changes has emerged, however, which meets the dual standard of being conceptually sound and having appropriate data available for the 39,000 recipient governments.

Until a consensus is reached, we believe the current formula's fiscal effort provides a reasonable approach for allocating revenue sharing funds. We have identified problems, however, in the legislatively required procedures used in implementing the basic formula.

GOVERNMENTS WITH THE SAME FISCAL EFFORT RECEIVE DIFFERENT PER CAPITA REVENUE SHARING PAYMENTS

If the intrastate formula worked equitably, governments with the same fiscal effort would get the same per capita revenue sharing payments. Widespread differences exist, however, in per capita revenue sharing payments to governments within a State having the same fiscal efforts. For example, two small towns in Virginia have populations of about 8,000 and nearly identical fiscal efforts; yet in 1979 one town received $19.92 per person whereas the other town

received $13.44. This amounted to a difference in their annual revenue sharing allocations of about $55,000.

Appendix I shows, by State, the extreme differences in per capita 1979 revenue sharing allocations to local governments with equal fiscal efforts. Extreme differences between cities, for example, ranged from $2.52 per capita in Rhode Island to $45.61 per capita in Alaska. Forty-one States had extreme differences in per capita 1979 revenue sharing allocations in excess of $7.00 per capita for local governments with equal fiscal efforts.

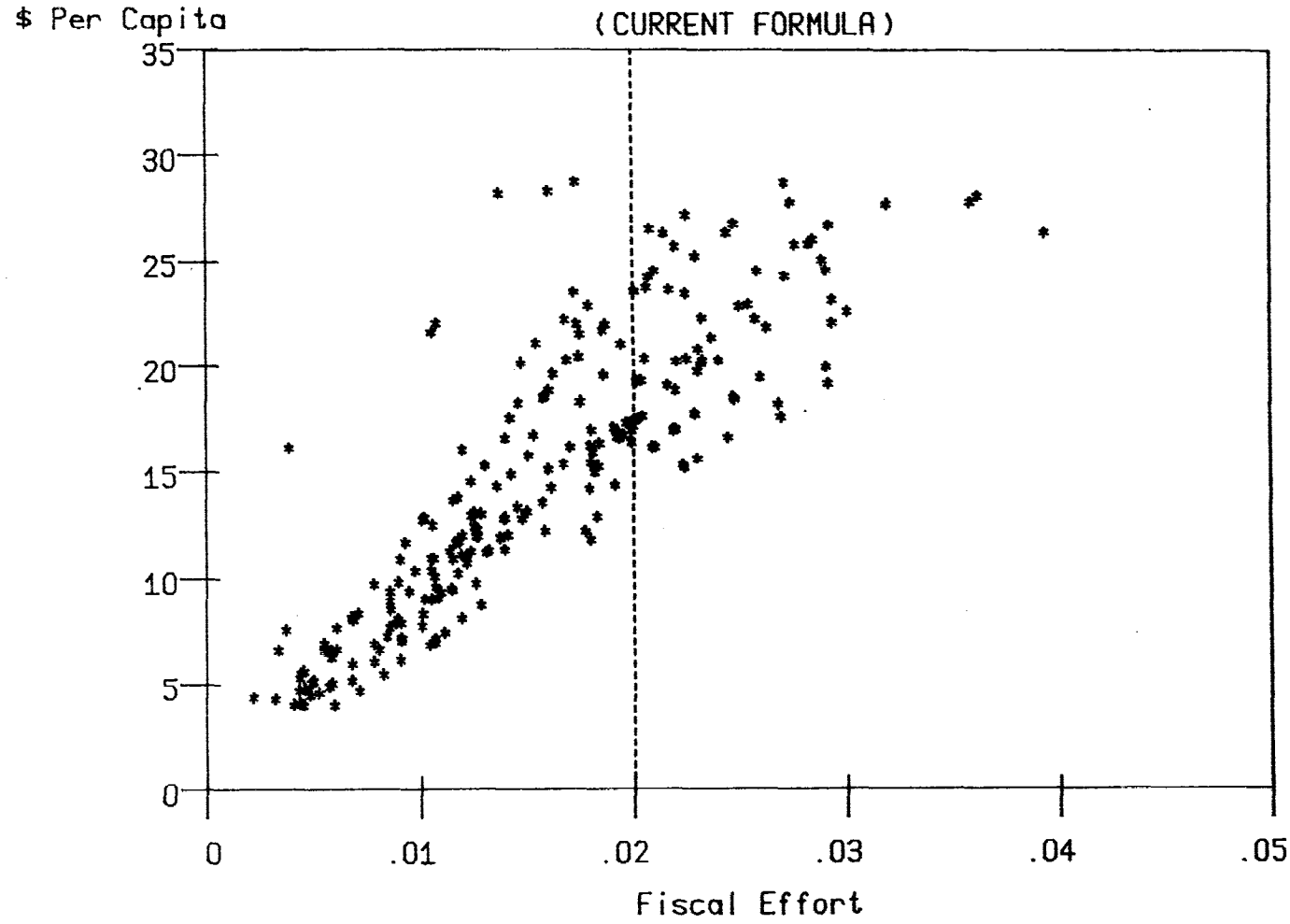
Appendix II shows, by State, the average differences in revenue sharing allocations for governments which have equal fiscal efforts. Under the existing formula, local governments in 25 States have average differences of at least $3.00 per capita.

Inequities in revenue sharing payments are illustrated by the following graph for unconstrained 1/ Tennessee cities. The scatter of points (representing different governments) shows the wide differences in per capita entitlement payments for cities with equal fiscal efforts that exist under the current allocation procedures. For example, the vertical dotted line shows that several cities with the same fiscal effort of 0.02 receive different per capita revenue sharing payments.

1/ Those governments not affected by the minimum, maximum, and budgetary formula constraints.

Figure 1

UNCONSTRAINED TENNESSEE CITIES' PER CAPITA REVENUE SHARING PAYMENTS FOR ENTITLEMENT PERIOD 10 (CURRENT FORMULA)



FORMULA TIERING PROCEDURES CAUSE PAYMENT INEQUITIES

Payment inequities are created primarily by the geographic tiering allocation process. In general, the tiering procedures work as follows: within each State, revenue sharing funds are first allocated to county geographic areas using the three factor formula of population, income, and tax effort. Once the county area (not government) allocation is established, an amount is set aside for any Indian tribes and Alaskan native villages based on the ratio of their populations to the total population of the county area. The remainder is subdivided, on the basis of noneducation taxes collected (not fiscal effort), into as many as three allocations for the county government, municipalities, and townships located in the county area. Amounts established for municipalities and townships are then allocated among them using the three factor formula.

These tiering procedures cause some significant allocation inequities because the total amounts set aside for the types of governments (county, municipalities, and townships) vary widely among county areas. Consequently, high fiscal effort governments (such as low- and moderate-income jurisdications with high tax effort) located in relatively low fiscal effort county areas compete for smaller amounts of revenue sharing funds than they would if they were located in a county area with the same or higher fiscal effort as their own. Conversely, low fiscal effort governments (such as wealthy jurisdictions with low tax effort) located in relatively high fiscal effort counties receive disproportionately high payments.

In addition, the amounts set aside for each type of government within the county area are based on their tax collections rather than on their fiscal efforts (the combined effect of the income and tax effort factors). Therefore, if all the cities in a county area have higher tax efforts than other types of governments in the county, they will obtain more funds than will the cities in another county area with lower tax efforts than the other governments--even if all cities in both county areas have identical fiscal efforts.

Further, the county area tiering process interacts with the formula constraints (discussed in chapter 3) to compound the inequities in the distribution of revenue sharing funds. Only unconstrained governments located in unconstrained county areas lose or gain funds from realloca-

tions necessitated by upper and lower constraints. An unconstrained jurisdiction located in a constrained county area will not receive "surplus" funds originating from the 145 percent upper constraint applied to another county area; nor will it give up funds to allow another county area to meet the 20 percent lower constraint. Consequently, two unconstrained jurisdictions with identical formula elements would receive different per capita grants if only one of them were located in a constrained area.

ELIMINATING TIERING RESULTS IN MORE EQUITABLE REVENUE SHARING ALLOCATIONS

To eliminate these inequities in revenue sharing payments, the initial allocation to county areas must be eliminated. Under this approach, all local governments within a State would compete for funds on the basis of the jurisdictions' individual characteristics of population, income, and tax effort.

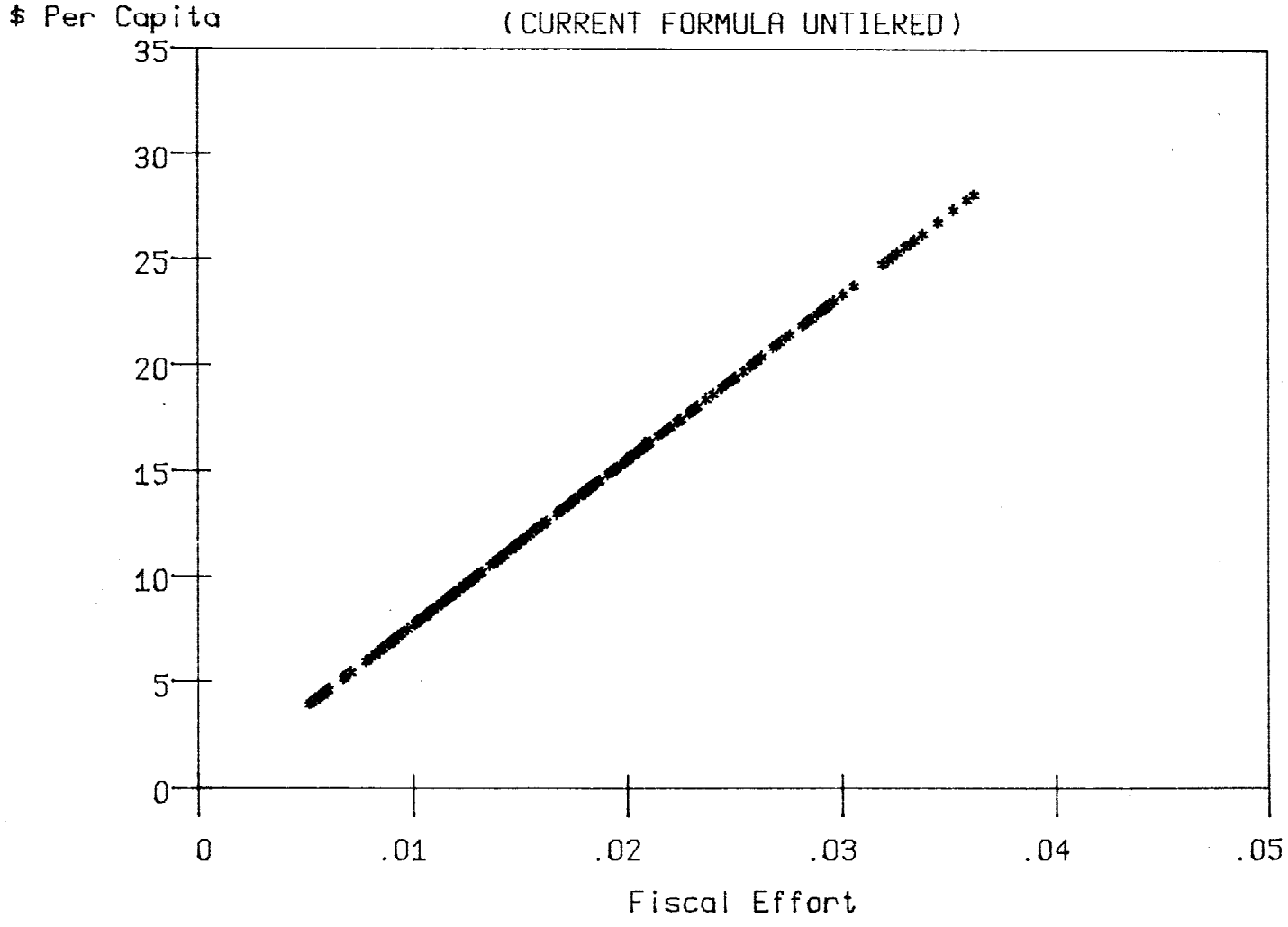
Untiering the formula would provide unconstrained jurisdictions that have the same income levels and tax efforts in a given State the same level of per capita revenue sharing payments. As shown in appendixes I and II, when the formula is untiered, there are no per capita revenue sharing allocation disparities in 49 States. Payment disparities in Louisiana remain due to the Revenue Sharing Act's special treatment of Louisiana county sheriffs.

Untiering the formula would also provide equitable payments for Indian tribes and Alaskan native villages. In an earlier report 1/, we concluded that substantial differences existed in payments to similar tribes and villages in a State. Since their allocations are based on the ratio of their population to that of the county area, tribes and villages located in high fiscal effort county areas receive higher payments than those located in low fiscal effort county areas. By untiering the formula, each tribe's and village's allocation would be comparable since it would be based on the ratio of their population to that of the entire State's population.

The following graph for Tennessee cities demonstrates the impact of removing tiering procedures. As indicated by the straight line, all cities with the same fiscal effort receive the same per capita revenue sharing payments. Payment inequities (see figure 1 on page 6) are thus eliminated.

1/"Changes Needed in Revenue Sharing Act For Indian Tribes and Alaskan Native Villages" (GGD-76-64, May 27, 1976).

Figure 2
UNCONSTRAINED TENNESSEE CITIES' PER CAPITA REVENUE
SHARING PAYMENTS FOR ENTITLEMENT PERIOD 10
(CURRENT FORMULA UNTIERED)



CONCLUSIONS

The revenue sharing formula elements of population, income, and tax effort provide a reasonable approach for allocating funds. Allocation tiering procedures, however, lead to widespread inequities in payments to governments exhibiting equal fiscal efforts. Because of the tiering procedures, an individual government's allocation is dependent on the combined fiscal effort of all jurisdictions within a county area rather than its own fiscal effort. Tiering procedures also allow local governments with high tax efforts in one county area to compete for more funds than the same type of local governments with low tax efforts in another county area--even if all of the local governments in both county areas have identical fiscal efforts. Most revenue sharing inequities can be eliminated by untiering the formula so that all local governments within a State compete for funds on the basis of their own characteristics of population, income, and tax effort.

RECOMMENDATION TO THE CONGRESS

We recommend that the Congress amend the Revenue Sharing Act to eliminate the tiering procedures for fund allocations. Appendix V contains suggested language for revisions to the act.

AGENCY COMMENTS

Department of the Treasury officials agreed with this recommendation. Based on the results of our study, as presented by the Comptroller General in testimony before House and Senate subcommittees in March 1980, the Administration's bills to reauthorize the revenue sharing program beyond September 30, 1980 (H.R. 7112 and S. 2574) delete the tiering procedures.

CHAPTER 3

FORMULA CONSTRAINTS LIMIT FUNDS TO STRESSED GOVERNMENTS AND REWARD LIMITED SERVICE GOVERNMENTS

We and others have previously concluded that the revenue sharing formula constraints should be modified. Formula constraints often penalize fiscally stressed governments and reward limited service governments. In addition to reversing these trends, constraint elimination or modification would generally shift funds from high income governments to low income communities, thus improving the targeting of revenue sharing funds.

PAST STUDIES RECOMMENDED MODIFYING CONSTRAINTS

From analyses of various factors built into the formula, researchers have made many recommendations for changing the allocation formula. A Brookings Institution report 1/ concluded that the 145-percent maximum and the 20-percent minimum constraints should be eliminated. Eliminating the 145-percent ceiling was favored because the amounts going to many of the Nation's fiscally hardest pressed municipalities would increase. Additional funds would also go to a larger number of smaller local governments in low-income areas. Eliminating the 20-percent floor was shown to reduce the strong tendency of the revenue sharing program to bolster marginal local governments which provide limited services.

As part of its Research Applied to National Needs program, the National Science Foundation sponsored several studies which resulted in alternatives or combinations of alternatives designed to move the existing formula toward some preselected goal or combination of goals, such as making more equitable per capita allocations. Consistent with our findings in chapter 2, some of the researchers reported that the formula produces instances where governments with like populations, incomes, and taxes within a State did not receive equal amounts of revenue sharing funds.

1/Richard P. Nathan, Allen D. Manvel, and Susannah E. Calkins, Monitoring Revenue Sharing (The Brookings Institution, Washington, D.C., 1975).

Citing the tiering procedures as one cause of inequitable payments, the researchers discuss formula constraints as another:

> "The upper, lower, and budget constraints also prevent the equal treatment of equals. Constrained units are unequally treated, and municipalities in the same state with a 145 percent PCLS [per capita local share] constrained city will have a higher allocation than if they are in a state with no constrained units, because the surplus is distributed among unconstrained units of government. Conversely, they will have a lower allocation if they are in a state with one or more 20 percent PCLS constrained governments since a portion of their shared revenue must come from others. Thus, being in a particular county or state can raise or lower allocations as much as adding population, decreasing taxes, or any self-initiated change measured by the formula's data elements." 1/

We believe these prior studies' recommendations to modify the formula constraints have merit. The constraints significantly increase and decrease the amount of funds that the basic revenue sharing formula would otherwise provide. The targeting of funds based on population, income, and tax effort is therefore distorted by the formula constraints.

MODIFYING CONSTRAINTS AND ELIMINATING TIERING WOULD IMPROVE REVENUE SHARING ALLOCATIONS

Modifying the formula constraints and eliminating tiering (discussed in ch. 2) would improve the targeting of revenue sharing funds. Such changes would provide more funds to fiscally stressed cities and low income governments providing at least moderate levels of public services. Funds would be directed away from limited service governments, (particularly townships) and wealthier communities.

We developed two alternative sets of formula constraints to illustrate the impact of constraint modifications. One set, which we refer to as "Modification A," contained modest changes to existing constraints. The other set, referred to as "Modification B," involved more radical changes to the

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1/General Revenue Sharing Research Utilization Project, Volume 3, "Synthesis of Formula Research," National Science Foundation, October 1975, pp. 20 and 21.

constraints. The specific changes under both modifications are shown in the following table.

	Current formula	Modification A	Modification B
Lower constraint	20%	10%	0%
Upper constraint	145%	175%	1,000%
Budget constraint	50%	25%	25%
Minimum payment	$200	$200	$200

We analyzed the impact of these formula constraint modifications on fiscally stressed governments, limited service governments, high and low income governments, and types of governments (counties, municipalities, townships, and Indian tribes and Alaskan native villages). 1/ We also identified the impact of eliminating the tiering procedures under the current formula and under Modification A and Modification B.

Fiscally stressed governments would gain

In recent years, many of the Nation's cities have experienced financial difficulties. Modifying the revenue sharing formula constraints would provide additional funds to the more fiscally stressed cities.

Several stress indexes for governments have been devised by various individuals, groups, and organizations. The Congressional Budget Office developed, among other measures, a fiscal need index for 38 sample cities. 2/

If the formula constraints were modified, generally the more fiscally stressed of these 38 cities would receive more funds. Constraint modifications have the most significant impact on the high fiscal need governments since many are affected by the 145-percent upper constraint. As shown in the following table and appendix III, the high fiscal need governments would gain $37.7 million, a 7.7-percent increase,

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1/The impact of constraint modifications on "tax enclaves" (high tax effort local governments which export a large proportion of their taxes) is not presented in this report. At the time this report was being prepared, the Department of the Treasury and GAO were providing cognizant subcommittee staff, at their request, with alternative formula changes that would limit windfall entitlement increases for tax enclaves as the 145-percent upper constraint is raised.

2/"City Need and the Responsiveness of Federal Grants Programs," The Congressional Budget Office, August 1978.

and $87.5 million, a 17.8-percent increase, respectively, under Modification A and Modification B. The low fiscal need governments would gain only $934,000, a 0.8-percent increase, and $740,000, a 0.6-percent increase, respectively. Boston, for example, which has the highest fiscal need index, would gain $4.6 million, a 20.7-percent increase, and $8.9 million, a 39.8-percent increase, respectively, under Modification A and Modification B. Anaheim, California, with the lowest fiscal need index would gain only $643 under Modification A and would lose $11,000 under Modification B.

Formula alternative	Net change in 1979 entitlement from current formula					
	High fiscal need		Medium fiscal need		Low fiscal need	
	($000)	(percent)	($000)	(percent)	($000)	(percent)
Modification A with tiering	37,734.1	7.7	5,079.7	3.7	934.4	0.8
Modification B with tiering	87,458.9	17.8	1,852.4	1.3	739.7	0.6
Current formula untiered	-1,577.1	-0.3	5,400.9	3.9	2,502.8	2.2
Modification A untiered	39,701.6	8.1	14,081.4	10.2	3,598.9	3.2
Modification B untiered	96,704.3	19.7	12,134.4	8.8	3,288.8	2.9

On the other hand, untiering would have the greatest impact on medium fiscal need governments because they generally are not directly affected by the constraints. Buffalo, for example, would gain $143,000, a 2.1-percent increase, under Modification A, $1.3 million, a 20.1-percent increase, under the current formula untiered, and $1.5 million, a 22.7-percent increase, under Modification A untiered.

Limited service governments would lose

One criticism of the revenue sharing program is that it provides substantial funds to limited service governments. It is argued that governments which provide few services can receive disproportionate revenue sharing payments due to the 20-percent lower constraint and the allocation tiering procedures.

Under the current formula, numerous limited service governments which would receive very small amounts of funds have their allocations raised to 20 percent of the Statewide per capita average. Similarly, due to the tiering procedures, a limited service government located in a high fiscal effort county area competes for relatively larger shares of revenue sharing funds than a full service government located in a low fiscal effort county area.

During fiscal year 1979, 8,635 governments were affected by the 20-percent lower constraint. Of these, 5,743 were townships located primarily in midwestern States.

In an earlier report 1/, we concluded that most of the 52 townships we visited in 9 midwestern States provided a very limited number and/or level of services. We concluded that the Revenue Sharing Act's requirement that each local government be allocated at least 20 percent of the per capita amount available for distribution to all local governments in a State disproportionately rewarded these townships at the expense of full service local governments in the nine States visited. We therefore recommended that the Congress delete the 20-percent lower constraint from the act.

During our current study, we analyzed the impact on these same 52 townships of modifying the constraints and untiering the formula. As shown by the following table, modifying the constraints with and without tiering reduces the townships' payments by 44 to 61 percent.

1/"Revenue Sharing Fund Impact on Midwestern Townships and New England Counties" (GGD-76-59, Apr. 22, 1976).

Formula alternative	Net change in sample (note a) townships' 1979 entitlements from current formula ($000)	(percent)
Modification A with tiering	-1,031.1	-44.5
Modification B with tiering	-1,400.3	-60.5
Current formula untiered	+5.7	+ 0.2
Modification A untiered	-1,009.9	-43.6
Modification B untiered	-1,337.5	-57.8

a/Three of the 52 townships in our earlier report did not receive revenue sharing payments in 1979.

An illustration of the substantial impact of constraint modification and untiering is Blooming Grove, Indiana, which, with an extremely low fiscal effort, received $1,643 in 1979. Modification B untiered would reduce this payment by $821, or 50 percent. Appendix IV shows the impact of formula changes on all 52 townships.

Low income governments would gain and high income governments would lose

Modifying the constraints and eliminating tiering would generally shift funds away from high income governments to those low income governments which exhibit at least moderate levels of fiscal effort. The following table shows the impact of formula changes on the 2,000 highest income governments and the 2,000 lowest income governments which provide at least moderate levels of public services.

Formula alternative	Net change in 1979 entitlement from current formula: Low income governments ($000)	(percent)	High income governments ($000)	(percent)
Modification A with tiering	+5,862	+5.3	-16,877	-4.6
Modification B with tiering	+9,657	+8.7	-25,445	-7.0
Current formula untiered	+6,829	+6.1	- 969	-0.3
Modification A untiered	+9,758	+8.8	-17,487	-4.8
Modification B untiered	+11,000	+9.9	-27,539	-7.6

The above table shows that modifying the constraints has a larger impact on high income governments than untiering. If the current formula is untiered, high income governments only lose 0.3 percent of their 1979 allocation. However, under Modification B, their allocations decline by 7.6 percent. This occurs because the highest income governments generally benefit from the 20-percent minimum constraint.

Limited service low income governments would also lose if the minimum constraint is lowered. However, low income governments providing at least moderate levels of public services would gain $6.8 million, or 6.1 percent, if the current formula were untiered and $11.0 million, or 9.9 percent, under Modification B untiered.

Impact by types of governments vary

The impact of the various formula changes by type of local government varies from State to State. The following table shows the nationwide net percentage change in 1979 entitlement payments for counties, cities, townships, Indian tribes, and Alaskan native villages under the various formula alternatives.

	Net percentage change in 1979 entitlements from current formula			
Formula alternative	Counties	Cities	Town-ships	Tribes/ villages
Modification A with tiering	1.1	0.7	-12.6	6.0
Modification B with tiering	-1.5	3.7	-18.9	7.2
Current formula untiered	2.3	0.0	- 5.1	-2.0
Modification A untiered	-0.3	3.1	-15.6	-2.0
Modification B untiered	-2.1	5.5	-21.8	-2.0

In general, the formula alternatives we examined would increase funding for cities and lead to moderate increases and decreases for counties. Townships, which often provide limited services, would incur significant losses. Indian tribes and Alaskan native villages would gain under constraint modifications and would experience minor losses if tiering were eliminated.

The following table shows the total amount of funds shifted from losing governments to gaining governments under all formula alternatives.

Formula alternative	Total amount of 1979 entitlement funds shifted ($000)	(percent)
Modification A with tiering	133,945	2.91
Modification B with tiering	219,866	4.78
Current formula untiered	136,038	2.96
Modification A untiered	202,979	4.41
Modification B untiered	177,136	3.85

The above formula alternatives would shift between $134 million and $220 million. Although individual jurisdictions would incur significant losses, the total reductions for losing governments would be less than 5 percent of the local governments' $4.6 billion portion of revenue sharing funds.

MODIFYING CONSTRAINTS WITHOUT ELIMINATING TIERING WOULD INCREASE PAYMENT INEQUITIES

We concluded in chapter 2 that eliminating tiering procedures would eliminate widespread revenue sharing payment inequities. Further, as discussed in the present chapter, modifying formula constraints in combination with eliminating tiering would improve the targeting of revenue sharing funds. However, modifying the constraints without eliminating tiering would increase payment inequities.

The following table, which summarizes appendix I, shows the number of States with payment inequities under the various formula alternatives.

Formula alternative	Number of States where payment inequities increase compared to current formula inequities	Number of States where there are no payment inequities
Modification A with tiering	26	a/1
Modification B with tiering	27	a/1
Current formula untiered	0	b/49
Modification A untiered	0	b/49
Modification B untiered	0	b/49

a/There is no payment inequity in Hawaii.

b/Payment inequities in Louisiana result from the Revenue Sharing Act's special treatment of Louisiana county sheriffs.

Payment inequities are eliminated in all States except Louisiana (see note b in above table) when tiering procedures are removed from the current formula, Modification A, and Modification B. Payment inequities increase, however, in 26 and 27 States, respectively, under Modification A with tiering and Modification B with tiering.

As shown on pages 14 and 16, improved targeting of funds to fiscally stressed cities and active low income governments would be achieved under constraint modifications with and without tiering. However, payment inequities would increase if constraints are modified but tiering procedures remain unchanged.

Therefore, constraints should not be modified without eliminating tiering. However, tiering could be eliminated without modifying constraints.

CONCLUSIONS

Modifying or eliminating the revenue sharing formula constraints would lead to improved targeting of funds without shifting a large proportion of the local governments' total share of revenue sharing funds. Such changes would generally provide more funds to cities, fiscally stressed governments, and low income governments exhibiting at least moderate fiscal effort. Revenue sharing funds generally would be

directed away from townships, other limited service governments, and wealthier communities.

Substantially improved targeting of revenue sharing funds would result under constraint modifications with and without tiering. However, payment inequities would increase if constraints are modified but tiering procedures remain unchanged. Therefore, constraints should not be modified unless tiering is eliminated as recommended in chapter 2.

RECOMMENDATION TO THE CONGRESS

We recommend that the Congress amend the Revenue Sharing Act by eliminating or modifying the allocation formula constraints provided that the tiering procedures are eliminated. We have presented two constraint modification alternatives in this report for consideration by the Congress, and many other modifications could be considered.

AGENCY COMMENTS

Department of the Treasury officials believe that formula constraints should be modified. The Department has performed extensive analyses of various constraint alternatives. The Administration's bills to reauthorize the revenue sharing program contain several specific changes to the allocation formula, including reducing the 20-percent lower constraint to 10 percent, raising the 145-percent upper constraint to 175 percent, and lowering the 50-percent budget constraint to 25 percent.

CHAPTER 4

SCOPE OF REVIEW

We examined the distributional impact of general revenue sharing allocations in terms of amounts received by different types of local governments (county, municipality, town, or other units). We performed extensive analyses of the effects of tiering procedures and the application of constraints in the revenue sharing allocation process.

The results presented in this report were developed from computer simulations of the formula under alternative sets of constraints with and without the current allocation tiering process. We examined the impact of these formula simulations on jurisdictions with different characteristics, such as fiscal effort (combined effect of income and tax effort factors), income, fiscal need, and service responsibilities. These computer simulations were run by the Office of Revenue Sharing, Department of the Treasury, and by Data Resources, Inc., using entitlement period 10 data (Oct. 1, 1978 through Sept. 30, 1979) and a $4.6 billion appropriation.

The data reported to support our conclusions and recommendations are the result of statistical analyses. The statistical techniques used ranged from relatively simple sum totals and averages to more sophisticated techniques such as regression analyses. We plan to issue a companion technical paper which will present a more complete and detailed description of the methodologies used in evaluating the revenue sharing formula allocations.

The short time between completion of our review and legislative renewal deliberations precluded our obtaining written agency comments on this report. However, we discussed the report with Department of the Treasury officials and incorporated their oral comments.

EXTREME DIFFERENCES IN PER CAPITA REVENUE SHARING
PAYMENTS TO UNCONSTRAINED LOCAL GOVERNMENTS WITH EQUAL FISCAL EFFORTS
(see note a)

State	Current formula	Modification A	Modification B	Current formula untiered	Modification A untiered	Modification B untiered
ALABAMA						
Counties	3.296	3.969	5.393	0	0	0
Cities	11.880	11.463	13.352	0	0	0
ALASKA						
Counties	57.574	54.503	14.633	0	0	0
Cities	45.611	41.273	66.872	0	0	0
Towns	13.889	5.272	1.619	0	0	0
ARIZONA						
Counties	10.452	7.114	5.369	0	0	0
Cities	13.207	16.211	20.498	0	0	0
ARKANSAS						
Counties	3.791	1.683	3.081	0	0	0
Cities	6.426	4.373	4.086	0	0	0
CALIFORNIA						
Counties	14.665	13.138	3.585	0	0	0
Cities	5.746	5.618	5.653	0	0	0
COLORADO						
Counties	8.935	8.631	3.195	0	0	0
Cities	8.776	6.568	12.811	0	0	0
CONNECTICUT						
Cities	9.941	10.046	10.298	0	0	0
Towns	4.807	4.639	4.572	0	0	0
DELAWARE						
Counties	2.811	b	b	0	0	0
Cities	21.051	21.500	45.270	0	0	0
FLORIDA						
Counties	2.026	0.561	0.589	0	0	0
Cities	7.316	7.043	8.791	0	0	0
GEORGIA						
Counties	6.407	4.438	2.188	0	0	0
Cities	12.319	10.972	11.842	0	0	0
HAWAII						
Counties	0.000	0.000	0.000	0	0	0
Cities	b	b	b	0	0	0
IDAHO						
Counties	12.032	10.662	0.932	0	0	0
Cities	7.420	6.551	6.330	0	0	0

APPENDIX I

State	Current formula	Modification A	Modification B	Current formula untiered	Modification A untiered	Modification B untiered
ILLINOIS						
Counties	0.007	0.231	0.255	0	0	0
Cities	4.991	4.744	5.931	0	0	0
Towns	2.844	2.686	2.883	0	0	0
INDIANA						
Counties	0.023	0.226	0.236	0	0	0
Cities	4.573	4.008	4.919	0	0	0
Towns	1.101	0.618	0.261	0	0	0
IOWA						
Counties	5.150	3.140	0.224	0	0	0
Cities	4.302	4.429	4.465	0	0	0
KANSAS						
Counties	6.647	5.018	0.862	0	0	0
Cities	9.064	7.749	7.799	0	0	0
Towns	5.907	5.385	4.769	0	0	0
KENTUCKY						
Counties	6.709	3.682	4.324	0	0	0
Cities	14.841	13.222	14.052	0	0	0
LOUISIANA						
Counties	12.457	10.473	7.177	10.844	6.992	6.508
Cities	12.860	11.199	10.287	0.725	0.774	0.722
MAINE						
Counties	0.086	1.159	1.236	0	0	0
Cities	13.176	15.059	14.521	0	0	0
Towns	5.067	5.041	6.386	0	0	0
MARYLAND						
Counties	14.547	11.497	3.091	0	0	0
Cities	10.752	6.772	9.417	0	0	0
MASSACHUSETTS						
Counties	0.909	0.318	0.000	0	0	0
Cities	9.391	5.864	7.294	0	0	0
Towns	7.251	5.428	5.529	0	0	0
MICHIGAN						
Counties	7.167	4.802	1.379	0	0	0
Cities	8.895	7.513	8.566	0	0	0
Towns	8.171	4.398	2.524	0	0	0
MINNESOTA						
Counties	4.871	2.873	2.830	0	0	0
Cities	5.512	5.576	6.300	0	0	0
Towns	6.184	4.394	3.983	0	0	0
MISSISSIPPI						
Counties	14.953	10.834	1.809	0	0	0
Cities	17.789	17.528	17.248	0	0	0

APPENDIX I

State	Current formula	Modification A	Modification B	Current formula untiered	Modification A untiered	Modification B untiered
MISSOURI						
Counties	1.753	1.214	1.327	0	0	0
Cities	8.174	7.189	6.103	0	0	0
Towns	3.583	2.697	2.661	0	0	0
MONTANA						
Counties	20.666	21.893	11.838	0	0	0
Cities	8.396	10.329	7.289	0	0	0
NEBRASKA						
Counties	11.003	11.302	1.912	0	0	0
Cities	6.227	5.772	6.067	0	0	0
Towns	6.113	4.647	3.907	0	0	0
NEVADA						
Counties	13.740	13.934	1.703	0	0	0
Cities	8.556	8.537	8.512	0	0	0
NEW HAMPSHIRE						
Counties	0.002	0.003	0.003	0	0	0
Cities	9.370	9.515	9.448	0	0	0
Towns	2.465	2.458	2.680	0	0	0
NEW JERSEY						
Counties	4.589	3.120	0.249	0	0	0
Cities	8.717	8.472	10.485	0	0	0
Towns	11.692	9.593	7.462	0	0	0
NEW MEXICO						
Counties	7.719	9.013	8.859	0	0	0
Cities	9.558	10.234	11.354	0	0	0
NEW YORK						
Counties	6.802	5.855	0.324	0	0	0
Cities	7.612	6.539	10.313	0	0	0
Towns	6.843	5.358	3.260	0	0	0
NORTH CAROLINA						
Counties	6.408	4.227	3.336	0	0	0
Cities	13.768	13.021	18.541	0	0	0
NORTH DAKOTA						
Counties	13.118	14.496	10.457	0	0	0
Cities	6.396	4.994	5.894	0	0	0
Towns	9.727	8.121	8.263	0	0	0
OHIO						
Counties	0.337	0.271	0.273	0	0	0
Cities	5.503	5.030	6.541	0	0	0
Towns	2.287	1.656	1.451	0	0	0
OKLAHOMA						
Counties	0.631	2.044	3.574	0	0	0
Cities	7.243	6.229	5.931	0	0	0

APPENDIX I

State	Current formula	Modification A	Modification B	Current formula untiered	Modification A untiered	Modification B untiered
OREGON						
Counties	4.851	2.497	2.274	0	0	0
Cities	8.361	7.147	6.961	0	0	0
PENNSYLVANIA						
Counties	0.012	0.788	0.221	0	0	0
Cities	8.458	7.238	5.983	0	0	0
Towns	3.309	3.055	2.414	0	0	0
RHODE ISLAND						
Cities	2.522	2.384	2.383	0	0	0
Towns	3.410	3.448	3.400	0	0	0
SOUTH CAROLINA						
Counties	5.330	7.284	9.449	0	0	0
Cities	13.859	16.010	19.012	0	0	0
SOUTH DAKOTA						
Counties	21.842	24.234	24.263	0	0	0
Cities	7.008	6.696	11.284	0	0	0
Towns	8.059	5.929	5.596	0	0	0
TENNESSEE						
Counties	0.856	1.173	1.892	0	0	0
Cities	13.661	12.120	17.065	0	0	0
TEXAS						
Counties	13.472	14.984	0.939	0	0	0
Cities	8.850	7.264	6.196	0	0	0
UTAH						
Counties	18.147	19.703	14.003	0	0	0
Cities	6.761	5.081	3.523	0	0	0
VERMONT						
Counties	0.266	b	b	0	0	0
Cities	12.083	12.833	11.359	0	0	0
Towns	8.857	8.127	11.254	0	0	0
VIRGINIA						
Counties	2.806	0.722	0.805	0	0	0
Cities	14.290	13.266	15.461	0	0	0
WASHINGTON						
Counties	0.886	0.631	0.629	0	0	0
Cities	3.894	3.837	4.409	0	0	0
WEST VIRGINIA						
Counties	5.567	b	b	0	0	0
Cities	12.992	20.730	18.278	0	0	0

APPENDIX I

State	Current formula	Modification A	Modification B	Current formula untiered	Modification A untiered	Modification B untiered
WISCONSIN						
Counties	15.350	15.611	1.194	0	0	0
Cities	6.827	6.726	6.734	0	0	0
Towns	7.192	6.781	6.342	0	0	0
WYOMING						
Counties	12.692	11.767	2.034	0	0	0
Cities	6.699	3.732	2.368	0	0	0

a/The data reported in this table is the result of estimated linear regression equations where the dependent variable is the per capita revenue sharing grant and the independent variable is fiscal effort. Fiscal effort is defined as the product of the relative income factor (the ratio of State per capita income to local per capita income) and the general tax effort factor (the ratio of adjusted taxes to aggregate personal income). An equation was estimated for each group of governments within each State, i.e., counties, cities, and townships. The standard error of each equation represents the average difference in the per capita revenue sharing grant at each level of fiscal effort. In order to determine how large some of the more extreme differences in per capita revenue sharing could be at given levels of fiscal effort, an interval of plus or minus two standard errors was computed for the current formula and the modifications described in chapter 3. These extreme differences are shown in this appendix while the average differences are reported in appendix II.

b/Insufficient number of governments to complete the analysis.

APPENDIX I

AVERAGE DIFFERENCES IN PER CAPITA REVENUE SHARING PAYMENTS TO UNCONSTRAINED LOCAL GOVERNMENTS WITH EQUAL FISCAL EFFORTS
(see note a)

State	Current formula	Modification A	Modification B	Current formula untiered	Modification A untiered	Modification B untiered
ALABAMA						
Counties	0.824	0.992	1.348	0	0	0
Cities	2.970	2.866	3.338	0	0	0
ALASKA						
Counties	14.393	13.626	3.658	0	0	0
Cities	11.403	10.318	16.718	0	0	0
Towns	3.472	1.318	0.405	0	0	0
ARIZONA						
Counties	2.613	1.778	1.342	0	0	0
Cities	3.302	4.053	5.124	0	0	0
ARKANSAS						
Counties	0.948	0.421	0.770	0	0	0
Cities	1.607	1.093	1.021	0	0	0
CALIFORNIA						
Counties	3.666	3.284	0.896	0	0	0
Cities	1.437	1.405	1.413	0	0	0
COLORADO						
Counties	2.234	2.158	0.799	0	0	0
Cities	2.194	1.642	3.203	0	0	0
CONNECTICUT						
Cities	2.485	2.511	2.575	0	0	0
Towns	1.202	1.160	1.143	0	0	0
DELAWARE						
Counties	0.703	b	b	0	0	0
Cities	5.263	5.375	11.318	0	0	0
FLORIDA						
Counties	0.507	0.140	0.147	0	0	0
Cities	1.829	1.761	2.198	0	0	0
GEORGIA						
Counties	1.602	1.110	0.547	0	0	0
Cities	3.080	2.743	2.961	0	0	0
HAWAII						
Counties	0.000	0.000	0.000	0	0	0
Cities	b	b	b	0	0	0
IDAHO						
Counties	3.008	2.665	0.233	0	0	0
Cities	1.855	1.638	1.583	0	0	0

APPENDIX II

State	Current formula	Modification A	Modification B	Current formula untiered	Modification A untiered	Modification B untiered
ILLINOIS						
Counties	0.002	0.058	0.064	0	0	0
Cities	1.248	1.186	1.483	0	0	0
Towns	0.711	0.672	0.721	0	0	0
INDIANA						
Counties	0.006	0.057	0.059	0	0	0
Cities	1.143	1.002	1.230	0	0	0
Towns	0.275	0.154	0.065	0	0	0
IOWA						
Counties	1.287	0.785	0.056	0	0	0
Cities	1.076	1.107	1.116	0	0	0
KANSAS						
Counties	1.662	1.254	0.216	0	0	0
Cities	2.266	1.937	1.950	0	0	0
Towns	1.477	1.346	1.192	0	0	0
KENTUCKY						
Counties	1.677	0.921	1.681	0	0	0
Cities	3.710	3.306	3.513	0	0	0
LOUISIANA						
Counties	3.114	2.618	1.794	2.711	1.748	1.627
Cities	3.215	2.800	2.572	0.181	0.194	0.181
MAINE						
Counties	0.022	0.290	0.309	0	0	0
Cities	3.294	3.765	3.630	0	0	0
Towns	1.267	1.260	1.596	0	0	0
MARYLAND						
Counties	3.637	2.874	0.773	0	0	0
Cities	2.688	1.693	2.354	0	0	0
MASSACHUSETTS						
Counties	0.227	0.079	0.000	0	0	0
Cities	2.348	1.466	1.824	0	0	0
Towns	1.813	1.357	1.382	0	0	0
MICHIGAN						
Counties	1.792	1.201	0.345	0	0	0
Cities	2.224	1.878	2.142	0	0	0
Towns	2.043	1.100	0.631	0	0	0
MINNESOTA						
Counties	1.218	0.718	0.707	0	0	0
Cities	1.378	1.394	1.575	0	0	0
Towns	1.546	1.098	0.996	0	0	0
MISSISSIPPI						
Counties	3.738	2.709	0.452	0	0	0
Cities	4.447	4.382	4.312	0	0	0

APPENDIX II

State	Current formula	Modification A	Modification B	Current formula untiered	Modification A untiered	Modification B untiered
MISSOURI						
Counties	0.438	0.303	0.332	0	0	0
Cities	2.044	1.797	1.526	0	0	0
Towns	0.896	0.674	0.665	0	0	0
MONTANA						
Counties	5.167	5.473	2.959	0	0	0
Cities	2.099	2.582	1.822	0	0	0
NEBRASKA						
Counties	2.751	2.825	0.478	0	0	0
Cities	1.557	1.443	1.517	0	0	0
Towns	1.528	1.162	0.977	0	0	0
NEVADA						
Counties	3.435	3.483	0.426	0	0	0
Cities	2.139	2.134	2.128	0	0	0
NEW HAMPSHIRE						
Counties	0.001	0.001	0.001	0	0	0
Cities	2.343	2.379	2.362	0	0	0
Towns	0.616	0.614	0.670	0	0	0
NEW JERSEY						
Counties	1.147	0.780	0.062	0	0	0
Cities	2.179	2.118	2.621	0	0	0
Towns	2.923	2.398	1.865	0	0	0
NEW MEXICO						
Counties	1.930	2.253	2.215	0	0	0
Cities	2.390	2.559	2.839	0	0	0
NEW YORK						
Counties	1.700	1.464	0.081	0	0	0
Cities	1.903	1.635	2.578	0	0	0
Towns	1.711	1.339	0.815	0	0	0
NORTH CAROLINA						
Counties	1.602	1.057	0.834	0	0	0
Cities	3.442	3.255	4.635	0	0	0
NORTH DAKOTA						
Counties	3.279	3.624	2.614	0	0	0
Cities	1.599	1.248	1.473	0	0	0
Towns	2.432	2.030	2.066	0	0	0
OHIO						
Counties	0.084	0.068	0.068	0	0	0
Cities	1.376	1.258	1.635	0	0	0
Towns	0.572	0.414	0.363	0	0	0
OKLAHOMA						
Counties	0.158	0.511	0.893	0	0	0
Cities	1.811	1.557	1.483	0	0	0

APPENDIX II

State	Current formula	Modification A	Modification B	Current formula untiered	Modification A untiered	Modification B untiered
OREGON						
Counties	1.213	0.624	0.568	0	0	0
Cities	2.090	1.787	1.740	0	0	0
PENNSYLVANIA						
Counties	0.003	0.197	0.055	0	0	0
Cities	2.115	1.810	1.496	0	0	0
Towns	0.827	0.764	0.603	0	0	0
RHODE ISLAND						
Cities	0.631	0.596	0.596	0	0	0
Towns	0.852	0.862	0.850	0	0	0
SOUTH CAROLINA						
Counties	1.332	1.821	2.362	0	0	0
Cities	3.465	4.003	4.753	0	0	0
SOUTH DAKOTA						
Counties	5.460	6.058	6.066	0	0	0
Cities	1.752	1.674	2.821	0	0	0
Towns	2.015	1.482	1.399	0	0	0
TENNESSEE						
Counties	0.214	0.293	0.473	0	0	0
Cities	3.415	3.030	4.266	0	0	0
TEXAS						
Counties	3.368	3.746	0.235	0	0	0
Cities	2.212	1.816	1.549	0	0	0
UTAH						
Counties	4.537	4.926	3.501	0	0	0
Cities	1.690	1.270	0.881	0	0	0
VERMONT						
Counties	0.067	b	b	0	0	0
Cities	3.021	3.208	2.840	0	0	0
Towns	2.214	2.032	2.814	0	0	0
VIRGINIA						
Counties	0.701	0.181	0.201	0	0	0
Cities	3.572	3.316	3.865	0	0	0
WASHINGTON						
Counties	0.221	0.158	0.157	0	0	0
Cities	0.973	0.959	1.102	0	0	0
WEST VIRGINIA						
Counties	1.392	b	b	0	0	0
Cities	3.248	5.183	4.569	0	0	0

APPENDIX II

State	Current formula	Modification A	Modification B	Current formula untiered	Modification A untiered	Modification B untiered
WISCONSIN						
Counties	3.837	3.903	0.298	0	0	0
Cities	1.707	1.682	1.684	0	0	0
Towns	1.798	1.695	1.585	0	0	0
WYOMING						
Counties	3.173	2.942	0.509	0	0	0
Cities	1.675	0.933	0.592	0	0	0

a/See footnote a/ of appendix I for explanation of computation methodology.

b/Insufficient number of governments to complete the analysis.

APPENDIX II

IMPACT OF FORMULA ALTERNATIVES ON 37 CITIES
RANKED BY FISCAL NEED BY THE CONGRESSIONAL BUDGET OFFICE

Cities	Ranked by fiscal need index	Current formula	Change in Total Grant from Current Formula (see note a)				
			Modification A	Modification B	Current formula untiered	Modification A untiered	Modification B untiered
HIGH							
Boston	72	22,431,185	4,640,934	8,914,186	0	4,640,934	8,284,136
New York	67	298,585,303	6,412,388	7,036,090	-2,567,002	3,701,138	4,406,091
Newark	65	9,789,871	1,044,941	743,490	0	2,025,490	6,979,217
St Louis	61	13,255,935	2,742,607	10,441,945	0	2,742,607	10,766,814
Philadelphia	53	49,039,587	10,146,122	46,269,446	1	10,146,122	44,575,961
Baltimore	52	26,428,369	5,467,938	7,196,147	0	5,467,938	7,344,683
Jersey City	47	5,856,289	720,243	537,267	670,184	597,212	220,239
Birmingham	46	8,087,829	-109,364	-230,437	0	1,673,344	2,026,162
Detroit	46	39,905,398	8,256,289	8,269,265	0	8,256,289	11,690,885
New Orleans	45	18,652,167	-1,587,983	-1,738,451	311,733	450,523	410,075
Subtotal	55	492,031,933	37,734,115	87,458,948	-1,577,084	39,701,597	96,704,263
MEDIUM							
Paterson	45	2,739,000	-117,897	-190,823	273,204	235,879	62,105
Buffalo	44	6,658,655	143,000	156,910	1,339,368	1,508,725	1,527,772
Cincinnati	44	10,266,626	1,538,757	1,541,126	0	2,124,130	2,078,046
Norfolk	44	7,714,729	1,596,151	1,647,489	0	1,596,151	1,786,723
Cleveland	42	14,673,399	244,398	247,392	976,214	3,071,901	2,966,936
San Francisco	39	21,761,326	5,853	-100,076	-241,645	-230,357	-340,075
Pittsburgh	37	11,738,600	-692,219	-3,147,851	514,237	470,973	-2,135,202
Rochester	36	3,763,092	80,816	88,677	1,270,129	1,376,707	1,388,693
Louisville	35	10,512,908	2,007,165	1,606,717	0	2,175,085	3,238,737
El Paso	34	7,765,006	-22,608	-152,082	-505,369	-324,277	-393,821
Denver	33	11,542,530	-110,242	-271,802	-193,246	-212,791	-278,959
Gary	31	3,342,499	250,531	301,144	507,457	776,113	807,066
Miami	31	7,979,491	-19,064	-34,312	298,896	298,119	285,891
Tampa	29	4,930,607	-11,779	-21,201	201,962	201,481	193,899
Columbus	28	9,233,270	153,787	155,671	756,427	774,209	715,014
San Bernardino	28	2,227,976	600	-10,246	67,622	68,826	57,122
Albany	28	1,512,148	32,474	35,633	135,648	170,540	174,464
Subtotal	36	138,361,862	5,079,723	1,852,366	5,400,904	14,081,414	12,134,411
LOW							
Akron	27	4,523,729	75,346	76,269	163,552	171,895	144,120
Sacramento	24	3,965,048	1,066	-18,235	80,974	83,096	62,467
Minneapolis	23	7,593,868	93,880	120,050	854,557	1,002,023	1,024,657
Indianapolis	22	13,171,585	909,798	1,108,155	68,216	992,113	1,098,558
Los Angeles	18	46,720,506	12,566	-214,859	1,394,500	1,419,738	1,174,423
Phoenix	18	10,417,504	-144,693	-200,870	-425,870	-424,939	-447,891
San Diego	17	9,251,977	2,488	-42,549	-256,744	-252,025	-297,888
Seattle	13	9,412,933	-18,446	-46,626	-220,917	-242,734	-268,831
San Jose	12	6,673,122	1,795	-30,689	621,690	625,516	588,324
Anaheim	10	2,389,478	643	-10,988	222,856	224,226	210,907
Subtotal	18	114,119,750	934,443	739,658	2,502,814	3,598,909	3,288,846
Total	36	744,513,545	43,748,281	90,050,972	6,326,634	57,381,920	112,127,520

a/Excludes Washington, D.C. (high fiscal need) which is treated as a State in the revenue sharing formula; New Orleans is reclassified into the top ten high fiscal need category.

APPENDIX III

IMPACT OF FORMULA ALTERNATIVES ON SAMPLE OF TOWNSHIPS

Townships	Ranked by fiscal effort index	Current formula	Change in Total Grant from Current Formula				
			Modification A	Modification B	Current formula untiered	Modification A untiered	Modification B untiered
Parker	0.0552	7,446	1,540	1,995	0	1,540	2,104
Green	0.0483	2,960	-997	-997	337	-997	-997
Jefferson	0.0250	4,368	-1,457	-1,457	989	-1,457	-1,457
Lark	0.0245	1,352	-610	-610	133	-610	-610
Harrison	0.0235	1,608	-140	-315	365	88	10
Edgemont	0.0223	547	-5	-9	2	14	12
Lund	0.0183	493	-8	-10	147	167	168
Clifton	0.0151	590	-118	-120	417	449	450
Lynn	0.0141	2,193	-34	-42	258	335	338
Maple	0.0125	3,311	2	-8	854	884	877
Dearborn	0.0125	1,001	-339	-342	412	357	357
Holmes	0.0125	785	-280	-280	3	-280	-280
Dorman	0.0112	0	0	0	228	235	235
Symmes	0.0109	5,873	331	450	-328	205	331
Fisher	0.0105	373	17	17	155	17	17
Hudson	0.0104	1,777	-155	-348	430	288	34
Highland	0.0100	1,369	-21	-27	161	209	210
Chelsea	0.0071	751	-3	-5	170	176	175
Fish Lake	0.0067	5,709	71	90	672	783	800
Louisville	0.0061	2,253	-398	-399	0	9	15
Miami	0.0057	80,606	-18,185	-18,172	0	-22,378	-22,722
Rockville	0.0057	1,289	-220	-348	165	72	-96
Webster	0.0057	4,551	-1,008	-1,019	0	-176	-176
Pierce	0.0055	529	-46	-50	120	134	132
Rushseba	0.0053	4,306	-749	-736	0	-310	-299
Washington	0.0046	6,217	-502	-501	0	-886	-918
Forest Lake	0.0043	19,394	-5,398	-5,351	0	-4,765	-4,726
Springfield	0.0041	148,350	-24,438	-24,413	0	-34,010	-34,686
Grant	0.0036	9,421	-3,723	-3,704	0	-3,465	-3,450
Paris	0.0035	45,074	-18,459	-17,946	0	-18,996	-18,458
Delhi	0.0035	94,203	-27,476	-27,463	0	-32,630	-32,995
Lone Elm	0.0033	906	-453	-453	0	-453	-453
Gibbs	0.0032	2,373	-1,187	-1,593	0	-622	-627
Bath	0.0030	1,529	-647	-647	0	-647	-647
Center	0.0024	810,301	-405,150	-459,686	0	-372,319	-369,027
Oxford	0.0022	2,033	-1,016	-1,299	0	-1,016	-1,242
Jamesport	0.0019	1,421	-711	-711	0	-711	-711
Monticello	0.0019	5,836	-2,918	-4,853	0	-2,918	-4,027
Hamiltown	0.0016	1,016	-508	-785	0	-508	-729
Hickory Point	0.0016	45,857	-22,928	-33,397	0	-22,928	-33,855
Blooming Grove	0.0015	1,643	-821	-821	0	-821	-821
Decatur	0.0014	309,021	-154,510	-235,721	0	-154,510	-238,413
Exeter	0.0013	3,149	-1,574	-2,506	0	-1,574	-2,351
Prairie	0.0009	2,516	-1,258	-1,699	0	-1,258	-2,125
Wheeling	0.0008	524,351	-262,175	-434,615	0	-262,175	-449,639
Decatur	0.0008	33,129	-16,565	-25,121	0	-16,565	-23,050
Washington	0.0006	30,967	-15,484	-25,363	0	-15,484	-25,326
McCamish	0.0006	1,152	-576	-1,152	0	-576	-930
Gardner	0.0006	2,166	-1,083	-1,787	0	-1,083	-1,469
Fairfield	0.0005	77,460	-38,730	-65,949	0	-38,730	-66,502
Delaware	0.0000	0	0	0	0	0	0
Ozark	0.0000	0	0	0	0	0	0
Total	0.0084	2,315,525	-1,031,102	-1,400,278	5,690	-1,009,896	-1,337,549

APPENDIX IV

SUGGESTED REVISIONS TO THE STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972, AS AMENDED (PUBLIC LAW 94-488)

We suggest that section 108(a) and (b) of the State and Local Fiscal Assistance Act of 1972, as amended (31 U.S.C. 1227) be further amended to read as follows 1/:

Sec. 108. ENTITLEMENTS OF LOCAL GOVERNMENTS.

(a) ALLOCATION TO UNITS OF LOCAL GOVERNMENT.

(1) Except as otherwise provided in this section, the amount allocated to units of local government (other than Indian tribes and Alaskan native villages) within a State for any entitlement period shall be allocated so that each unit of local government will receive an amount which bears the same ratio to the total amount to be allocated to all such units within the State as

(A) the population of that unit of local government, multiplied by the general tax effort factor of that unit of local government, multiplied by the relative income factor of that unit of local government, bears to

(B) the sum of the products determined under paragraph (A) for all such units.

(2) If within a State there is an Indian tribe or Alaskan native village which has a recognized governing body that performs substantial governmental functions, then before applying paragraph (1) there shall be allocated to such tribe or village a portion of the amount allocated to the State for the entitlement

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1/This change will eliminate the act's intrastate geographic tiering procedures for fund allocations. Section 108 dollar constraints are not affected by this change, except that they will be applied only to local units of governments in lieu of county areas.

period which bears the same ratio to such amount as the population of that tribe or village bears to the population of the State involved.

We suggest that section 108(b)(6)(D) be amended to read as follows:

(D) Entitlement less than $200, or governing body waives entitlement

If (but for this subparagraph) the entitlement of any unit of local government below the level of the county government--

(i) would be less than $200 for any entitlement period ($100 for an entitlement period of 6 months, $150 for an entitlement period of 9 months), or

(ii) is waived for any entitlement period by the governing body of such unit,

then the amount of such entitlement for such period shall (in lieu of being paid to such unit) be redistributed to other local governments within the State in accordance with subsection (a) and (b) of this section. If the entitlement of an Indian tribe or Alaskan native village is waived for any entitlement period by the governing body of that tribe or village, then the amount of such entitlement for such period shall (in lieu of being paid to such tribe or village) be redistributed to other local governments within the State in accordance with subsection (a) and (b) of this section.

We suggest that section 108(b)(6) (A) through (D) be redesignated as section 108(b)(1) through (4) and that section 108(b)(7) be redesignated as section 108(b)(5). We further suggest that all references to the term "county area" in sections 108(a) through (d) be deleted.

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