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General Revenue Sharing

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GENERAL REVENUE SHARING

The State and Local Fiscal Assistance Act of 1972, H. R. 14370, became law on October 20th. This legislation appropriates $30.2 billion to a special fund for distribution among state and local governments. The program, retroactive to January 1, 1972, at an initial annual level of $5.3 billion, will run until December 31, 1976. The annual distribution after the first year will be increased by $150 million a year.

This issue of the Economics Newsletter summarizes the main provisions of this Act and shows the estimated amounts going to local governments in South Dakota during calendar 1972.

Eligibility
All states and all general purpose local governments (organized counties, townships and incorporated municipalities) are eligible to receive the funds. There is no population cut-off for local governments. Local jurisdictions may not receive over 50% of their adjusted taxes (excluding taxes levied for education) plus intergovernmental transfers. The minimum allocation is $200. In addition, a local government may not receive less than 20 percent, nor more than 145 percent of the per capita allocation to all local governments in that state.

Allocation Among States
The Act allocates to each state for each entitlement period the greater of two amounts computed by the following methods:

1. A three-factor formula allocating to each state an amount in the same ratio to $5.3 billion as the figure produced by the state’s population, multiplied by its state and local government tax effort, multiplied by its relative income is to the figure produced by the same factors for the nation as a whole.

2. A five-factor formula allocating $3.5 billion among the states according to population (one-third), urbanized population (one-third), and population weighted by per capita income (one-third); and the remaining $1.8 billion according to individual income tax collections by state governments (one-half) and the general tax effort of the state and local governments (one-half).

South Dakota’s allocation for the 1972 calendar year is based on the three-factor formula.

Allocation Within States
The Act also allocates one-third of each state’s entitlement to the state government and the remaining two-thirds to local governments within the state. The local governments’ portion is divided as follows:

1. Allocated to each county area within a state is an amount computed on the basis of population, tax effort and relative income.
2. Allocated to each county government is an amount determined by the ratio of its tax collections to total tax collections by all governments in the county.

3. Allocated among all township governments within a county is a total amount determined by their combined share of tax collections, with each township's amount determined by population, tax effort, and relative income.

4. Allocated to municipal governments is the remainder of the county's share determined according to population, tax effort and relative income.

There are also monies allocated to the governing bodies of local Indian tribes on the basis of population.

States are permitted to legislate optional formulas for distributing local government funds by population and tax effort, or by population and relative income, or by both.

A state government's revenue-sharing entitlement is reduced if it reduces transfers of state funds to local governments. (The penalty could be reduced or offset if the state assumed responsibility for expenditures previously made by local governments or has conferred new taxing authority on local governments to provide the funds.)

Use of Shared Funds

The Act requires local governments to use revenue-sharing funds only for "priority expenditures": capital expenditures authorized by law or maintenance and operating expenditures on public safety (including, but not limited to, law enforcement, fire protection and building code enforcement), environmental protection (including, but not limited to, sewage disposal, sanitation and pollution abatement), public transportation (including, but not limited to, transit systems and streets and roads), health, recreation, libraries, social services for the poor and aged, and financial administration. There are no restrictions on use of funds received by the state governments.

The Act also contains other provisions --- including those pertaining to the handling and reporting on use of shared monies, prohibition of discrimination, wages to be paid out of shared funds, federal collection of state income taxes, and various ceilings on grants for social services.

**CALENDAR 1972 GENERAL REVENUE SHARING IN SOUTH DAKOTA**

For calendar year 1972, $25.1 million is to be distributed in South Dakota, with approximately $8.4 million going to state government and $16.7 million going to local governments.

In the following table Column (1) presents the total amounts going to all local governmental units within each county itself. Column (2) presents the total amounts going to county governments. Column (3) presents the total amount going to all townships in the county. Where there are no townships, or township governments do not raise any revenue, a "0" is shown. Column (4) presents the total amount going to all municipalities with populations of under 2,500. Column (5) presents the amounts going to each municipality within the county with a population of over 2,500. Names of the municipalities appear after the amounts. All amounts are preliminary estimates that may be revised when the United States Treasury finalizes plans to issue revenue-sharing checks to state and local governments. Distributions to Indian tribes are not reflected in the table.
<table>
<thead>
<tr>
<th>County</th>
<th>County Area</th>
<th>County Gov't</th>
<th>Townships Under 2,500</th>
<th>All Cities</th>
<th>All Cities Over 2,500</th>
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<td>(1) County Area</td>
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<td>(3) All Townships</td>
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<td>(5) All Cities Over 2,500</td>
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*Amounts for Columns (2), (3), (4) and (5) do not add to total for this county area.

Allyn O. Lockner, Professor of Economics