

# CFS NOTEBOOK

Conference for  
Federal Studies

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WINTER 1975 VOL. V, NO. 1

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### PARTNERSHIP WITHIN THE STATES: STATE-LOCAL RELATIONS IN THE FEDERAL SYSTEM

In connection with the meetings of the National Municipal League and the Advisory Commission on Intergovernmental Relations in Chicago, Illinois in November 1975, the Conference for Federal Studies in cooperation with the Center for the Study of Federalism will co-sponsor a conference, "Partnership Within the States: State-Local Relations in the Federal System." The conference will be the first major examination of the most pressing problem facing the American federal system today.

Among the subjects to be examined will be:

- \* The legal philosophical and historical development of state-local relations in America.
- \* The pattern of fiscal relations between the states and localities.

- \* The variety of state-local relations in the American states.
- \* The effect on state-local relations of such factors as party politics, cultural tradition, urbanization, and economics.

Papers will be written on the following around these subjects:

A perspective on home rule.

The states: federal or unitary?

Federal institutions and modern American society.

The role of state-wide organizations in state-local relations.

Service function distribution between states and localities.

There will also be comparative papers presented on the major state practices and information on several state home rule provisions.

This conference is the fourth in the TOWARD '76 series and will be co-sponsored by the Advisory Commission on Intergovernmental Relations; the Center for the Study of Federalism, Temple University; the Institute for Government Research, University of Illinois; and, the National Municipal League.

Conference for Federal Studies members will be kept informed as more information becomes available about participants and the possibility of expense grants.

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CFS NOTEBOOK is published by the Center for the Study of Federalism, Temple University, Philadelphia, Pennsylvania 19122

Editor: Bernadette A. Stevens

Production: Mary A. Duffy

CFS NOTEBOOK is distributed free of charge to members of the Conference for Federal Studies. It is published four times a year.

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## FEDERAL REVENUE SHARING: A METROPOLITAN RESPONSE

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Not required to put up any matching money, state and local governments are now sharing the taxes collected by the national government. This new revenue sharing by state and local governments began in 1972 when Congress enacted the State and Local Fiscal Assistance Act. From 1972 through 1976 the National Government will share \$30.2 billion of nationally collected taxes with state and local governments. States and all general purpose local governments, including counties, cities, townships, boroughs and villages qualify to receive revenue sharing funds. By August 1973, the 38,000 state and local units had received a total of \$8,131 billion.

### Revenue Sharing Supports

Both the Advisory Commission on Intergovernmental Relations in 1967 and President Nixon, in his statement of February 4, 1971, set forth two explicit reasons for their support of general revenue sharing.<sup>1</sup> First, state and local governments needed federal money to help them meet their traditional responsibilities, and second, federal assistance should be given to state and local governments in such a way that would free them from cumbersome federal controls. Underlying these explicit supports for revenue sharing, there seemed to be a virtually unanimous push by states and all types of local governments for some system of "stringless" federal aid. The Commission, the President, and the Congress appeared to act in response to this state and local pressure. Representing state and local governments, the Commission gave a sense of urgency to the need for revenue sharing. By agreeing to allot revenue sharing money to even the smallest local unit of general government, the President and Congress appeared to be responding to an expression of support for revenue sharing by practically all units of government. The news media helped create the impression that all units of local government wanted and were in dire need of revenue sharing money. Whether revenue sharing had such vocal and widespread support is open to question. But it seems fair to say that the public had the impression that states and local units across the board were agitating for revenue sharing.

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1. All quotations are from the Advisory Commission on Intergovernmental Relations, Fiscal Balance in the American Federal System, Vol I. (Washington: U.S. Government Printing Office, 1967), pp. 5 ff, and the White House Press release of February 3, 1971.

In advocating revenue sharing the Commission and the President emphasized the urgency of aiding state and local programs and allowing local and state governments to make their own decisions about spending. The Commission advocated revenue sharing as a way to "...allow states and localities to devise their own programs and set their own priorities," and the President similarly favored revenue sharing as "...program which will apply fast growing federal revenues to fast growing state and local requirements..." The Commission stressed the advantages of "no strings" revenue sharing because "...the unconditional character of the grant is in keeping with the objective of providing broad scope for decentralized decision-making." Following suit in 1971 the President said state and local governments "...need more money to spend, but they also need greater freedom in spending it." Implicit in their support of revenue sharing the Commission and the President each expressed what they claimed is state and local resentment against national restrictions that accompany federal money. The Commission criticized federal controls because they advantage those skilled in "grantsmanship" and distort state and local budgets. The President lined up on the side of state and local officials in 1971 stating that state and local governments have crucial operating decisions made for them "...by anonymous bureaucrats who are directly accountable neither to elected officials nor to the public at large." In brief the position of the Commission and the President occupy the key ground on which revenue sharing has been supported.

The research reported herein focuses on these supports for revenue sharing. Specifically, the supports were framed as three assumptions and tested by survey data gathered for this purpose. The three assumptions are: (1) that there was a vocal and virtually unanimous groundswell of demand among all local units of government for some system whereby the national government shares its income with local units with few or no national "strings;" (2) that the revenue sharing money would be spent by local units on the traditional programs and activities; and, (3) that there is a widespread and deep-seated resentment held by local units against virtually any type of national restrictions that go with the receipt of federal money by local units.

### National Revenue Sharing

Although the general revenue sharing program allows wide discretion to state and local governments in the use of the shared money, there are some national restrictions and state-local distribution guidelines.

In spending revenue sharing money, state and local governments are required to report how they spend their money, to establish trust funds for the money, pay prevailing wages,

and refrain from spending any revenue sharing money in a manner discriminating toward people because of race or sex. Sharing money cannot be used as matching funds for federal programs still extant.

In enacting the program, Congress laid out some very broad substantive program guides for state and local governments in their spending of revenue sharing money.<sup>2</sup> The Act intends that the federal money be spent by local governments on "priority" items defined as:

1. ordinary operating expenses for public safety, environmental protection, public transportation, health, recreation, libraries, social services for the poor and aged, financial administration; and,

2. ordinary capital expenditures authorized by law.

States are not subject to the restrictions of the "priority" list, but may use the money for any legal expenditure. While states are permitted to use the money for education, local governments are not.

The revenue sharing program has carefully devised guidelines for the distribution of money among the 50 states and between each state and its local governments. The total revenue sharing money is divided among the states according to one of two formulae, depending upon which awards a state a greater amount of money. Rating each state according to its tax effort, wealth and population is one way used to distribute money among the states. The alternate formula applies five factors: population, urbanized population, population weighted inversely for per capita income, income tax collections, and general tax effort.

The allocation of revenue sharing money within each state is arranged so that the state government gets one-third and local governments receive two-thirds. Each local government is given money according to a formula based on three factors: population, tax effort and wealth.

Finally, for each entitlement period, state and local governments are required to report to the Secretary of the Treasury and to the public through the news media how revenue sharing money has been spent and how money will be spent for the next entitlement period.

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2. Office of Revenue Sharing, Department of the Treasury, What General Revenue Sharing is All About, (Washington: U.S. Government Printing Office, 1972), pp. 1 ff.

## The Ohio Setting

The impact on and the response of local units in Ohio to general revenue sharing may be conditioned by two significant factors. First, in Ohio revenue sharing money is spread among a greater number of units of general government than is the case in most states. Ohio is ninth among the states when ranked by number of units of government. The reason Ohio has such a large number is chiefly because Ohio has a large number of Municipalities, 936, plus 1320 townships. Most states (29) use neither townships nor towns.<sup>3</sup> Second, the long established Ohio system of state revenue sharing may make local units in Ohio less resistant to the various procedural restrictions that are attached to spending national revenue sharing money.<sup>4</sup>

Since 1934 the Ohio state government has been sharing state-collected revenue with local governments for the purpose of enabling local units to pay current operating expenses for carrying out "essential local government purposes" as required by law. "Local government purposes" is a broad grant of spending authority similar to the discretion allowed under national revenue sharing. The shared money is allocated to the Ohio Local Government Fund and is derived chiefly from 3.5% of the annual collection of the state sales tax, personal income tax and the corporate franchise tax. The Local Government Fund is divided among the counties and distributed to the county, city, village, park district and township governments within each county. The grant to each local unit is based on relative need and is distributed by the county budget commission made up of the County Auditor, Treasurer and Prosecutor.<sup>5</sup> Over \$100,000,000 annually goes into the Ohio Local Government Fund for distribution to the local governments. The Local Government Fund and the system of distribution familiarizes local government personnel with complex distribution formulae, higher level supervision, publicity about spending, and methods of appealing the decisions distributing the funds--all characteristic features of the national revenue sharing system. Experience with the Ohio Local Government Fund may make similar national revenue sharing restrictions more easily understandable and palatable to local officials.

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3. U.S. Bureau of the Census, 1972 Census of Governments, Governmental Units in 1972, Preliminary, No. 1 (Washington: U.S. Government Printing Office), p. 8.

4. Forty-five states share revenue for general purposes with their local governments. Advisory Commission on Intergovernmental Relations, State Aid to Local Government (Washington: U.S. Government Printing Office, 1969).

5. Ohio Revised Code, ch. 5747.50-5747.55. Steve Williams, Local Government Fund in Ohio, (Paper delivered at the convention of the American Society for Public Administration, Denver, Colorado, April 18, 1971), pp. 1 ff.

Survey Results: Demand

To test the assumptions about federal revenue sharing after local units received their 1972 allotments, survey questionnaires were mailed to all 75 units of local government in the Toledo metropolitan area plus one outside the area.<sup>6</sup> Forty-three units responded which included 2 counties, 8 cities, 18 villages, and 15 townships. One third of the respondents were interviewed at length.

Responses to questions testing the assumption that there was a vocal, virtually unanimous demand by local governments for federal revenue sharing were:

"Are you generally in favor of the national revenue sharing plan?"

Yes 33; No 6; Not Sure 4.

"Are you satisfied with the revenue sharing formula for distribution of the funds?"

Yes 23; No 17; Uncertain 2; No Response 1.

"Did you make efforts to obtain Congressional approval of revenue sharing?"

Yes 11; No 31; No Response 1.

The survey options to indicate exertions of influence in favor of revenue sharing produced the following results:

1. Contacted my Congressman or U.S. Senator (8)
2. Contacted the Ohio League of Municipalities (3)
3. Contacted my association of local government officials (7)
4. Contacted my political party officials (1)
5. Contacted my state legislator (2)

(some checked more than one option)

"Were you adequately informed about the system of revenue sharing?"

Yes 24; No 17.

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6. The Toledo Standard Metropolitan Statistical Area in April 1973 included Wood and Lucas Counties and three townships in Michigan. One unit surveyed was just outside the Toledo SMSA.

The responses to the above questions leave doubt as to whether there was a vocal, and virtually unanimous demand by local units for federal revenue sharing. Twenty-three percent of the respondents did not favor revenue sharing. One rather commonly expressed objection to revenue sharing was that federal taxes should have been cut with the money left to be taxed or not as local units wished.<sup>7</sup> Seventy-six percent of respondents did nothing positively to help secure enactment of revenue sharing. This lack of action may be explained in part by the fact that forty-one percent felt inadequately informed about revenue sharing. Some felt that other units and organizations were "carrying the ball" and doing all that could be done to voice the demands of local units.<sup>8</sup> Others did nothing because they felt they would get little money and didn't need the additional money anyway. Additionally, the lack of enthusiastic support for revenue sharing, both before and after its enactment, is understandable since forty-two percent objected to the distribution formula.

In summary it is fair to state that the responses to the four questions do not solidly support the assumption that revenue sharing was supported by a groundswell of demand by all units of local government. It seems that most local units generally favored revenue sharing, but with many having little knowledge of its particulars, and with most doing nothing actively to bring revenue sharing to reality.

#### Survey Results: Spending on Traditional Functions

The second assumption tested was that revenue sharing money would be spent on traditional local government functions.

To test this assumption local units were asked: "In what ways do you hope to see revenue sharing money spent by your unit of government?" The list of purposes to check included those stated in the revenue sharing statute. The number of units (of 43) selecting each purposes follows:

Lowering taxes (6)	Health (3)
Capital expenditures (21)	Recreation (11)
Current operations (14)	Libraries (2)
Public Safety (16)	Social services for poor and aged (3)
Environmental (6)	Financial Administration (3)
Streets and transportation (21)	

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7. In objecting to national revenue sharing, one city mayor stated, "If all this money was available on the national level why couldn't the federal government allocate the money to localities through lowered federal taxes?"

8. One mayor in explaining he took no action to obtain enactment said, "No, it was just placed in our laps. We had no idea how much we would get."



From the list of activities checked the two items selected by the greatest number of respondents were capital expenditures and streets and transportation. These two major categories were selected by many units because these activities are "one-shot" commitments, such as building a street, or a building, and do not involve a new long-term program.<sup>9</sup> From the list checked it appears that other traditional activities--police, fire and recreation--will also get a substantial share of the revenue sharing money.

The evidence, then, clearly supports the assumption that revenue sharing will be used for traditional local government purposes.

### Survey Results: Controls

The third assumption examined is that local units have a deep-seated resentment toward "strings" attached to federal money. To test this assumption local units were asked about the restrictions in the revenue sharing statute. "Do you object to any of the spending restrictions attached to revenue sharing?" (43 respondents)

<u>Restriction</u>	<u>Number Objecting</u>
Setting up trust fund	5
Public reporting of money spent	7
Nondiscriminatory spending	1
Pay prevailing wage	2

In light of the commonly expressed view that local units resent national controls, the number objecting is small. Only ten registered any objections. The reason for the small number of objections may be due in part to past experience of some local units with federal "strings" as well as local government experience with the administration of the Ohio Local Government Fund.

To get some in-depth view of how local units would prefer revenue sharing to be arranged and why, the survey asked local officials their views comparing national revenue sharing with the Ohio system of sharing. The question was asked, "Do you prefer the Ohio state revenue sharing system (Local Government

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9. One respondent expressed in his own way a rather common attitude about the use of the federal money, "I favor using this federal money for things people see, feel, and touch such as capital improvements, street repairs, trucks, street sweepers and packers for garbage collection. I think it is a dangerous practice to take on activities with lots of new jobs because revenue sharing may come to a screeching halt in 1976."

Fund) to the national revenue sharing system?" Yes 14; No 17; Not Sure 1; Not Responding 10. Those preferring the Ohio system of revenue sharing over national sharing checked the following reasons: receive more money (4); no national supervision (7); fewer spending limits (2); easier to influence distribution of money (3); easier to deal with state and local authorities (9); prefer state collection and distribution of taxes (1).

Some units prefer the Ohio system because they receive from it more than they receive from the national system.<sup>10</sup> The two most common reasons for preferring the Ohio system, "no national supervision" and "easier to deal with state and local authorities" reflects to some degree the fact that many of the small units have had little or no dealings with national authorities. In addition the selection of the two reasons no doubt is based on the fact that local authorities have easier access to the county officials who distribute the Ohio fund than to national officials who control federal funds.

How widespread, then, is the local resentment of federal controls? Judging from the data presented here one can conclude that there is very little resentment toward the specific procedural controls imposed by the federal statute. Only seven units prefer the Ohio system to the national system because they object to national supervision. And only two prefer the Ohio system because there are fewer spending limits than in national sharing. Evidently on this crucial matter of spending limits, local officials see little difference between the state and federal revenue sharing systems. Local units, upon receiving money from state and federal governments, have come to expect some sort of controls. The responses seem to reflect local realization that controls are inevitable and do not support the assumption that local units hold a strong resentment against virtually any type of national spending controls.

### Summary and Conclusions

The data reveals that there has not been a virtually unanimous vocal demand for revenue sharing; although the great majority of respondents favored the general idea of revenue sharing, few did anything actively to support its enactment. Local units indicated clear support for the assumption that revenue sharing will be spent on traditional local government functions: capital expenditures, street construction and maintenance, and public safety. Data to test the assumption that there is local resentment of federal strings shows that

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10. Twenty-six of the forty-three surveyed receive more money from the Ohio Local Government Fund.

only ten of the forty-three respondents objected to the federal restrictions. Thus, there is clear support for but one of the assumptions examined.

It is not easy to predict the future impact of revenue sharing on intergovernmental relations and the operation of the federal system. Small municipalities and townships, not previously in the mainstream of federal spending, now find themselves the object of increased national attention.<sup>11</sup> Researchers and national government agencies are already scrutinizing the effect of revenue sharing on all recipients, large and small.<sup>12</sup>

Revenue sharing may increase national concern about the operation and organization of local governments, especially in metropolitan areas. The question arises whether revenue sharing, going in part to the support of the smallest local units, will be adding to the difficulties of trying to deal with metropolitan problems. The metropolitan concern is that fiscally strengthening the numerous small units may make them increasingly resistant to efforts directed toward more inter-local cooperation and program coordination in metropolitan areas. In the 264 Standard Metropolitan Statistical Areas there are a considerable number of small municipalities and townships. Of the 5550 municipalities inside metropolitan areas today, 46.5% have populations of less than 2500. Most of the 17,000 townships in the U.S. have populations of less than 1000 and 20.4% of the townships are inside metropolitan areas.<sup>13</sup>

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11. Daniel Elazar, American Federalism, A View from the States, second edition (New York, New York: Thomas Y. Crowell Company, 1972), p. 193. Elazar states that in 1968 "...direct federal aid to localities went primarily for education and housing and community development programs." These are not programs commonly involving small municipalities and townships.

12. Advisory Commission on Intergovernmental Relations Information Bulletin No. 72-3. Revenue Sharing: View from the Field (March 1973). Office of Revenue Sharing, U.S. Department of the Treasury, Preliminary Survey of General Revenue Sharing Recipient Governments, (June 19, 1973). John Reh fuss, "Revenue Sharing and Suburban Politics," (Paper delivered at the Midwest Political Science Association, May 5, 1973, Chicago, Illinois).

13. U.S. Bureau of the Census, Census of Governments, Governmental Organization, Vol. 1. (Washington, D.C.: U.S. Government Printing Office, 1972), pp. 2 ff. Municipalities and townships make up 35,000 of the 38,000 local units receiving revenue sharing money.

The lack of widespread objections to the federal controls that accompany revenue sharing money indicates that local units may not be fearful of collaborating with the national government in common endeavors. With little in the way of programatic direction for local governments, the revenue sharing approach may be a questionable step away from the usual intergovernmental cooperation and sharing typical of the operation of the federal system.

After having received revenue sharing money for five years, local units can be expected to insist on continuing to have the money. This sharing scheme may be creating a new national government constituency composed of a large number of small units that will exert considerable influence on the future direction of federal spending.

Whether revenue sharing is the appropriate response to present and future domestic concerns is open to question. Continuing, careful analysis of the implementation of this new sharing program is clearly called for so that the impact on our federal system will be fully comprehended.