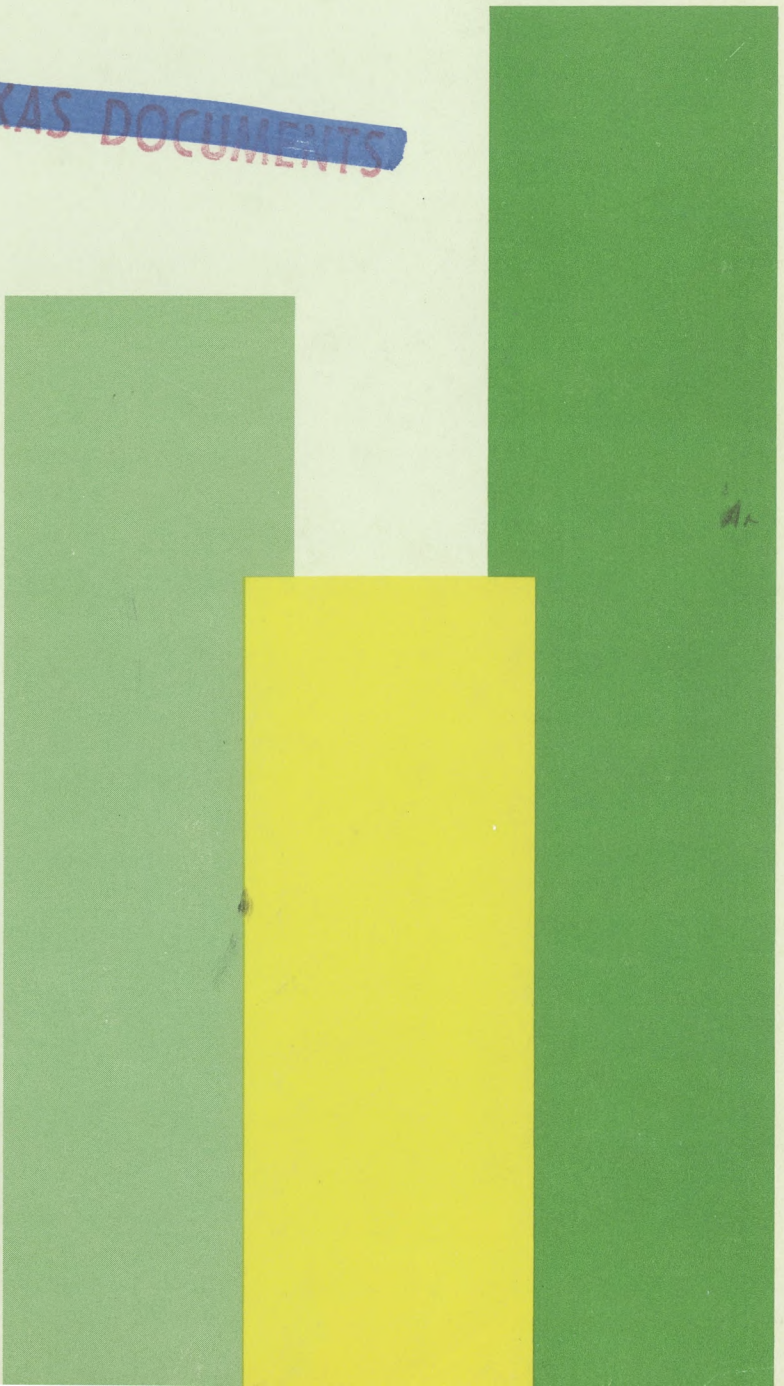


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FEDERAL GENERAL REVENUE SHARING  
AND THE FINANCES OF TEXAS STATE  
AND LOCAL GOVERNMENT

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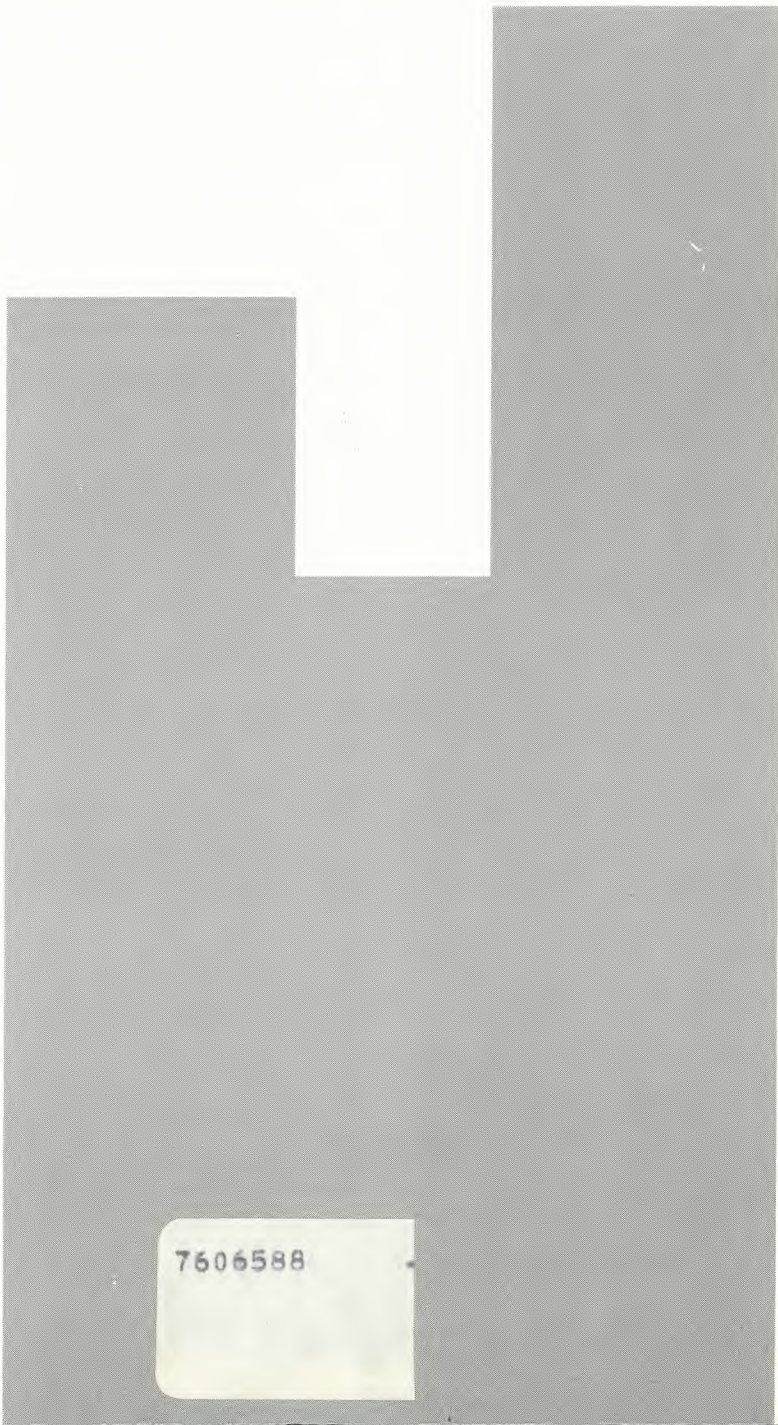
  
TEXAS ADVISORY COMMISSION  
ON INTERGOVERNMENTAL RELATIONS



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AND THE FINANCES OF TEXAS STATE  
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## FOREWORD

Federal general revenue sharing was enacted by the United States Congress in late 1972. It is a bold departure in concept from previous grant-in-aid programs since it allows state and local governments relative freedom in determining how the funds are to be used. Well over half the funds authorized under the act have now been distributed to state and local governments around the country, and the 94th Congress is presently considering proposals for the renewal of general revenue sharing. The current appropriation expires in December 1976.

A careful and thorough review of the impact of the program is important since over \$30 billion is being allocated to the states and localities under the act. Texas governments are receiving a significant portion of the total. The state, cities, and counties are expected to receive a combined total of about \$1.4 billion over the five-year life of the program.

In 1973 the Texas Advisory Commission on Intergovernmental Relations undertook an extended study of federal general revenue sharing at the request of the Texas Legislature. This report, which is one product of the study, is intended to provide basic information concerning the distribution of revenue sharing funds and the fiscal impact of revenue sharing on state and local government in Texas. It is hoped that this analysis will be helpful to the Texas Legislature as well as other public officials and interested citizens who want to learn more about the effects of federal revenue sharing.

Staff research leading to the preparation of this report was performed

over a one-year period beginning in the fall of 1973. The principal researchers for this study were N. David Spurgin, director of research for the Commission; R. Bruce Hatfield, program associate; and Paulette Alexander, a former member of the Commission staff. The

report was compiled and edited by Jay Stanford, director of governmental services. It was approved for publication as an informational document at the regular meeting of the Commission on January 10, 1975. Publication preparation was completed in June 1975.

Austin, Texas  
June 1975

Tom J. Vandergriff  
Chairman

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## HIGHLIGHTS OF THE STUDY

### THE TEXAS SHARE

- Texas governments will receive an estimated \$1.4 billion of the total \$30.2 billion in federal general revenue sharing funds authorized during the five-year program. Of this \$1.4 billion the state will receive one-third, and cities will receive approximately 42 percent. The remaining 25 percent will go to counties.

### DISTRIBUTION FORMULAS

- Formula allocations of general revenue sharing funds to the states resulted in per capita allocations in 1972 ranging from about \$20 for Ohio to almost \$40 for Mississippi. Texas received a relatively low \$22 per capita and ranked 45th among the states in revenue sharing funds received relative to population.

- Two-thirds of each state's allocation is distributed to general purpose local governments, and one-third goes to the state. As a national average, local government outlays, including public school spending, account for almost \$2 of every \$3 spent by state and local governments. There are significant interstate variations, however, and local school districts do not receive any of the local government share.

### RELATIONSHIP TO STATE AND LOCAL TAXES

- In proportion to their tax revenues, Texas local governments receive much greater support than does

the state government, and counties receive significantly more than cities. In 1972 general revenue sharing allocations compared to tax revenues were as follows: for counties, 20.3 percent; for cities, 16.1 percent; for the state, 3.2 percent.

- The relationship of annual revenue sharing allocations to tax revenues not only reflects new spending capability received in 1972, but also indicates that substantial additional local tax funds would be required to keep county and municipal expenditures at the same level if revenue sharing is not continued beyond the current expiration date of December 1976.

#### IMPACT ON TEXAS STATE GOVERNMENT

- Because of the timing of the state budget cycle, approximately three and one-half years of general revenue sharing funds were appropriated during the 1974-1975 biennial appropriation period. Unless the revenue sharing program is renewed by the 94th Congress in early 1975, only one and one-half years of revenue sharing funds can be appropriated as part of the regular budget process for the forthcoming 1976-1977 biennium.

- Based on official revenue estimates prior to the adoption of the current state appropriation act in 1973, it appears that the availability of revenue sharing funds was critical in avoiding a significant tax increase. The additional revenue now expected during 1974-1975 from consumption-based taxes and taxes on oil and gas production could not be predicted at that time.

- The \$316 million in federal revenue sharing funds appropriated for the 1974-1975 biennium comprises

about 3.25 percent of the total state budget of \$9.75 billion and amounts to about 15.6 percent of the \$2 billion appropriated from the state general fund.

- Revenue sharing dollars were used largely as a supplement to state general revenue for the 1974-1975 biennium. Total state appropriations, and appropriations for expenditure categories in which revenue sharing funds were used, generally reflected lower percentage increases in appropriations than in previous biennial periods.

- Over 60 percent of revenue sharing funds appropriated during the 1974-1975 biennium went for the support of state colleges and universities and community colleges. Eighty percent or more of the funds will probably be spent for salaries and other operating expenses of the recipient agencies, institutions, and courts.

#### IMPACT ON THE STATE'S LARGEST CITIES

- The 27 largest cities in the state received about 67 percent of revenue sharing funds going to Texas cities in 1972. Allocation of 1972 revenue sharing funds added less than 10 percent to total 1972 general revenues for 15 cities. For others the amounts received were more substantial. Five cities received allocations that exceeded 15 percent of general revenues.

- With revenue sharing funds, most cities could potentially add 10 percent or more to their per capita operating outlays. If revenue sharing funds were used solely to finance operating budgets, the spending levels for all cities could be increased measurably. This would not appear, however, to reduce the range of per capita spending levels among the cities.



- While the total general revenues of Texas cities and counties have increased substantially during the past ten years, most of the increase is due to increased income from the city sales tax, charges, and miscellaneous sources rather than income from property taxation. In 1972 the city sales tax produced an amount equivalent to 22 percent of combined city and county property tax receipts. Local school districts account for around one-half of total local government revenues and expenditures in Texas.

#### IMPACT ON THE STATE'S LARGEST COUNTIES

- Revenue sharing allocations in 1972 were less than \$5 per capita for a large majority of the state's largest counties. Despite this relatively low per capita figure, the funds represented an average addition to 1972 tax receipts of nearly 16 percent.

- The increase in available county revenues brought about by revenue sharing could raise county operating expenditures substantially. If all funds were used for that purpose, however, the range of per capita spending levels among the largest counties would be increased.

- Although in 1972 the 22 counties examined in this study re-

ceived 41 percent of the total revenue sharing allocation for all Texas counties, the percentage received increased to almost 50 percent in the 1975 entitlement period because of a Census Bureau reclassification of revenues from six hospital districts as county revenues.

#### EXPENDITURE OF REVENUE SHARING FUNDS BY LOCAL GOVERNMENTS

- Actual-use reports submitted by the 27 largest cities and 22 counties covered by the study indicate that around 70 percent of all revenue sharing funds received by cities and 57 percent of the funds received by counties through the end of June 1974 had been spent. During the first reporting period ending June 1973 a much smaller portion of funds received had been used, probably because of the time required to process the initial funds through local budget cycles.

#### DATA AVAILABILITY

- The lack of local government financial data from state and federal sources for years in which revenue sharing funds have actually been used makes studies of the impact of revenue sharing on local governments difficult. The data used in this study are almost exclusively from federal sources because state sources are practically nonexistent.

# 1 INTRODUCTION

The passage of the State and Local Fiscal Assistance Act of 1972 was an important event in intergovernmental fiscal relations in the United States. Although the basic concept is not new, federal revenue sharing is the first systematic program of general support grants for state and local governments in the history of the nation. The program was enacted for an initial period of five years and is scheduled to expire at the end of calendar year 1976. Some type of action concerning renewal is expected during the term of the 94th Congress which convened in January 1975.

At the end of the five-year period covered by the act, Texas will have received approximately \$1.4 billion of the \$30.2 billion set aside for national distribution. Texas cities and counties will have received a combined total of about \$948 million, and around \$474 million will have been added to the state treasury. These amounts represent an important addition to the revenue available to finance government in this state.

## STUDY APPROACH

The purpose of this report is to set forth basic information about state and local government finances in Texas and to assess the impact of federal revenue sharing on state and local revenues and expenditures. Major emphasis is placed on fiscal trends prior to the enactment of revenue sharing and on the pattern of distribution of the funds to the state and its cities and counties.

Analyses of the relationship of annual revenue sharing allocations to taxes, general revenues, and expenditures are provided for both city and county governments. More detailed information is included for the 27 largest cities in the state and for the 22 counties in which the cities are principally located.

The city and county analyses are limited in the sense that they deal primarily with potential impact during 1972, the first year that revenue sharing funds were available. This approach was necessary for cities and counties because data on local government finances are not yet available for years after 1972. Of course, 1973 was the first year in which revenue sharing funds were actually spent in Texas, so earlier data can be used only to demonstrate potential impacts on revenue and expenditure figures.

It was possible to take a somewhat different approach in analyzing effects on the finances of state government because more current information was available on this subject than was available on local government finances. Much of the analysis in the state section is based on data contained in the legislative appropriation act for the 1974-1975 biennium and in the annual report of the state comptroller of public accounts for the first half of the biennium, fiscal year 1974. In the analysis of state finances, assessments were made of the effects on available revenues for the 1974-1975 biennium as well as the effects on overall spending levels, spending for specific state functions, and the character of expenditures during that two-year period.

## OVERVIEW OF THE STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972

General revenue sharing differs from traditional categorical grant programs in three important ways: (1) the use of funds by recipient governments is relatively unrestricted; (2) a fixed amount is automatically appropriated each year; and (3) all state governments and almost all general purpose local governments are entitled to receive shares of the appropriation. An important feature of revenue sharing is the bypassing of the regular appropriations process in congress and the elimination of the annual fluctuations characteristic of many other federal aid programs.

### Trust Fund

The act established a trust fund within the United States Treasury and appropriated approximately \$30.2 billion to it for payments to state and local governments. This amount was divided among seven entitlement periods defined in the act, and periodic allocations to state and local governments are based on the total amount available for each entitlement period. The level of funds increases from an annual rate of \$5.3 billion during calendar year 1972 to \$6.65 billion during the last half of calendar year 1976.

### Entitlement Calculations

The calculation of over 38,000 state and local government entitlements requires the use of computer technology. The formulas for distribution that are defined in the act require various data elements from the Bureau of the Census, including population, per capita

income, and financial data for recipient governments. A full description of the procedure used for determining allocations is provided in Appendix A. However, the basic steps in the process are as follows:

1. The national total for each entitlement period is divided among the states according to either a three-factor or a five-factor formula. The formula yielding the highest amount is used for each state.
2. One-third of a state's allocation is paid to the state government, and the remaining two-thirds is allocated to units of local government within it.
3. The local government amount is statistically assigned to county geographic areas according to each area's population, tax effort, and relative income.
4. Each county area assignment is divided among local governments within it, including the county government itself, municipalities, and townships (if any). Indian tribal governments and Alaskan native villages also receive shares if located within a county area.

Certain conditions govern the maximum and minimum amounts that may be received by a local government. For example, a county area or local government within it may not receive more than 145 percent or less than 20 percent of the average per capita entitlement for all local governments in the state. If a unit of government receives less than

20 percent of the statewide amount, its allocation is increased to either the 20 percent level or to an amount equal to 50 percent of its revenue, whichever is lower. If a unit receives revenue sharing funds equivalent to more than 50 percent of its revenue, its allocation is reduced. Also, if an allocation to a local government is less than \$200, the funds are automatically allocated to the next higher level of government.

The revenue sharing act permits a state to modify by law the formula for distribution of funds to local governments within it. No state had exercised that option at the time this report was prepared.

#### Limitations on Use

There are relatively few limitations and conditions placed on the use of revenue sharing funds by the act. Some of the more important legal requirements are discussed in chapter 4, which deals with the use of revenue sharing funds by the state government in Texas. Here it should be pointed out that, generally state funds may be spent for any purpose for which the state may use its own money. Local governments, however, must restrict their expenditures to certain priority categories. These priorities cover most of the areas of municipal and county operations: public safety, environmental protection, transportation, health, recreation, libraries, social services for the poor and aged, financial administration, and capital expenditures of any kind.

Both state and local governments are prohibited from using revenue sharing money to match other federal

grants and may not spend the funds in a discriminatory manner.

Two basic reports are required of each recipient government. A planned-use report must be submitted to the secretary of the treasury stating how the funds are to be used during the forthcoming entitlement period, and, at the end of each entitlement period, recipient governments must list in an actual-use report the amounts and purposes for which the funds were spent. Both the planned-use report and actual-use report must be published in a newspaper within the geographic area of the recipient government.

DISTRIBUTION BY TYPE OF GOVERNMENT

Amounts available for the seven entitlement periods are indicated

in Table 1. About 58 percent of the appropriated funds had been distributed as of the most recent quarterly payment in January 1975.

On a national basis the 18,673 municipalities receiving revenue sharing funds have claimed the largest share. Cumulative disbursements through January 18, 1974 indicated that cities had received 35.5 percent of the total. The 50 states and the District of Columbia had received 34.0 percent while the 3,046 counties had received 25.5 percent. The remaining 5 percent had been distributed to 16,976 townships and 178 Indian tribal governments and Alaskan native villages.<sup>1</sup>

<sup>1</sup>U.S., Department of the Treasury, Annual Report of the Office of Revenue Sharing, 1974, p. 15.

Table 1			
REVENUE SHARING APPROPRIATIONS BY FEDERAL ENTITLEMENT PERIOD			
<u>Period</u>	<u>Start</u>	<u>End</u>	<u>Amount (in millions)</u>
1	January 1972	June 1972	\$ 2,650.0
2	July 1972	December 1972	2,650.0
3	January 1973	June 1973	2,987.5
4	July 1973	June 1974	6,050.0
5	July 1974	June 1975	6,200.0
6	July 1975	June 1976	6,350.0
7	July 1976	December 1976	<u>3,325.0</u>
TOTAL			\$30,212.5

SOURCE: State and Local Fiscal Assistance Act of 1972.

Cumulative disbursements to governments in Texas reveal a distribution pattern similar to the national average for each type of government. As of June 1974, the approximately 1,000 cities in the state had received 42.5 percent of the total funds allocated to Texas. The 254 county governments had received 24.2 percent, and the state government had received 33.3 percent. The percentages allocated to cities and counties changed slightly in entitlement period 5 because of a redefinition of the tax base of certain counties by the U.S. Bureau of the Census. Over the five-year life of

the program, cities should receive about 41.4 percent, and counties should receive around 25.2 percent of the total. The differences in local government shares in Texas compared to the national pattern appear to be attributable to differences in relative city and county tax levels used in the distribution formula and the fact that Texas has no township governments. Further discussion and analyses of the distribution of revenue sharing dollars to Texas governments and the relationship of the funds to revenues and expenditures are provided in the chapters that follow.

2

**PERSPECTIVES ON  
REVENUE SHARING  
AND OTHER FEDERAL AID**

While general revenue sharing is a recent addition to the spectrum of intergovernmental aid, the concept can be viewed as a logical outgrowth of a long history of cooperative programs and shared responsibilities within our federal system of government. Scholars have documented examples of federal-state cooperation dating back to the early years of the republic. For example, the federal government assisted the states in the 19th century by extensive land-grant programs that, in a general way, resemble the current approach to categorical monetary grants-in-aid to the states and local governments. Even a precedent for general revenue sharing was set in 1837 when the federal treasury surplus was distributed to the states on a population basis.<sup>2</sup>

Fiscal relationships among governments have increased in importance because of the greater responsibilities assumed by government at all levels. Changes in governmental functions and levels of activity have been accompanied by dramatic changes in expenditure patterns and greater revenue needs. The importance of the system of intergovernmental aid has also been heightened.

This chapter traces some of the major trends in governmental finance

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<sup>2</sup>Daniel J. Elazar, "Federal-State Collaboration in the Nineteenth-Century United States," Political Science Quarterly 79 (June 1964): pp. 248-281.

during this century with emphasis on the development and growth of federal aid. Some implications of general revenue sharing for the system of intergovernmental finance are also discussed.

### GOVERNMENTAL SPENDING

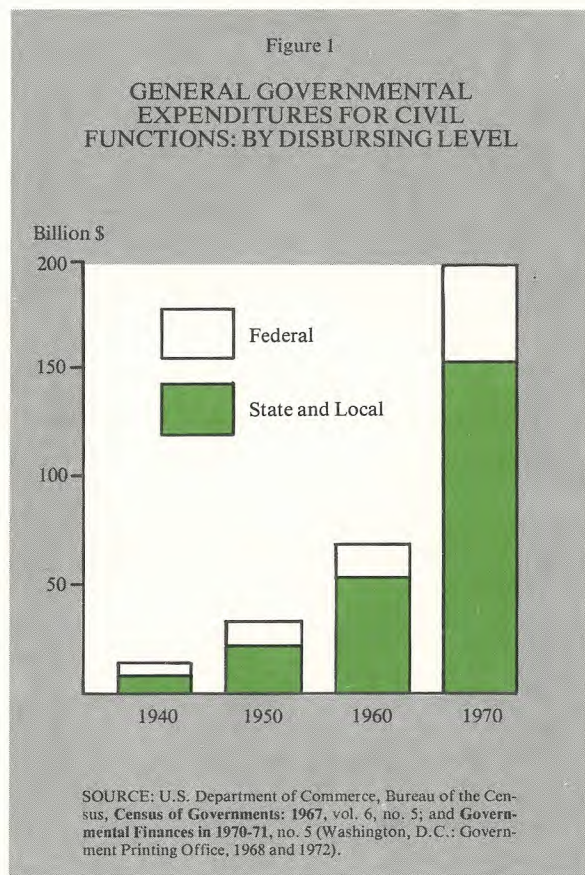
Governmental spending has grown by an impressive amount during this century as population has increased by 170 percent and the nation has changed from a rural, agricultural society to one that is predominantly urban and industrialized. Between 1902 and 1970 general expenditures for civil functions rose from just over \$1 billion to almost \$200 billion.<sup>3</sup>

The federal share of total general expenditures for civil functions was slightly greater in 1970 than in 1902, but it still represented less than one-fourth of the combined total for all levels of government. The federal share increased very rapidly during the depression years of the 1930s, and in 1940 it represented nearly 40 percent of combined outlays. As illustrated in Figure 1, and Table 2, p. 13; the federal share

<sup>3</sup>The term "general expenditures" excludes substantial governmental outlays such as social security and other insurance trusts, utilities, and liquor stores which tend to be self-supporting through the revenues they produce. The term "civil functions" excludes federal spending for defense, veterans' services, interest on the national debt, and international programs. All state and local expenditures are regarded as civil.

of general expenditures for civil functions has since declined.<sup>4</sup>

A somewhat different picture of governmental responsibility is provided by a comparison of expenditures by the disbursing level of government and by the level of government where the funds originate. Table 2, p. 13, highlights the role of federal aid to state and local governments. Federal aid is counted as a federal expenditure in the part



<sup>4</sup>Historical data are primarily from U.S., Department of Commerce, Bureau of the Census, Census of Governments: 1967, vol. 6, no. 5., "Historical Statistics on Governmental Finances and Employment."



of the table entitled "By Originating Level." In 1970, federal expenditures account for a larger share of the total when these aid funds are shown as an expenditure of the federal government instead of the states and localities.

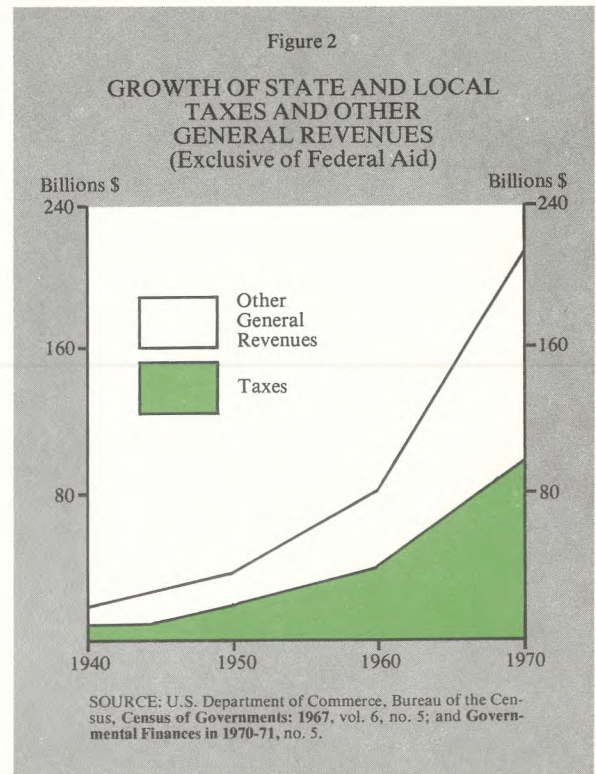
Table 2					
PERCENT OF GENERAL GOVERNMENTAL EXPENDITURES FOR CIVIL FUNCTIONS					
By Disbursing Level					
	1902	1940	1950	1960	1970
Federal	18.5%	39.0%	35.2%	24.1%	23.6%
State & Local	81.5	61.0	64.8	75.9	76.4
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%
By Originating Level					
	1902	1940	1950	1960	1970
Federal	19.1%	44.9%	41.9%	34.3%	37.5%
State & Local	80.9	55.1	58.1	65.7	62.5
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

SOURCE: U.S. Department of Commerce, Bureau of the Census, *Census of Governments: 1967*, vol. 6, no. 5; and *Governmental Finances in 1970-71*, no. 5.

### STATE-LOCAL FINANCES

In a manner similar to government spending at all levels, state and local general revenues from their own sources have demonstrated a dramatic upward trend. In each of the three decades since 1940 taxes and other revenues have more than doubled, and the rate of increase has become greater during each successive ten-year period. (See Figure 2.)

Local governments raised the largest share of state-local taxes and other revenues in 1940. Since



that time, however, there has been a faster rate of increase in the amount of money raised by the states. In 1970, 51.6 percent of state-local general revenues was raised by the states, and 48.4 percent was collected by local governments.<sup>5</sup> The average figures for all states do not reflect the substantial variations that exist among the states both for tax collections and for expenditures. These variations are discussed in a subsequent part of this chapter concerning the distribution of revenue sharing funds.

### Distribution of Expenditures

Since 1940 state and local governments have directed steadily increasing percentages of their resources for the support of public schools and higher education. The

<sup>5</sup>General revenue from own sources.

Table 3

PERCENT DISTRIBUTION OF STATE AND  
LOCAL GOVERNMENT SPENDING BY FUNCTION  
(Direct General Expenditure)

Function	1940	1950	1960	1970
Education	28.6%	31.5%	36.1%	39.4%
Highways	17.1	16.7	18.2	12.0
Public Welfare	12.5	12.9	8.5	12.1
All Others	41.8	38.9	37.2	36.5
TOTAL	100.0%	100.0%	100.0%	100.0%

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1967, vol. 6, no. 5; and Governmental Finances in 1970-71, no. 5.

percentage of state-local outlays for education increased from 28.6 percent in 1940 to 39.4 percent in 1970. Welfare costs remained as a relatively constant percentage of state-local budgets during the same 30-year period while expenditures for highways and other purposes declined. The relative amounts allocated to these functions are illustrated in Table 3.

FEDERAL AID TO STATE  
AND LOCAL GOVERNMENTS

Although federal aid has a long history in the United States, monetary grants for state and local governments have become a highly significant feature of intergovernmental finance only within the last 20 or 30 years. From 1940 to 1970, aid to state and local governments was the fastest growing element of federal civil expenditure. Federal

aid in 1970 was over ten times the amount in 1950. The decade from 1960 to 1970 was the most rapid period of increase. During this ten-year span, federal assistance increased to an amount almost four times the 1960 level.

Table 4

FEDERAL GRANTS-IN-AID, 1940-1970  
(in millions)

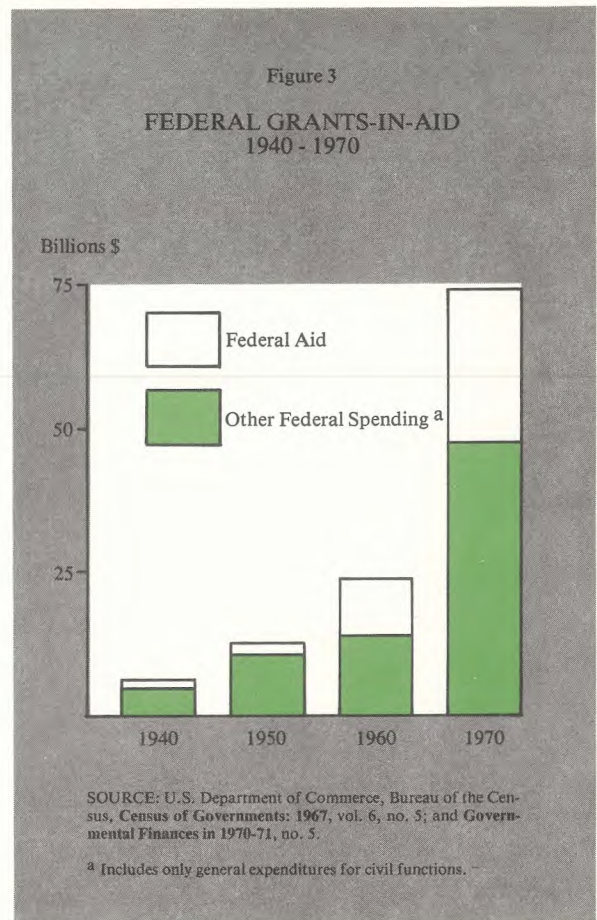
1940	\$ 884
1950	2,371
1960	6,994
1970	27,500

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1967, vol. 6, no. 5; and Governmental Finances in 1970-71, no. 5.

The period of the 1950s and 1960s was marked by a dramatic increase in the number and types of federal grant programs as well as the overall level of funding. These programs were often rather narrowly oriented in that the use of funds was restricted to a specific category of national needs. During the late 1960s and early 1970s the focus of federal grant programs began to reflect a change toward increased expenditure flexibility for state and local governments. New block grant programs were established to provide more flexibility in decision-making authority to state and local officials and to allow simpler administrative requirements for the use of grant funds. Noteworthy examples of this trend include the Omnibus Crime Control and Safe Streets Act of 1968, the Comprehensive Employment and Training Act of 1973, and the Housing and Community Development Act of 1974. The State and Local Fiscal Assistance Act of 1972, which placed minimal restrictions on the use of funds, is the prime example of this trend.

During the 30-year period from 1940 to 1970, federal aid represented a progressively larger share of federal expenditures. (See Figure 3.) In 1940 federal aid to state and local governments was about 13 percent of federal general expenditures for civil functions. By 1960 federal aid had increased to 29.8 percent; by 1970 it amounted to 37.2 percent.

A comparison of federal aid with another classification of federal expenditures has been prepared by the federal Office of Management and Budget. Table 5, p. 16, illustrates the level of federal aid in relation to "federal domestic outlays," including estimates for the 1974 and 1975 federal fiscal years. The percentage of expenditures repre-



sented by federal aid is smaller than indicated in the foregoing discussion since "federal domestic outlays," as defined by the Office of Management and Budget, includes substantial federal expenditures for social security payments and interest on the national debt that are excluded from the federal "civil functions" classification used previously in this chapter.

Table 5, p. 16, indicates that although the dollar amounts of federal aid increased in 1974 and 1975 the amount of federal aid was less in proportion to domestic federal outlays and combined state-local expenditures. The 1974 and 1975 figures are somewhat misleading since they reflect the change of public assistance for the aged, blind, and disabled from a federal grant program to a program administered by

Table 5  
FEDERAL-AID OUTLAYS, 1959-1975

Fiscal Year	Amount (in millions)	As Percent Of	
		Domestic Federal Outlays <sup>a</sup>	State-Local Expenditures
1959	\$ 6,669	15.9%	13.9%
1960	7,040	16.4	13.5
1961	7,112	15.4	12.6
1962	7,893	15.8	13.2
1963	8,634	16.5	13.3
1964	10,141	17.9	14.6
1965	10,904	18.4	14.6
1966	12,960	19.2	15.6
1967	15,240	19.5	16.3
1968	18,599	20.9	18.2
1969	20,255	21.3	17.4
1970	23,954	21.9	18.3
1971	29,844	23.5	19.8
1972	35,940	24.5	21.5
1973	43,963	26.8	23.5
1974 estimate	48,293	25.8	23.3
1975 estimate	51,732	24.7	22.4

SOURCE: U.S. Office of Management and Budget, Special Analyses: Budget of the United States Government, Fiscal Year 1975 (Washington, D.C.: Government Printing Office, 1974), p. 210.

<sup>a</sup>Defined for this purpose as excluding outlays for defense, space, and international programs.

the federal government. This change reduced the amount of federal grant assistance by \$900 million in 1974 and \$1.6 billion in 1975. The total amount of federal aid is estimated at \$48 billion in 1974 and \$52 billion in 1975.

#### Federal Aid Categories

Between 1940 and 1970 the functional emphasis of federal aid shifted noticeably. Although grants for highways and welfare have ac-

counted for over one-half the federal grant outlays during the entire period, the share going to these two functions has declined considerably since 1950. Aid to education increased rapidly during the 1960s as did the total of grants for purposes other than highways and welfare. In 1970 aid to education accounted for 24.7 percent of all federal grants; welfare accounted for 35.5 percent; highways received 18.2 percent; and other functions received 21.6 percent.

Distribution of  
Categorical Federal Aid

On a per capita basis, federal aid in 1972 varied by state from a high of \$585 in Alaska to \$94 in Indiana. Alaska is a peculiar case, however, since the next highest state was Wyoming which had federal aid of \$291 per capita.

The states are grouped into five categories in Table 6. The ten highest states received an average of \$216 per capita, and the lowest ten received an average of \$112 per capita. Texas falls in the "Below Average" group with a per capita aid figure of \$129. Fifteen states received lower per capita amounts.

Table 6	
VARIATION IN PER CAPITA AID AMONG THE STATES, 1972	
State Group	Average Per Capita Federal Aid
Highest	\$216
Above Average	182
Average	161
Below Average	133
Lowest	112

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 5 (Washington, D.C.: Government Printing Office, 1973).

LEVEL AND DISTRIBUTION OF  
REVENUE SHARING FUNDS TO THE STATES

General revenue sharing now provides more aid to state and local governments than any other single federal grant program. In 1974

just over \$6.1 billion was allocated from the federal revenue sharing trust fund. Comparable totals from other federal programs that year include: medical assistance payments, \$5.8 billion; income maintenance, \$5.3 billion; highway trust fund allocations, \$4.4 billion; and aid to elementary and secondary education, \$2.0 billion.<sup>6</sup> The revenue sharing allocation in 1974 represented about 13 percent of the total \$48 billion in federal aid that year.

Comparing patterns of distribution, the per capita amounts of revenue sharing money received by the states appear to be more closely correlated with population than per capita amounts of categorical grant programs taken as a whole. Of course, population is an important factor in the revenue sharing allocation formula, but relative income and levels of state-local taxation have a substantial impact on the distribution pattern.

Per capita allocations to the states, including local government shares, varied in 1972 from \$20.08 for Ohio to \$39.90 for Mississippi. While this range of variation is almost 100 percent, it is less than one-half the range of variation for other federal aid programs taken as a whole. Texas received \$22.14 per capita and falls in the group of states with the lowest per capita entitlement as illustrated by Table 7, p. 18. Only five states received lower per capita amounts than Texas in that year.

General revenue sharing allocations for 1972 varied as a percentage of other federal aid received

<sup>6</sup>U.S., Office of Management and Budget, Special Analyses: Budget of the United States Government, Fiscal Year 1975, pp. 214-217.

Table 7	
VARIATION IN GENERAL REVENUE SHARING ALLOCATIONS AMONG THE STATES, 1972 ENTITLEMENTS	
<u>State Group</u>	<u>Per Capita General Revenue Sharing</u>
Highest	\$32.78
Above Average	28.48
Average	26.89
Below Average	24.18
Lowest	21.63

SOURCE: U.S. Department of the Treasury, Office of Revenue Sharing, 4th Entitlement Period Allocations (Washington, D.C.: Government Printing Office, 1973).

by states in 1972 from a low of about 4 percent in Alaska to a high of over 25 percent in Wisconsin. In Texas the 1972 revenue sharing allocation was about 17 percent of other federal aid received by the state and local governments.

#### Other Formula Approaches

Prior to the passage of the State and Local Fiscal Assistance Act of 1972, other revenue sharing proposals were advanced that would have resulted in a different pattern of distribution. For example, the revenue sharing plan proposed by economist Walter Heller in the 1960s would have provided for distribution to the states on a simple population basis.<sup>7</sup> If the funds were distributed solely on this basis,

<sup>7</sup>Walter W. Heller, New Dimensions of Political Economy (Cambridge, Mass.: Harvard University Press, 1966), pp. 146-147.

Texas is among the states that would gain a substantial amount compared to the present formula. Table 8, p. 19, compares the gains and losses in revenue sharing funds for ten states that would be most affected by such a change.

Another possible approach to distribution would be to allocate funds to each state either according to its relative share of federal individual income tax liability or according to its share of actual federal income taxes collected. The latter method would simply return a portion of federal tax dollars to the state and local levels. An important difference between this concept and either the current formula or the population approach is that there would be no equalization of resources according to relative income among the states. The income tax liability approach would tend to penalize those states with low per capita incomes while states with higher incomes would receive more revenue sharing dollars. Based on 1972 revenue sharing allocations and preliminary data on 1972 individual income tax returns, Texas would gain only about \$20 million if the tax liability approach were used. Mississippi would lose \$57.7 million, over one-half its revenue sharing money, and Illinois would gain \$83 million, an increase of more than 30 percent.

#### The State and Local Shares

Under the federal revenue sharing law two-thirds of each state's allocation is distributed to general purpose local governments within the state, and one-third goes to the state treasury. General purpose local governments include primarily cities and counties, but townships are also eligible recipients in some states. Two commonly advanced reasons for the two-thirds/one-third division of

Table 8

COMPARISON OF 1972 GENERAL REVENUE SHARING ALLOCATIONS BY  
CURRENT FORMULA AND BY POPULATION BASIS

<u>States with Greatest Gain</u>	<u>Current Formula</u>	<u>Pop. Basis</u>	<u>Difference</u>
	----- (in millions) -----		
Ohio	\$212.8	\$277.5	\$ 64.7
Texas	246.6	290.6	44.0
Florida	145.9	176.2	30.3
Pennsylvania	276.5	306.1	29.6
Missouri	97.8	121.4	23.6
<u>States with Greatest Loss</u>			
New York	\$586.3	\$473.4	\$112.9
California	557.4	517.9	39.5
Mississippi	88.0	57.5	30.5
Louisiana	121.9	94.5	27.4
Wisconsin	132.5	114.7	17.8

SOURCE: U.S. Department of Treasury, Office of Revenue Sharing, 4th Entitlement Period Allocations (Washington, D.C.: Government Printing Office, 1973).

funds are (1) that local governments generally spend about two-thirds of direct state-local expenditures, and (2) that their revenue sources are more limited than those of the state government.

The second rationale is better supported by factual information than the first. Local governments in Texas and elsewhere depend heavily on the local property tax. Many proponents of revenue sharing feel the property tax should be at least partially replaced by other sources of revenue. Concerning the first rationale, a review of actual spending figures reveals that local government outlays actually account for about 63 percent of direct state-local expenditures for general purposes, but that there are some significant variations from this pat-

tern in many of the states. For example, in three states local governments spend 70 percent or more of state-local outlays, but in 16 states local governments account for less than 50 percent of aggregate spending.<sup>8</sup> The range of variation in expenditure responsibilities is illustrated in Table 9, p. 20.

Of course, the aggregate expenditures of local governments as reflected in the foregoing analysis include expenditures of school districts and other special purpose units of government that are not

<sup>8</sup>Comparisons in this discussion of state-local expenditure responsibility are based on direct general expenditures which exclude state aid to local school districts as a state-level expenditure.

Table 9

PERCENT OF STATE-LOCAL SPENDING<sup>a</sup>  
BY LOCAL GOVERNMENTS, 1972

<u>Percent Of Spending</u>	<u>Number Of States</u>
70% or more	3
60 to 69	16
50 to 59	15
40 to 49	12
30 to 39	3
less than 30	1

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 5.

<sup>a</sup>Aggregate direct general expenditures.

eligible to receive revenue sharing money. In many states, including Texas, 50 percent or more of local government spending is attributable to school districts. When this spending is excluded from local totals, there are only four states in which local government spending exceeds 60 percent of total state-local outlays. In 38 states spending by the state government accounts for more than one-half of state-local expenditures if school district outlays are excluded.

If school districts are included in the totals, local governments in Texas spend 61 percent of total state-local outlays. If school districts are excluded, local

governments account for only 41 percent of the total.

Alternate approaches to the present one-third/two-thirds pattern of state-local distribution have also been suggested. One method would be to distribute funds to the states and localities according to the share of state-local taxes collected at each level. About 55 percent of aggregate state-local taxes are collected by the states, so the national distribution pattern would reflect a 55 percent/45 percent division of funds. Of course the pattern of taxing responsibility in individual states varies substantially from the national average.

Further Analysis

While this chapter focused on national trends in federal aid, chapter 3 is concerned with the major features of state and local government finances in Texas and provides comparisons of revenue sharing allocations with basic taxing and spending levels. Chapters 4, 5, and 6 provide a more detailed analysis of the impact of revenue sharing funds on the state government, cities, and counties, respectively.

Although school districts and other special purpose governments do not receive revenue sharing allocations, they nevertheless account for over one-half of local revenues and expenditures in Texas. Data on these local governments are included in chapter 3 because of their importance in the fiscal affairs of government in the state.



3  
**REVENUE SHARING AND  
 GOVERNMENTAL FINANCES  
 IN TEXAS**

HISTORICAL OVERVIEW

Government in Texas has responded in much the same way as other state and local governments across the nation in dealing with the significant social, economic, and demographic changes that have occurred in this century. There are many similarities with other states, but it will also be useful to consider some of the distinctive features of state-local finance in Texas.

Revenue

Revenue increases in Texas are typical of national trends during the last 30 years. Table 10 documents the increased revenue effort and indicates a particularly high rate of increase between 1942 and 1957. Federal aid received by the state and its local governments during the last 30 years has grown even faster than revenue from state and local sources.

Table 10 GROWTH OF REVENUE OF TEXAS STATE AND LOCAL GOVERNMENTS, 1942 to 1972			
<u>Year</u>	<u>Revenue from Own Sources</u>	<u>Federal Aid</u>	<u>Total</u>
	------(in millions)-----		
1942	\$ 318.8	\$ 34.1	\$ 352.9
1957	1,597.3	235.2	1,832.5
1972	5,960.7	1,443.7	7,404.4

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1942, vol. 6, no. 4; 1957, vol. 6, no. 5; and 1972, vol. 4, no. 5.

Although the amount of revenue received by governments in Texas has increased quite rapidly, per capita

taxes and other revenues are relatively low in comparison to other states. In 1972 only seven states had lower per capita general revenues from their own sources, and only 15 states received less federal aid per capita. Texas ranked number 45 in total per capita revenues in that year.

During the last ten years for which statistical information is available, tax revenues for the state and each type of local government have grown at rates ranging from 59 percent for counties to over 200 percent for nonschool special districts. Over one-half of the increased tax revenue at the local level was raised by school districts. The increase in county tax income accounted for only about 10 percent of additional local government revenues.

Local governments are financed through their own revenues as well as by aid from the state and federal governments. In Texas most state aid is allocated to finance public education, including public schools and community colleges. Municipalities received more federal aid than did school districts in 1972, but when federal and state aid to local governments are considered together, school districts received 88 percent of the total. This percentage illustrates the preponderance of state aid to school districts in Texas in relation to all other types of federal and state assistance.

Expenditures.

It was pointed out in the preceding chapter that state and local expenditures for education have increased more rapidly than other

Table 11				
GROWTH OF TAX REVENUES IN TEXAS BY TYPE OF GOVERNMENT, 1962 TO 1972				
	<u>1962</u>	<u>1972</u>	<u>Increase</u>	<u>Percent</u> <u>Increase</u>
	----- (in millions) -----			
State	\$ 991.5	\$2,572.0	\$1,580.5	159.4%
County	186.6	297.2	110.6	59.3
Municipal	278.7	645.0	366.3	131.4
School District	366.4	938.5	572.1	156.1
Special District	<u>27.6</u>	<u>91.0</u>	<u>63.4</u>	229.7
TOTAL	\$1,850.8	\$4,543.7	\$2,692.9	

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1962, vol. 4, no. 4; and 1972, vol. 4, no. 5.

types of expenditures on a national basis. This pattern is even more pronounced in Texas than in most other states. Since 1942, state-local spending for education increased from 32.2 percent of total direct general expenditures to 42.6 percent in 1972. Spending for highways decreased in proportion to other expenditures from 21.4 percent of the total in 1942 to 14.2 percent in 1972. Spending for welfare remained relatively constant during the period, and outlays for other purposes declined in relation to spending for education.

IMPLICATIONS OF REVENUE SHARING FOR STATE AND LOCAL GOVERNMENT IN TEXAS

Since the enactment of the State and Local Fiscal Assistance Act of 1972, \$674 million has flowed into state, city and county coffers.<sup>9</sup>

<sup>9</sup>Cumulative total through entitlement period 4 ending June 30, 1974. For a breakdown of entitlements during the five-year life of the program, see Appendix B.

The division of these funds according to the formulas established by the federal law resulted in fiscal year 1974 allocations to governments in Texas in the following amounts: state, \$95.2 million; counties, \$67.9 million; cities, \$122.5 million.

The effects of revenue sharing on the revenues and expenditures of each type of government are summarized in Table 12. There appears to be a general similarity of effects on county and municipal governments, but the impact of revenue sharing on the state is substantially different in degree. Comparing tax revenues and expenditures, the relative impact of revenue sharing is much greater on municipal and county governments than it is on the state.

Several local government functions require substantial expenditures for capital purposes. These include highways and road construction, traffic control, parks, hospitals, and utility installations. It appears that general revenue sharing has substantially increased the ability of county and municipal

Table 12  
REVENUE SHARING AS PERCENTAGE OF TAX REVENUES  
AND DIRECT GENERAL EXPENDITURES OF TEXAS GOVERNMENTS, 1972

<u>Type of Government</u>	<u>GRS Allocation (in millions)</u>	<u>Percent of Tax Revenues</u>	<u>Percent of Expenditures</u>
State	\$ 82.3	3.2%	2.8%
Municipal	104.1	16.1	9.0
County	60.2	20.3	13.5

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 5; and Office of Revenue Sharing, 4th Entitlement Period Allocations, July 1973.

governments to enlarge their capital expenditure programs and could also have a significant impact on operating expenditures. Assuming revenue sharing funds were used entirely to supplement either capital or operating expenditures of local governments, this additional source of revenue could result in an increase in county expenditures for capital purposes of 74 percent or an increase in operational expenditures of 16.3 percent. For municipalities, the potential increase for capital outlays is 30.6 percent. For operating purposes, an increase of 12.6 percent could be possible.

Considered as new revenue in 1972, revenue sharing is a more important source of funds than is indicated by a comparison with the level of existing revenues and expenditures. Average annual tax revenue increases for counties, cities, and the state in recent years are listed in Table 13. Revenue sharing provided counties with new funds in 1972 that were almost four times the amount of the average annual increase in tax revenue. For municipalities, revenue sharing added almost twice as much as average revenue increases from local tax sources. Although the impact on the state is comparatively less than for cities and counties, the one-third increase in new revenue is still quite significant.

Considering only the annual increase in tax revenues from 1971 to 1972, revenue sharing probably represents a smaller percentage for all types of government. Compared to the latest year's increase in tax revenues, the revenue sharing allocations for the 27 largest cities were 124 percent of increased

	Average Annual Tax Revenue Increase <sup>a</sup> (in millions)	1972 GRS Allocations as a Percentage
Counties	\$ 16.0	376.3%
Cities	60.3	172.6
State	247.2	33.3

SOURCE: U.S. Department of Commerce, Bureau of the Census, *Census of Governments: 1962*, vol. 4, no. 4; and 1972, vol. 4, no. 5; and Office of Revenue Sharing, *4th Entitlement Period Allocations*, July 1973.

<sup>a</sup>Includes tax rate increases.

taxes and 22 percent of new tax revenues for the state. Data on tax revenue increases from 1971 to 1972 are not available for other cities or for any of the state's counties.

The impact of revenue sharing as "new" money occurs only once, of course. When first received, the funds represent a substantial new spending capability in the relative amounts indicated for counties, cities, and the state. Subsequent budgetary periods are based on the increased revenue levels that revenue sharing provided in the first year.

The important point to consider is that if revenue sharing is not extended beyond its current expiration date of December 1976, the revenue lost from this source would be substantial. If city and county governments should desire to maintain the same expenditure levels without revenue sharing support, then a substantial tax increase by many of these local governments would probably be necessary.

4  
**IMPACT ON TEXAS  
STATE GOVERNMENT**

Texas state government will receive approximately \$474 million into the treasury during the five-year life of the general revenue sharing program. The state had received \$225 million through state fiscal year 1974 and is expected to receive additional amounts during the succeeding fiscal periods according to the schedule delineated in Table 14, p. 26. Actual disbursements are made by the Treasury Department to participating governments on a quarterly basis.

The first general revenue sharing allocation was received by the state in December 1972, shortly after the federal law was enacted, but the money could not be spent until it was appropriated by the legislature in 1973.<sup>10</sup> When the 63d Texas Legislature met in regular session that year, it appropriated slightly over \$316 million in revenue sharing funds for the 1974-1975 biennium which started in September 1973. The \$316 million appropriation represents approximately three and one-half years of revenue sharing funds.

FEDERAL REQUIREMENTS

In general the expenditure of revenue sharing funds by the state is unrestricted. That is, any function or activity that can be financed

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<sup>10</sup>Article VIII, section 6 of the Texas Constitution prohibits the expenditure of state funds except pursuant to appropriations made by law. The maximum period of appropriation is limited to two years.

Table 14  
REVENUE SHARING ALLOCATIONS  
TO TEXAS STATE GOVERNMENT, 1972 TO 1977

<u>State Fiscal Year</u>	<u>Amount Allocated</u>	<u>Cumulative Total</u>
1972	\$41,144,234	\$ 41,144,234
1973	88,322,420	129,466,654
1974	95,174,979	224,641,633
1975	98,081,488	322,723,121
1976	99,483,333*	422,206,454*
1977	52,091,667*	474,298,121*

SOURCE: Office of Revenue Sharing, 4th Entitlement Period Allocations, July 1973; 5th Entitlement Period Allocations, May 1974; and Texas ACIR staff estimates.

\*Estimates

with the state's own funds may be paid for with general revenue sharing money. This includes passing all or part of the funds to local governments including school districts and other special-purpose units. However, several specific requirements are placed on the use of the funds by federal law.

- The state must continue to provide local governments with at least the same level of financial aid provided before revenue sharing funds are received unless (1) the state elects to assume responsibility for a category of expenditure previously held by local governments or (2) local governments exercise new taxing authority.

- Revenue sharing funds may not be used either directly or indirectly to match other federal funds. If funds are granted to a secondary recipient, the same restriction applies to that unit of government or other organization.
- Employees whose wages are paid in whole or in part from revenue sharing funds must receive at least the same wages or pay as persons employed in similar occupations by the same employer.
- Wages for contract work of which 25 percent or more is paid from revenue sharing funds must be paid at rates not less than the

local prevailing rates as determined by the secretary of labor under the Davis-Bacon Act.

Revenue sharing funds may not be used in a way that discriminates against a person because of race, color, sex, or national origin.

The last four conditions apply to the use of revenue sharing funds by local governments as well as the states.

When revenue sharing funds are received, they must be deposited in a trust fund from which the money may then be disbursed. The state Revenue Sharing Trust Fund was established by the 63d Texas Legislature to conform with this requirement.<sup>11</sup> Accounting and auditing guidelines have been established by the federal Office of Revenue Sharing for use by the states and localities.

Another administrative requirement of general applicability to both state and local governments is the annual submission of planned-use reports prior to the receipt of funds and actual-use reports at the close of each entitlement period. Both reports must be published in the press to help inform the public about how the funds are being used.

#### COMPARISON OF REVENUE SHARING WITH ANNUAL STATE REVENUES AND EXPENDITURES

Perspective on the impact of general revenue sharing on state government finance can be gained by comparing annual revenue sharing receipts with state revenue and expenditures for a comparable period. Revenue sharing funds are directly comparable to the state's own gen-

eral revenue since the legislature has broad latitude to appropriate both funds as it sees fit. Using a one-year comparison, revenue sharing funds allocated in state fiscal year 1974 provided \$95.2 million, an amount equal to 5.5 percent of state general revenue collected during that period. Net receipts to the general revenue fund during the first year of the 1974-1975 biennium exceeded \$1.75 billion. The general revenue fund receives proceeds from various sources including the state sales and use tax, franchise tax, cigarette tax, and other miscellaneous taxes.

When annual revenue sharing allocations are compared to several major and minor sources of tax revenue in Table 15, p. 28, it is apparent that various increases in the corresponding tax rates would be necessary to raise funds equal to the annual amount provided by this source of federal aid. For example, the state limited sales and use tax would have had to be increased from the present 4 percent to about 4.34 percent; the tax on cigarettes from 15.5 cents to around 21.7 cents per package; the motor vehicle sales tax from 3 percent to 4.4 percent; or the state ad valorem tax from 17 cents to 49 cents per \$100 valuation in order to raise an equivalent amount of revenue.<sup>12</sup>

Compared to expenditures for fiscal year 1974, the revenue sharing allocation for the same period was about 2 percent of the total \$4.8 billion appropriated from all funds.

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<sup>11</sup>TEX. REV. CIV. STAT. ANN. art. 4366b (Supp. 1974).

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<sup>12</sup>These estimated rates were calculated by the Texas ACIR staff based on actual revenues from these sources in state fiscal year 1974. The state property tax rate is set by the state constitution and could not be increased without constitutional amendment.

Table 15

COMPARISON OF ANNUAL REVENUE SHARING  
ALLOCATION WITH SELECTED STATE TAX SOURCES, 1974

<u>Tax Source</u>	<u>Net Receipts, State FY 1974 (in millions)</u>	<u>GRS as Percentage</u>
Sales and Use Tax	\$1,126.2	8%
Cigarette Tax and Permits	248.5	38
Motor Vehicle Sales Tax	197.8	48
Franchise Tax	154.5	62
State Ad Valorem Tax	50.8	187
Hotel and Motel Tax	10.8	881

SOURCE: Texas, Comptroller of Public Accounts, Annual Report, 1974, Part IA, "Receipts and Disbursements of State Funds."

Expenditures from the state general revenue fund exceeded \$1.4 billion for fiscal year 1974, and the annual revenue sharing allocation was 6.8 percent of that amount.

As another indication of the potential annual impact of revenue sharing on state spending programs, Table 16, p. 29, provides a comparison of several major appropriation items for the 1974 fiscal year. Not all these programs actually received support from revenue sharing. Their levels of appropriation in comparison to annual revenue sharing funds received by the state provide further perspective concerning the relative importance of revenue sharing if it were used solely to support one or more major programs.

IMPACT ON AVAILABLE  
REVENUE FOR THE FIRST BIENNIUM

The major emphasis in this chapter is on the effect of revenue sharing on the finances of Texas state government for the first biennium in which revenue sharing funds were used. The first actual-use report submitted by the governor to the Office of Revenue Sharing for the 1974-1975 biennium indicated that general revenue sharing allowed the state to avoid an increase in the rate of a major tax for that appropriation period. In 1973, revenue sharing did appear to be an important factor in allowing the legislature to adopt an appropriation act for the next two years that did not require a tax increase. Although



Table 16

ANNUAL STATE REVENUE SHARING ALLOCATION COMPARED TO  
SELECTED APPROPRIATION ITEMS, 1974

<u>Item</u>	<u>1974 Appropriation (in millions)</u>	<u>1974 Revenue Sharing Allocation as a Percentage</u>
Highway Department	\$726.0	13%
University of Texas System	272.1	35
Dept. of Mental Health & Mental Retardation	180.1	53
State Judicial Branch	12.5	762

SOURCE: General and Special Laws of the State of Texas, ch. 659, (1974-1975 Appropriations Act), Regular Session, 63d Texas Legislature, 1973.

it is apparent at the time this report is being prepared that there will be a substantial surplus in the state treasury at the end of the biennium, the national economic trends and energy shortages that produced an increase in state tax receipts for fiscal years 1974 and 1975 could not be predicted prior to the adoption of the appropriation act.

The preparation of the 1974-1975 biennial budget was based on revenue estimates supplied by the state comptroller of public accounts on January 1, 1973. Those estimates included the projected \$316 million in revenue sharing funds that were already on hand or would be allocated to Texas by the end of the

biennium.<sup>13</sup> After the revenue estimates were released the United States Congress enacted legislation providing for federal assumption of costs for adult assistance categories of the welfare program. This action occurred prior to the enactment of the biennial appropriation bill, and it freed over \$91 million that previously had been allocated to those welfare functions. The combined effect of general revenue sharing allocations and reduction of welfare obligations was for practical purposes a 12.4 percent increase in the comptroller's estimate

<sup>13</sup>State comptroller's estimates were based on projections supplied by the Texas ACIR staff.

of available general revenue for the biennium.

The effect of this new federal revenue can be demonstrated by comparing it with the state comptroller's estimates of revenue from two major sources. For example, the comptroller estimated that the state's limited sales and use tax would produce around \$2.1 billion for the 1974-1975 biennium.<sup>14</sup> To raise an amount equivalent to the new federal funds from this source, an increase in the rate of the limited sales and use tax from 4 percent to 4.77 percent would have been necessary, assuming that economic conditions underlying the comptroller's estimate remained the same.

#### Key Fund System

The impact of these related federal actions on state revenue for the biennium can be examined further by considering their effects on the state's key fund system. Although the state fund structure that is used to account for state receipts and expenditures is quite complex, the more important fiscal decisions can be examined through a review of changes within the key fund system. This system is comprised of major funds for which the state legislature has substantial discretion over appropriations. The four major key funds include the general revenue fund, the omnibus tax clearance fund, the available school fund, and the foundation school fund. Actually, the federal revenue sharing fund should also be considered as a key fund, but for the purpose of analyzing the impact of revenue sharing on the 1974-1975 available

revenue, this fund will be considered separately.

Essentially, the key funds include all the revenue and expenditures for the state programs with the following major exceptions:

- state highway fund;
- certain regulatory funds supported wholly from taxes or fees on the regulated industries and professions; and
- federal aid funds.

Key fund revenue available for the 1974-1975 biennium as estimated by the comptroller on January 1, 1973, was about \$5.1 billion. General revenue sharing funds available for appropriation during the period amounted to 6.2 percent of the total key fund estimate. If the \$91 million reduction in state welfare payments is included with revenue sharing as "new" money available to the state, funds available through federal actions amounted to around 8 percent of the key fund estimate.

At the time this report is being prepared, it appears from recent unofficial estimates that key fund revenue from state sources will approach \$6 billion for the 1974-1975 biennium.<sup>15</sup> This means that key fund revenue for the 1974-1975 biennium will exceed revenue for the previous two-year period by about \$1.37 billion. Even compared to this sizable increase in revenue, brought about largely by inflation on consumption-based taxes and by increased receipts from taxes on oil and gas production, the \$400

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<sup>14</sup>Texas, Comptroller of Public Accounts, Biennial Revenue Estimate, 1973-1975, (1973).

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<sup>15</sup>Texas Research League, Long Range Fiscal Projections: A Tool for Managing the Surplus (Austin: The League, 1974), p. 9.

million in new federal money is equivalent to 30 percent of the probable new revenue for the 1974-1975 beinnium.

General Revenue Fund

Although the point is discussed in more detail later in this chapter, it should be mentioned here that federal revenue sharing dollars were used for the most part as a supplement to state general revenue for the 1974-1975 biennium. Table 17 provides historical data on the status of the general revenue fund for the preceding five biennial periods and illustrates the importance of revenue sharing as a supplement to the comptroller's 1973 estimate of available general revenue for the 1974-1975 biennium.

General revenue is ordinarily used as the primary source of revenue for a multitude of state programs including institutions of higher education, the state courts, health and social service agencies, and many of the administrative boards and commissions that make up the executive branch of state government. The amount of general revenue money available to fund these programs depends to a great extent on the amount of general revenue that must be transferred each year from the general fund to meet the requirements of public education. The amount of general revenue required for school purposes depends on the amount of revenue received by another key fund--the omnibus tax clearance fund--and the system of priority

Table 17

GENERAL REVENUE FUND RECEIPTS AND TRANSFERS:  
HISTORICAL TREND WITH 1974-1975 ESTIMATES

<u>Biennium</u>	<u>Total GRF Receipts</u>	<u>Foundation Program Transfers</u>	<u>Water Dev. Transfers</u>	<u>GRF Remainder</u>	<u>Percent Change, GRF Remainder</u>
	----- (in millions) -----				
1964-1965	\$ 958.3	\$ 264.1	\$ 3.5	\$ 690.7	-----
1966-1967	1,285.4	340.4	5.2	939.8	36.1%
1968-1969	1,522.2	449.3	6.1	1,066.8	13.5
1970-1971	2,336.0	802.7	6.3	1,527.0	43.2
1972-1973	2,990.5	996.2	12.2	1,982.1	29.8
1974-1975 <sup>a</sup>	3,285.8	1,464.0	13.6	1,808.1	- 8.7
1974-1975 <sup>b</sup>	3,601.9	1,464.0	13.6	2,124.2	7.2

SOURCE: Unless otherwise indicated, Comptroller of Public Accounts, Annual Reports, 1964-1973, Part 1B, "Receipts and Disbursements of State Funds."

<sup>a</sup>Figures are taken from the January 1973 biennial revenue estimate of the comptroller of public accounts.

<sup>b</sup>The 1974-1975 revenue sharing funds were added to the comptroller's estimate of general revenue receipts for purposes of illustration (\$316 million addition).

allocations for which the omnibus tax receipts are used. Transfers to the foundation program from general revenue have averaged around 31 percent of net general revenue receipts over the last ten years. A relatively smaller amount is also transferred each year to meet principal and interest payments on water development bonds. The general revenue remaining after these transfers are made (hereafter called "remainder") is used to support the various state programs mentioned previously.

The importance of revenue sharing funds in avoiding a tax increase at the time the 1974-1975 biennial appropriation was adopted is illustrated by the estimate of the general revenue remainder for 1974-1975 in Table 17, p. 31. The estimated remainder available for appropriation in January 1973 was 8.7 percent less than the actual remainder for the previous biennium. The reason the estimated general revenue remainder is lower than the previous biennium is the rather large projected transfer to the Foundation School Program (almost \$1.5 billion). But when federal revenue sharing funds are added to state general revenue for purposes of illustration, the general revenue remainder reflects a moderate increase over the previous biennium. (See the last entry in Table 17, p. 31.)

Based on the preceding analysis, it appears that revenue sharing money was used largely as a replacement for state general revenue that was needed to meet preexisting needs in public education and as a needed supplement for other general revenue purposes. It appeared in 1973 that, without revenue sharing money, there would have been a shortage of revenue to meet some of the normal cost increases of various state programs supported by the general fund. The

conclusion that revenue sharing funds prevented a revenue shortage based on expectations in early 1973 is also supported by an examination of appropriation levels for the biennium.

#### Key Fund Expenditures

Appropriations from the key funds for the 1974-1975 biennium indicate a lower percentage increase in the level of spending than in previous biennial periods. This is illustrated by the analysis of key fund expenditures in Table 18, p. 33.

A more precise assessment of the impact is provided by subtracting outlays for public school education and welfare, which account for about one-half the total of key fund expenditures. The remainder represents primarily the level of nonschool spending from general revenue. Comparing the percentage increase in these expenditures during the past three biennial periods, there appears to be no significant change in the rate of increase and perhaps even a slight reduction in the rate of increase over the previous biennium. Both sets of figures tend to support the conclusion that revenue sharing funds available to the state were used to replace state revenue that would otherwise be needed and did not contribute to an unusually large increase in state spending.

#### Revenue Sharing as General Revenue

An examination of individual items in the appropriation bill for the 1974-1975 biennium indicates rather clearly that revenue sharing funds are being used during the current biennium largely as a substitute for state general revenue. Those state agencies, educational institutions, and courts for which revenue sharing funds were appro-

Table 18  
RECENT TRENDS IN KEY FUND EXPENDITURES

<u>Biennium</u>	<u>Total Expenditures* (in billions)</u>	<u>Percentage Increase</u>	<u>Expenditures Less Public Ed. &amp; Welfare* (in billions)</u>	<u>Percentage Increase</u>
1966-1967	\$1.99	-----	\$ .64	-----
1968-1969	2.52	26.6%	.96	50.0%
1970-1971	3.39	34.5	1.26	31.2
1972-1973	4.40	29.8	1.73	37.3
1974-1975	5.53	25.7	2.32	34.1

SOURCE: Texas Research League, Long Range Fiscal Projections: A Tool for Managing the Surplus (Austin: The League, 1974).

\*Includes expenditures from federal revenue sharing fund during the 1974-1975 biennium.

priated for the current biennium have historically received large portions of their financial support from the general fund. A comparison of appropriations for the 1972-1973 and 1974-1975 biennial periods indicates that for most of the agencies, educational institutions, and courts receiving appropriations from revenue sharing in 1974-1975, the combined percentage of funds received from revenue sharing and state general revenue is very nearly the same as the percentage of appropriations received from general revenue during the previous biennium. A comparison of appropriations sources for the two biennial periods is provided in Appendix C.

REVENUE SHARING AND  
OTHER FEDERAL GRANTS

Although the amount of federal grant support to Texas state govern-

ment has increased substantially during the past 20 years, the relationship of federal grants to the total state budget has not changed as much as might be expected from the discussion of federal aid increases in chapter 2. In the 1954-1955 biennium federal grants totaled \$346 million, which was about 12 percent of total state revenue. Federal aid amounted to 18 percent of total state revenue received during the 1972-1973 biennium.

Federal grants other than revenue sharing totaled almost \$1.2 billion in state fiscal year 1974. The revenue sharing allocation for state fiscal year 1974 was \$95.2 million, or nearly 8 percent of the amount of federal categorical grants received in that year.

During the last ten years the dollar amount of federal aid received

by the state has increased although the rate of increase has varied substantially from year to year. As indicated by Table 19, federal aid other than revenue sharing increased by relatively small amounts in state fiscal years 1973 and 1974.

Table 19		
FEDERAL CATEGORICAL GRANTS RECEIVED BY TEXAS STATE GOVERNMENT, 1965 TO 1974		
Year	Amount (in millions)	Percent Increase
1965	\$ 439	----
1966	514	17.0%
1967	574	11.7
1968	699	21.7
1969	702	0.4
1970	831	18.4
1971	1,007	21.1
1972	1,150	14.2
1973	1,165	1.3
1974	1,186	1.8

SOURCE: Comptroller of Public Accounts, Annual Reports, 1965 to 1974, Part 1A, "Receipts and Disbursements of State Funds."

The relatively slight increase in federal grant funds during 1973 and 1974 is consistent with national trends. Total grant appropriations by the federal government have continued to increase in absolute terms, but estimates by the Office of Management and Budget indicate that in fiscal year 1974 federal aid appropriations began to decline slightly as a percentage of federal appropriations for domestic outlays and as a per-

centage of state-local expenditures.<sup>16</sup> This trend is illustrated in Table 5, p. 16.

The general slackening of overall federal aid appears to be partly a result of changes in responsibility for public assistance programs. Direct federal benefit payments to individuals reduced the total amount of grants to the states. It is also probable that some programs have been cut back by the federal government partly because general revenue sharing funds are available to help fill the gap if the states and localities choose to use the funds in this manner.

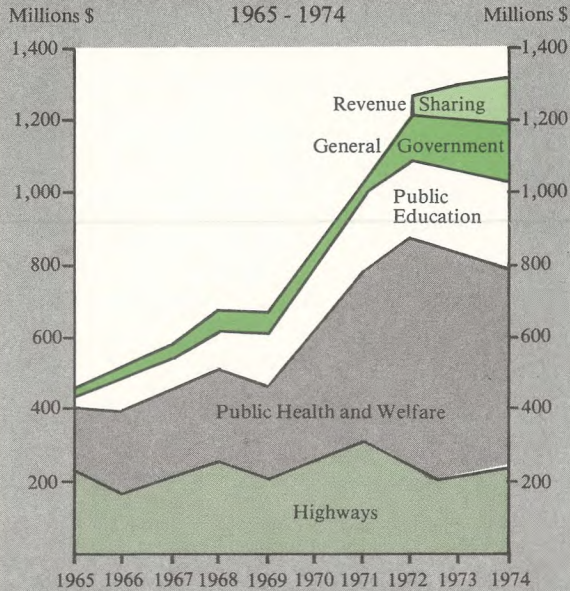
Composition of Federal Aid

In addition to the changes in the total amount of federal funds received by the state, there have been significant changes in the composition of the grants received during the last ten years. These changes are illustrated in Figure 4, p. 35, and Table 20, p. 35. (Also see Appendix D.)

Federal highway aid fluctuated substantially during the period from 1965 to 1974, but overall it increased by a slight .3 percent annual average. Grants for public health and welfare increased at average annual rates of 13.1 percent and 13.7 percent, respectively, although the dollar amount of federal welfare funds received by the state actually declined in 1973 and 1974. Education grants increased at a faster average rate (30.2 percent) than any other category. Grants for

<sup>16</sup>U.S., Office of Management and Budget, Special Analyses: Budget of the United States Government, FY 1975, p. 210.

Figure 4  
**FEDERAL CATEGORICAL GRANTS  
 AND REVENUE SHARING RECEIVED  
 BY TEXAS STATE GOVERNMENT**



SOURCE: Comptroller of Public Accounts, *Annual Reports*, 1965-1974, Part 1A, "Receipts and Disbursements of State Funds."

general government purposes, which include criminal justice projects, community development assistance, and unemployment compensation, increased at a high average annual rate of 24.4 percent.

When considered as a percentage of total federal aid to the state, grants for education and for general governmental purposes are far more important in 1974 than in 1965. (See Table 20.) At the same time, grants for highway purposes have declined substantially in relative importance. In 1965 almost one of every two federal grant dollars received by the state was for highways. In 1974 approximately one of every five federal grant dollars was for this purpose.

Revenue Sharing  
 as a Federal Grant

Since general revenue sharing funds were used in the same manner as the state's own general revenue during the 1974-1975 biennium, the expenditure pattern would be expected to differ from that of federal categorical grants. Table 21, p. 36, provides a comparison based on five broad expenditure categories. Although 72 percent of all categorical grant funds received during the 1972-1973 biennium were spent for highway and welfare purposes, no revenue sharing money was appropriated for those categories in the 1974-1975 biennium.

Table 20

PERCENTAGE DISTRIBUTION OF FEDERAL GRANTS TO  
 TEXAS STATE GOVERNMENT, 1965 AND 1974

Year	Highways	Public Health	Welfare	Education	General Government	Total
1965	48.6%	1.5%	40.3%	5.0%	4.6%	100.0%
1974	18.5	1.7	47.5	20.2	12.1	100.0

SOURCE: Comptroller of Public Accounts, *Annual Reports*, 1965 and 1974, Part 1A, "Receipts and Disbursements of State Funds."

Table 21

COMPARISON OF REVENUE SHARING APPROPRIATIONS  
AND FEDERAL CATEGORICAL GRANTS

<u>Category</u>	<u>Categorical 1972-1973 (in millions)</u>	<u>Percent of Total</u>	<u>Rev. Sharing 1974-1975 (in millions)</u>	<u>Percent of Total</u>
Highways	\$ 457.4	20%	\$ -0-	---
Public Health	38.2	2	27.7	9%
Welfare	1,215.3	52	-0-	---
Education	403.5	17	190.4	60
General Govt.	<u>202.6</u>	<u>9</u>	<u>97.9</u>	<u>31</u>
TOTAL	\$2,317.0	100%	\$316.0	100%

SOURCE: Comptroller of Public Accounts, Annual Reports, 1972-1973, Part 1A, "Receipts and Disbursements of State Funds"; and 1974-1975 Appropriations Act.

A substantial percentage of federal categorical grants and about 60 percent of revenue sharing funds for the 1974-1975 biennium were allocated to education. Most of the categorical grant money was allocated to public school education, however, while almost all the revenue sharing funds earmarked for education went to community colleges and state colleges and universities.

Federal categorical grants for health were used for operating expenses, and general revenue sharing funds appropriated for this function were directed to construction programs. Portions of federal grant funds received by the state are passed through to local governments in several different grant categories.

USES OF REVENUE SHARING  
FUNDS BY THE STATE  
GOVERNMENT, 1974-1975 BIENNIUM

Although certain aspects of the expenditure of revenue sharing funds during the 1974-1975 biennium have been considered previously in this chapter, other issues concerning the expenditure of the \$316 million in revenue sharing money should also be discussed. These include the character of expenditures from the fund, distribution of expenditures according to Office of Revenue Sharing categories, and the apparent impact on expenditures in functional areas.

Federal revenue sharing funds appropriated for the 1974-1975 biennium comprise about 3.25 percent



of the total state budget of \$9.75 billion and about 15.6 percent of the \$2 billion appropriated from the state general fund. The programs or agencies for which these funds were appropriated can be determined readily by an examination of the state appropriation act. However, the expenditure categories for which most of the funds may be used cannot yet be determined.<sup>17</sup> For a large majority of the state agencies, universities, and courts that received revenue sharing money, there was no requirement in the appropriations act that the revenue sharing appropriation be spent for any particular category of expenditure. In these cases the expenditure categories for which revenue sharing funds were actually used can be determined only at the end of the fiscal period when expenditure reports are compiled.

Five agencies received line item revenue sharing appropriations that were specifically designated for a single purpose or type of expenditure. As one example, this study of federal revenue sharing and its impact on state and local governments in Texas was funded by an appropriation from the revenue sharing fund. The Texas Cosmetology Commission received an appropriation of revenue sharing money for the purchase of

office and examination facilities. Also, construction programs of the Department of Health, Department of Mental Health and Mental Retardation, and the Texas Youth Council received revenue sharing fund appropriations. The amount appropriated to each of these agencies for construction is a relatively small portion of each agency's total budget.

### Capital Expenditures

It is not possible to determine from the 1974-1975 biennial appropriation bill the exact extent to which revenue sharing funds will be used for capital expenditures. The character of expenditure cannot be linked to the source of funds unless an agency receives money from only one fund source or unless there is a specific line item appropriation from a fund for an identifiable capital expenditure. As mentioned previously, only four agencies received specific revenue sharing appropriations for the construction or acquisition of facilities. These specific appropriations totaled \$30.5 million, or about 10 percent of total revenue sharing funds allocated for the biennium.

Considerably more revenue sharing money will likely be used for capital expenditures during the 1974-1975 biennium than the \$30 million earmarked for that purpose. For example, the State Building Commission received line item appropriations of \$11.5 million for the acquisition of property and construction or development of facilities. The agency received appropriations for the biennium of \$4.8 million from the revenue sharing fund and \$8.6 million from state general revenue for a total of \$13.4 million to cover all operating and capital costs for the two-year period. The

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<sup>17</sup>State expenditures from the Federal Revenue Sharing Trust Fund are classified by the state comptroller into 33 categories including: salaries and wages; printing and office supplies; postage; travel expenses; equipment and furniture inventory; buildings purchased, constructed, and remodeled; and 26 others. Annual Report of the Comptroller of Public Accounts, 1974, Part 1B.

source of funds was not designated for the individual projects, but the entire \$4.8 million in revenue sharing funds could be used by the State Building Commission for capital purposes.

In a similar situation the Texas Schools for the Blind and Deaf were authorized \$1.6 million for their building program. The agency received a revenue sharing appropriation of the same amount although the revenue sharing funds were not earmarked for construction. Even in the absence of a specific designation for the use of the revenue sharing funds, however, it can be assumed, because of the identical amounts, that the legislature intended the revenue sharing funds to be used in the construction program. Other examples are Texas A&I University at Corpus Christi and Texas Tech University School of Medicine in Lubbock. The universities were authorized \$3.2 million and \$2.0 million, respectively, for construction purposes and received undesignated revenue sharing appropriations in the same amounts.

The addition of the four programs discussed to the \$30 million in specially designated revenue sharing appropriations means that over \$42 million in revenue sharing funds, or 13 percent of the total revenue sharing appropriation, will likely be used for construction or acquisition of property over the biennium. A total of \$62 million was appropriated for the biennium from the general revenue and federal revenue sharing funds specifically for construction or acquisition of facilities.

The term "capital expenditures" is usually defined broadly, however. For example, the federal Office of Revenue Sharing has interpreted capital expenditures to include the purchase of motor vehicles,

equipment, and permanent improvements. Capital expenditures may also include renovations or remodeling of buildings, feasibility studies, and legal and administrative costs involved in the purchase of property.<sup>18</sup>

If a broad definition of capital expenditures is used, then additional revenue sharing dollars will probably be used for this purpose during the 1974-1975 biennium. For example, Texas state colleges and universities (which received a combined total of \$176.7 million in revenue sharing funds) were authorized to spend a sizable portion of their budgets for major repairs or rehabilitation of facilities. These items are listed for each institution in the 1974-1975 appropriation act, and they represent a combined total of \$11.0 million for colleges and universities receiving revenue sharing money.<sup>19</sup> How much of these capital expenses may be paid from revenue sharing dollars cannot yet be determined since expenditure reports for fiscal year 1975 will not be compiled until the end of the fiscal year.

The report of the comptroller of public accounts for fiscal year 1974 indicates a total capital outlay by the state, excluding highway construction and related expenses, of

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<sup>18</sup>U.S., Department of the Treasury, Office of Revenue Sharing, One Year of Letter Rulings on General Revenue Sharing: A Digest, p. II-6.

<sup>19</sup>Total does not include any of the \$65,157,630 appropriated from the available university fund to The University of Texas System and the Texas A&M University System. Available university fund appropriations may also be used for various capital expenditures.

\$130.2 million. Assuming a similar level of capital expenditures during the second year of the biennium, the two-year total for nonhighway capital outlay should be around \$260 million. Capital outlay from the general fund will probably total \$95 million during 1974-1975, and capital expenditures from revenue sharing will probably be less than one-half that spent for similar purposes from general revenue.

Actual capital expenditures from the federal revenue sharing fund were low during the 1974 fiscal year. According to the annual report of the comptroller of public accounts, only \$3.9 million had been expended for capital purposes, including equipment and furniture. This figure represents a small fraction of the \$30.5 million in revenue sharing funds specifically earmarked for construction and acquisition of facilities during the biennium. The low 1974 expenditure total is probably a reflection of delays in the actual disbursement of funds. A much larger share of the revenue sharing funds so appropriated may have been obligated by contracts for purchase or acquisition but not yet disbursed.

Although it is impossible to arrive at an exact percentage of revenue sharing funds that will be spent for capital purposes during the biennium, a reasonable estimate can be derived from amounts designated in the appropriation act. These amounts indicate a probable level of capital expenditure from revenue sharing funds of well under 20 percent of the \$316 million appropriated for the biennium. This means that 80 percent or more of the funds will likely be spent directly for salaries and other normal operating expenses of state agencies, institutions of higher education, and courts receiving the funds.

### ORS Categories

As mentioned previously in this chapter, the state and local governments are required to submit periodic reports on planned and actual uses of revenue sharing funds. The state government reports classify planned and actual expenditures according to 11 governmental functions. Table 22 lists these functions and summarizes the amounts appropriated to agencies in each of the 11 Office of Revenue Sharing (ORS) categories.

	Amount	Percent of Total
General Government	\$ 49,350,407	15.6%
Education	190,408,030	60.3
Health	27,751,019	8.8
Transportation	-0-	-0-
Social Services	4,262,146	1.3
Housing and Community Development	-0-	-0-
Economic Development	600,000	.2
Environmental Conservation	2,000,000	.6
Public Safety	18,500,000	5.9
Recreation/Culture	-0-	-0-
Judicial	23,222,210	7.3
TOTAL	\$316,095,812	100.0%

SOURCE: General and Special Laws of the State of Texas, ch. 659, (1974-1975 Appropriations Act), Regular Session, 63d Texas Legislature, 1973.

Over 60 percent of revenue sharing funds available for the biennium were appropriated for the purpose of education, and almost all this money was directed to support the public community colleges and 24 state colleges and universities. The next largest portion of revenue sharing funds (15.6 percent) went to the area of general government where 17 state agencies shared in their use. "General government" includes such agencies as the Attorney General's Office, State Building Commission,

Board of Control, and General Land Office. Significant amounts of revenue sharing funds were also allocated to state health agencies, where most of the money was directed for capital expenditures, and to the state courts, where the money was generally used for salaries of district judges and attorneys and to pay salaries and operating expenses of the Courts of Civil Appeals and the Supreme Court.

#### Impact on Functional Area Expenditures

A question that received important consideration in the research leading to the preparation of this report was whether the availability of revenue sharing funds affected the levels of expenditure for certain types of state agencies or for certain state government functions. The question of possible spending variations in functional areas was approached by a comparison of the 1974-1975 biennial budget and the previous appropriation levels of agencies that received revenue sharing funds during the 1974-1975 biennium. Projected state agency appropriations for 1974-1975 were compared with actual appropriations summarized according to each of the 11 ORS categories. The projections were based on actual appropriations for the previous five years. This analysis indicated that actual appropriations for most of the agencies receiving revenue sharing funds slightly exceeded the projected 1974-1975 budget amount. In fact, almost four times as many agencies received an amount greater than the projection.

The importance of these variations is questionable, however, because of the small number of

agencies in several of the ORS categories and because projections for a sample of agencies that did not receive revenue sharing funds revealed similar results. Year-to-year fluctuations in appropriation levels are characteristic of a number of state agencies, and appropriations for such programs as health and education tend to receive substantial increases periodically. These facts suggest that any firm conclusions concerning changes in individual agencies' expenditure levels or levels of spending in ORS categories for the 1974-1975 biennium brought about by revenue sharing would be tenuous at best.

An analysis of increases for eight functional areas over the past four biennial appropriation periods indicates no apparent correlation between the percentage of revenue sharing funds appropriated and changes in expenditure levels. In four of the eight functions, 1974-1975 biennial appropriations increased less than during the previous biennium (see Table 23, p. 41). Although individual agencies may have exceeded projected appropriation levels as indicated by the preceding discussion, the overall appropriations for health, the judiciary, and higher education do not reflect an unusual increase in comparison to previous periods. These three functions received 76.4 percent of the revenue sharing funds in the 1974-1975 biennial appropriation. The executive and administrative function reflects an unusual appropriation increase, but this is attributable to over \$130 million in new federal grants for criminal justice planning. If these federal grant funds are subtracted from the 1974-1975 biennial appropriation, the percent increase for that period would be 30.4 percent instead of 52.3 percent.

IMPACT ON FUTURE  
BIENNIAL APPROPRIATIONS

The level of revenue sharing appropriations for the 1974-1975 biennium is approximately \$129 million greater than the actual revenue sharing funds allocated to the state during the two-year period covered by the state appropriation act. This situation results from the timing of the enactment of the State and Local Fiscal Assistance Act of 1972 in relation to the state budget cycle. Revenue sharing funds received by the state for fiscal years 1972 and 1973 could not be spent until appropriated by the 63d Legislature.

The important fact to consider is that the amount of revenue sharing funds allocated to the state for the 1976-1977 biennium will probably be

just over one-half the amount available for the previous biennium. At least \$150 million should be available from federal allocations between September 1975 and December 1976 when the current revenue sharing program expires. An additional \$20.9 million, including investment income and interest, should be available from allocations in prior years. This would provide a total of about \$170.9 million in revenue sharing funds for the biennium.<sup>20</sup>

This relatively lower amount of revenue sharing funds for the next biennium will, in all likelihood, require a substitution of some \$109 million in funds from other state

<sup>20</sup>Texas, Comptroller of Public Accounts, Biennial Revenue Estimate, 1975-1977, (1975).

Table 23  
APPROPRIATIONS INCREASES FOR EIGHT FUNCTIONAL AREAS,  
1968-1969 BIENNium TO 1974-1975 BIENNium

Category	Percent Increase 1968-1969	Percent Increase 1970-1971	Percent Increase 1972-1973	Percent Increase 1974-1975	Source of Funds, 1974-1975		
					Percent Gen. Rev.	Percent Rev. Sh.	Percent Other
Judiciary	18.5%	10.9%	28.0%	20.9%	6.1%	92.4%	1.5%
Health	51.4	49.2	32.2	28.5	71.6	4.7	23.7
Welfare	48.7	15.5	69.2	11.1	6.3	-----	93.7
Executive and Administrative	37.6	20.2	40.3	52.3 <sup>a</sup>	26.5	7.9	65.6
Highways	17.3	24.5	3.2	6.7	0.7	-----	99.3
Public Education	36.5	5.9	53.7	17.4	3.2	0.1	96.7
Higher Education	44.2	31.8	25.4	29.8	69.9	13.2	16.9
Legislature	103.8	54.6	2.7	59.6	100.0	-----	-----

SOURCE: State of Texas, Appropriations Acts, 1966 through 1973.

<sup>a</sup>The 1974-1975 appropriation for executive and administrative agencies reflects \$131.8 million in new criminal justice planning funds from federal grants. Without this substantial change the percent increase for 1974-1975 would be 30.4 percent instead of 52.3 percent.

sources.<sup>21</sup> It is possible that the federal revenue sharing program will be extended by the 94th Congress prior to the enactment of the 1976-1977 state appropriation act in 1975. In this event, additional funds could become available for the biennium. But, it appears more likely that final renewal action will be delayed until late in 1975 or sometime in 1976.

At the time this report is being prepared it appears that sufficient revenue will be available from other sources to meet the probable revenue sharing deficiency in the forthcoming 1976-1977 biennial budget. During the 1974 fiscal year, revenues from the sales tax and oil and gas production taxes exceeded projected amounts by a substantial margin. Even considering the reduction in motor fuel tax receipts due to petroleum shortages in 1974, total tax income from these major sources exceeded projections made at the beginning of the biennium by \$265.3 million. Assuming a similar performance from these major tax sources in fiscal year 1975, it is apparent that tax funds in an amount sufficient to cover the projected revenue sharing deficiency should be available.

It should be emphasized, however, that this analysis does not take

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<sup>21</sup>In arriving at the \$109 million figure it was assumed that the legislature would appropriate revenue sharing funds, if available, at the same level as the final year of the 1974-1975 biennium (\$139.7 million). The difference between the projected appropriation level and the probable availability of federal revenue sharing dollars, including interest and investment income, is approximately \$108.6 million.

into account other possible demands on the state treasury for the forthcoming biennium. Even a relatively large revenue surplus at the start of the biennium could be absorbed by increased appropriations for public education and other purposes. If this is the case, the availability of revenue sharing funds could again be a critical factor in avoiding tax increases and ensuring support for basic levels of state services. Of course, questions about the availability of state funds and possible demands on the state treasury beyond the 1976-1977 biennium are largely speculative at this time.

Another factor in considering the possible future effects of revenue sharing on the state budget involves the level of funding from other federal sources. It was pointed out earlier in this chapter that the level of federal categorical grants has increased only slightly in the last two fiscal years (1973 and 1974). The rate of increase in federal dollars is substantially below the overall rate of increase in spending from key state funds and from state general revenue in particular. If federal categorical grant appropriations continue to dwindle in comparison to state spending, then revenue sharing money could assume an increased importance as replacement funds for federal categorical aid as well as for state general revenue.

As far as state budget planning for revenue sharing is concerned, much depends on the timing of renewal legislation enacted by congress. In order for the state legislature to appropriate revenue sharing funds, the state comptroller of public accounts must issue a certification that the funds will be available during the biennium. This is normally done at the time the appropriation act is enacted.

If congress acts after the passage of the state appropriation bill, additional funds for the biennium could probably be used during that biennium only if appropriated at a later special session.

Assuming that revenue sharing is extended in its present form by congress after the 1976-1977 state ap-

propriations bill is enacted, the 1976-1977 appropriation would include one and one-half years of revenue sharing allocations. The regular session of the 65th Legislature meeting in 1977 would probably be in the position of appropriating approximately two and one-half years of revenue sharing funds for the succeeding two-year appropriation period.

**5**  
**IMPACT ON THE**  
**STATE'S LARGEST CITIES**

Cities in Texas will receive revenue sharing funds totaling almost \$590 million during the five-year revenue sharing program. During the annual entitlement period ending June 30, 1974, Texas cities received a combined total of \$122.5 million.<sup>22</sup> That amount represents 43 percent of all revenue sharing funds received by Texas governments that year and 64 percent of the city and county total. Based on 1972 data, the annual allocation to cities is equivalent to about 11 percent of combined city revenues from their own sources and 9 percent of combined city expenditures.

The information in this chapter is concerned primarily with the 27 largest cities in the state where approximately one-half of the people in Texas reside.<sup>23</sup> Although these 27 cities are responsible for 74 percent of all expenditures, they receive 67.4 percent of the revenue sharing funds going to all Texas municipalities. Allocations to the three largest cities alone--Houston, Dallas, and San Antonio--represent one-third of the municipal revenue sharing funds.

Information on actual expenditures of revenue sharing funds is available for the 27 cities for

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<sup>22</sup>See Appendix B for a summary of revenue sharing allocations for all entitlement periods.

<sup>23</sup>See Appendix E for a listing of the 27 cities and their 1972 per capita revenue sharing allocations.



Table 24

1972 FINANCES OF 27 LARGEST TEXAS CITIES  
COMPARED TO ALL OTHER TEXAS CITIES

	<u>Percent General Revenues</u>	<u>Percent GRS Allocation</u>	<u>Percent Direct General Expenditures</u>
27 Largest Cities	72.2%	67.4%	74.0%
All Other Cities	<u>27.8</u>	<u>32.6</u>	<u>26.0</u>
TOTAL	100.0%	100.0%	100.0%

SOURCE: Office of Revenue Sharing, 4th Entitlement Period Allocations, July 1973; and U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 4.

two federal reporting periods.<sup>24</sup> For the first reporting period, which extended from the enactment of the program in late 1972 through June 1973, the cities had received \$88.7 million and spent only \$21.4 million. During the next reporting period from July 1973 through June 1974, the 27 cities spent \$98.0 million which was substantially more than the \$82.7 million received during the year. The increased expenditure during the second period apparently reflected a delay in budgeting the funds received during the first period. For the two reporting periods combined, the cities received \$171.4 million and spent \$119.4 million, or about 69.7 percent of the funds received. Interest earned on unexpended balances was \$8.4 million for the 27 cities.

Most of the cities indicated on their second actual-use reports that the availability of revenue sharing funds either prevented increased taxes (14 cities) or helped maintain current tax levels (eight cities). Only two cities reported that the funds allowed a reduction in taxes. Ten cities stated that the funds helped to prevent new debts or reduce old debts.

DISTRIBUTION OF REVENUE  
SHARING FUNDS AMONG TEXAS CITIES

The 27 largest cities received an average per capita general revenue sharing allocation of \$12.65 from 1972 entitlements. Per capita allocations among these cities fall into a wide range. Cities at the two extremes were Garland at \$6.10 per person and Brownsville at \$19.87 per person. As shown in Table 25, p. 47, eight cities received less than \$9 per capita, and two cities received \$18 per capita or more. Between these extremes, eight cities

<sup>24</sup>Actual-use reports submitted to the federal Office of Revenue Sharing.

Table 25

PER CAPITA DISTRIBUTION OF 1972 REVENUE SHARING FUNDS AMONG THE 27 LARGEST TEXAS CITIES

<u>Dollars Per Capita</u>	<u>No. of Cities</u>
Less than \$9	8
9 but less than 12	4
12 but less than 15	8
15 but less than 18	5
18 or more	2

SOURCE: Office of Revenue Sharing, 4th Entitlement Period Allocations, July 1973; and U.S. Department of Commerce, Bureau of the Census, Census of Population: 1970.

were allocated amounts between \$12 and \$15 per capita; four cities, less; and five cities, more.

IMPACT OF REVENUE SHARING ON CITY REVENUES AND EXPENDITURES

General revenue sharing represents an appreciable, but not substantial, new spending power for many of the 27 cities in comparison with 1972 general revenues from all sources including state and federal aid. The allocation of 1972 revenue sharing funds added more than 10 percent to total general revenues in 12 cities in 1972. Five cities (Abilene, Brownsville, El Paso, Laredo, and San Angelo) received allocations that exceeded 15 percent of their revenues. In Brownsville revenue sharing funds amounted to more than 25 percent of 1972 general revenues from all other sources. The revenue sharing allocation represented less than 5 percent of

general revenues in only one city--Galveston.<sup>25</sup>

Table 26

1972 REVENUE SHARING ALLOCATIONS AS A PERCENTAGE OF 1972 CITY GENERAL REVENUES FOR THE 27 LARGEST TEXAS CITIES

<u>Percentage</u>	<u>No. of Cities</u>
Less than 5%	1
5 but less than 7.5	5
7.5 but less than 10	9
10 but less than 12.5	7
12.5 but less than 15.0	0
15.0 or more	5

SOURCE: Office of Revenue Sharing, 4th Entitlement Period Allocations, July 1973; and U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 4.

In comparison with city property tax revenues in 1972, general revenue sharing has added significant new funds to municipal treasuries. Allocations represented 30 percent or more of property tax collections in 10 of the 27 cities and at least 20 percent in 20 cities. Payments exceeded 40 percent of 1972 property tax receipts in the two cities of Brownsville (82 percent) and Laredo (63 percent).

<sup>25</sup>If revenue from city wharves is disregarded, revenue sharing funds in 1972 were 8.2 percent of general revenues of the City of Galveston.

Table 27

1972 REVENUE SHARING ALLOCATION  
AS A PERCENTAGE OF 1972 CITY  
PROPERTY TAX REVENUES FOR  
THE 27 LARGEST TEXAS CITIES

<u>Percentage</u>	<u>No. of Cities</u>
10% but less than 20%	7
20 but less than 30	10
30 but less than 40	8
40 or more	2

SOURCE: Office of Revenue Sharing, 4th Entitlement Period Allocations, July 1973; and U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 4.

The impact of general revenue sharing on city per capita expenditures for operations will vary both according to the uses made of these funds by the cities and the magnitude of each city's allocation in relation to its current spending. Potentially, most cities could add at least 10 percent to their per capita operating outlays in 1972 with general revenue sharing funds as illustrated in Table 28.<sup>26</sup> Several cities could significantly raise the level of municipal services because of the large increases in their operating budgets made possible by general revenue sharing funds. Four cities could expand municipal services by 20 percent or more per capita (Abilene, Brownsville, El Paso, and San Angelo).

<sup>26</sup>Expenditure data in this discussion are direct general expenditures for current operation. Capital expenditures and expenditures for utilities are excluded.

Table 28

1972 REVENUE SHARING ALLOCATION AS  
PERCENTAGE OF 1972 CITY OPERATING  
EXPENDITURES<sup>a</sup> FOR THE 27 LARGEST  
TEXAS CITIES

<u>Percent of Operating Expenditures</u>	<u>No. of Cities</u>
Less than 10%	7
10 but less than 15	12
15 but less than 20	4
20 but less than 25	3
25 or more	1

SOURCE: Office of Revenue Sharing, 4th Entitlement Period Allocations, July 1973; and U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 4.

<sup>a</sup>Direct general expenditures for current operation.

General revenue sharing provides funds sufficient to increase the level of services significantly in most of the 27 cities. If used to finance operating budgets, it would obviously raise the spending levels of all cities. It appears that some equalization of expenditures would occur, but that the range of potential expenditures would not change significantly. The city with the lowest per capita expenditure in 1972 could increase its level by \$7.85 per capita while the city with the highest expenditure in that year could increase its level by \$11.64.

In contrast with the actual spending pattern in 1972, a majority of cities would not fall into any single per capita expenditure group when revenue funds are added (Table 29, p. 49.) Approximately 22 cities would spend between \$75 and \$125

Table 29

DISTRIBUTION OF 1972 ACTUAL AND POTENTIAL CITY  
PER CAPITA OPERATING EXPENDITURES<sup>a</sup>  
FOR THE 27 LARGEST TEXAS CITIES

<u>Dollar Amount of Per Capita Expenditures</u>	<u>Actual Expenditures, Number of Cities</u>	<u>Potential Expenditures, Number of Cities</u> <sup>b</sup>
\$50 but less than \$75	5	1
75 but less than 100	15	13
100 but less than 125	3	9
125 but less than 150	3	1
150 or greater	1	3

SOURCE: Office of Revenue Sharing, 4th Entitlement Period Allocations, July 1973; and U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 4.

<sup>a</sup>Direct general expenditures for current operation.

<sup>b</sup>Includes revenue sharing funds.

per capita (four more than actually spent in this range in 1972); but three cities would spend \$150 or more, compared to only one city which spent that much in 1972.

The distribution of potential city operating expenditures in Table 29 appears to represent less variation in expenditure levels than actually existed in 1972 without revenue sharing funds. By using a statistical measurement of the variation of potential expenditures, however, it appears there is no significant difference in the amount of variation among the cities either with or without revenue sharing funds. The average deviation without revenue sharing was \$23.39. With revenue sharing the average deviation was \$24.04. This analysis confirms

that revenue sharing could increase the levels of per capita spending for city services by all cities, but that the addition of revenue sharing funds would not bring about any significant statistical change in the variation of operating expenditures among the 27 cities.

RECENT TRENDS IN TAXES  
AND OTHER REVENUES

Taxes and other revenues collected by the 27 cities have risen in the past 11 years by just over \$400 million. Between 1962 and 1972 total general revenues raised by these cities from their own sources climbed from \$305.1 million to \$690.7 million, an increase of 126.4 percent. Although property tax revenues rose

Table 30

GROWTH OF TAXES AND GENERAL REVENUES FROM OWN  
SOURCES FOR THE 27 LARGEST TEXAS CITIES, 1962 TO 1972

	<u>1962</u>	<u>1972</u>	<u>Increase</u>	<u>Percent Increase</u>
	----- (in millions) -----			
Property Tax	\$188.3	\$321.5	\$133.2	70.8%
Sales and Other Taxes	22.8	158.5	135.7	594.1
Charges and Misc.	<u>94.0</u>	<u>210.7</u>	<u>116.7</u>	124.2
TOTAL	\$305.1	\$690.7	\$385.6	126.4%

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1962, vol. 4, no. 3; and 1972, vol. 4, no. 4.

\$133.2 million, this source contributed slightly less to the total growth in general revenues than other tax sources. Sales and other tax receipts rose at a much faster rate than property tax revenues. The striking increase in revenues from nonproperty taxes was due principally to the local-option city sales tax authorized by the 60th Legislature in 1967 and afterward adopted by each of the 27 cities except Odessa.

While the combined taxes levied by these 27 cities produced about 70 percent of total general revenues in both 1962 and 1972, introduction of the city sales tax significantly decreased reliance on property taxes. As seen in Table 31, property tax revenues in 1962 comprised about 61.7 percent of the total general revenues of these cities, but, in 1972, property taxes yielded just 46.5 percent of total general revenues, and sales and other taxes comprised 23 percent. Reliance by these cities on charges and other

miscellaneous sources of nontax revenues remained high during the period. These sources accounted for around 30 percent of the general

Table 31

PERCENTAGE DISTRIBUTION OF  
GENERAL REVENUES FROM OWN  
SOURCES FOR THE 27 LARGEST  
TEXAS CITIES, 1962 TO 1972

	<u>1962</u>	<u>1972</u>
Property Taxes	61.7%	46.5%
Sales and Other Taxes	7.5	23.0
Charges and Misc.	<u>30.8</u>	<u>30.5</u>
TOTAL	100.0%	100.0%

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1962, vol. 4, no. 3; and 1972, vol. 4, no. 4.

revenues of the 27 cities in 1962 and 1972.

Unlike the property tax, the revenue yield of the city sales tax cannot be controlled by a city once the tax has been adopted locally. The base of the tax may be expanded or contracted by the legislature, but with one minor exception the base has not been modified since 1967. The 1 percent local tax rate may not be changed locally, and no statewide change has been authorized by the legislature. Consequently, the growth of sales tax revenues has been automatic for cities that have adopted the tax. This growth has been very significant for the 27 largest cities as Table 30, p. 50, illustrates.

#### CHANGES IN PROPERTY TAX REVENUES

Much of the growth of property tax revenues in these cities in recent years has resulted from increases in property values and not from imposition of higher actual taxes on property. The available data suggest, in fact, that several of the cities have not found it necessary to utilize all the revenue growth available to them and have reduced their property tax rates.

At present there are no reliable estimates of the actual value of property subject to ad valorem taxation in each city or of the actual assessment ratio used by each of them. Because of the absence of accurate information on assessment ratios it is not possible to determine how much the true effective ad valorem tax rates are and how much they have changed in recent years. It is possible, however, to compare changes in nominal, or stated, tax rates and in total assessed values

from year to year and, on this basis, to glean some idea of the extent of the increases or decreases in property tax burdens. A comparison of these data indicates that possibly 19, but more likely only 15, of the 27 cities increased their effective property tax rates between 1962 and 1972 while eight cities appear definitely to have decreased their property tax rates over the ten-year period.

When the apparent tax rate changes between 1967 and 1972 are considered, it appears that the local option sales tax may have reduced the need for higher rates of property taxation during that five-year period. Eleven cities appear to have increased their rates between 1967 and 1972 while 13 cities appear to have lowered their effective tax rates somewhat. There was no apparent change in the tax rates of three of the 27 cities. A full description of the procedures used to estimate changes and the results obtained for individual cities is contained in Appendix F.

#### RECENT TRENDS IN EXPENDITURES

Total spending in the 27 cities increased from \$350 million to \$862 million between 1962 and 1972. Spending in cities of every population category in Texas increased nearly 100 percent during this period, but cities with less than 100,000 population, where spending almost tripled, experienced the greatest growth. Cities under 100,000 were followed at some distance by the state's largest cities where spending rose about 148 percent.

Table 32, p. 52, compares population growth trends with expenditure increases. It is apparent for cities in all population categories

that population growth accounted for only a rather small part of the increase in spending and, furthermore, it was not closely associated with the degree of spending growth. While population increased about 8 percent, for example, in cities of 100,000 to 250,000 population, spending rose approximately 93 percent. In the next largest size category, however, population rose by 18 percent, but spending grew only 92 percent.

City Size	Expenditures, 1962-1972	Populations, 1960-1970
500,000 or more	147.8%	23.8%
250,000 to 499,999	91.7	18.1
100,000 to 249,999	92.8	8.1
50,000 to 99,999	172.7	20.7

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1962, vol. 4, no. 3; and 1972, vol. 4, no. 4; and Census of Population: 1960 and 1970.

City spending per capita varied significantly among the 27 largest municipalities in the state in 1972. As Table 33 shows, six cities spent less than \$100 per person while seven cities spent twice that amount or more. Two-thirds of the cities (18) spent under \$150 per person, and the remaining one-third spent above that level. Less than half the cities fell into any single expenditure range, although 44 percent spent between \$100 and \$150 per capita.

When capital expenditures are excluded from total city spending, the level of spending is considerably lower and the variation among the 27 cities is not as great. As shown in Table 34, over one-half the cities spent between \$75 and \$100, and almost three-fourths of

the cities spent between \$50 and \$100 per capita for operations in 1972. Seven cities had per capita operating expenditures of \$100 or more.

Amount Per Capita	No. of Cities
\$50 to \$99	6
100 to 149	12
150 to 199	2
200 to 249	6
250 or more	1

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 4.

Amount Per Capita	No. of Cities
\$50 but less than \$75	5
75 but less than 100	15
100 but less than 125	3
125 but less than 150	3
150 or more	1

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 4.

<sup>a</sup>Direct general expenditures for current operation.

Higher per capita expenditures for operating purposes were more prevalent among the larger cities in 1972. Four of the six cities with over 250,000 population spent \$100 or more per capita for municipal services in 1972, compared with only three of the 21 cities with smaller populations. Average per capita spending in cities with over 250,000 population was \$159, which is only 8 percent more than the average per capita spending in smaller cities.

#### LOCAL GOVERNMENT REVENUE AND EXPENDITURE DATA

In this chapter data on city revenues and expenditures have been presented in order to illustrate the recent trends in city finances in Texas, the distribution pattern of revenue sharing funds among cities, and the potential effects of revenue sharing on city revenues and expenditures for 1972. It was not possible within the scope of this study to analyze financial data for subsequent years in which revenue sharing funds were actually used by the cities because comparative information is not yet available for these years through U.S. Bureau of the Census publications. The most recent comprehensive source of data for Texas city and county government finances is the 1972 Census of Governments compiled by the Census Bureau. This is the source that was

relied upon principally in the preceding analysis on city government and in the following chapter on counties.

There is some limited information available on local government finances in Texas for later years, but it is inadequate for a study of either city or county government. For example, data on city sales tax receipts and county assessed values for property tax purposes may be obtained from the office of the state comptroller of public accounts. But, data on the other elements of local government revenues and expenditures are unavailable except from the Bureau of the Census or from extensive field research. It should also be pointed out that the federal Office of Revenue Sharing collects some information on the use of revenue sharing funds by the state and local governments through its actual-use reports. This information illustrates the broad categories for which revenue sharing funds are directly spent, but it provides little insight into the real effects of revenue sharing on local budgets. A great deal more knowledge of the fiscal effects of revenue sharing could be gained only through a highly detailed examination of the many other features of the local governments' financial operations, and particularly from analyses of revenue and expenditure trends.



## 6 IMPACT ON THE STATE'S LARGEST COUNTIES

Counties in Texas received revenue sharing funds totaling \$162.9 million during the period beginning with the enactment of the revenue sharing program in 1972 through the annual entitlement period ending June 30, 1974.<sup>27</sup> During the most recent annual entitlement period, Texas counties received a combined total of \$67.9 million. That amount represents 23.8 percent of all revenue sharing funds received by Texas governments that year and 35.7 percent of the city and county total. Based on 1972 data, the annual county allocation is equivalent to about 14 percent of combined county revenues from their own sources and 13 percent of combined county expenditures.

The information in this chapter is concerned primarily with the 22 counties in which the state's 27 cities of 50,000 or more are principally located.<sup>28</sup> Nearly two-thirds of Texas residents live in these counties. The 22 county and 27 city governments received 58 percent of revenue sharing funds allocated to all Texas cities and counties in 1972. Allocations to the 22 counties in that year comprised only 41 percent of the total amount paid to county governments in Texas although the 22 counties were responsible for 52.9 percent of total

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<sup>27</sup>See Appendix B for a summary of revenue sharing allocations for all entitlement periods.

<sup>28</sup>See Appendix G for a listing of the 22 counties and their 1972 per capita revenue sharing allocations.

expenditures. These counties receive proportionately less of the state-wide allocation to counties than the 27 major cities receive of the state-wide allocation to cities.

	Percent General Revenues	Percent GRS Allocation	Percent Direct General Expenditures
22 Counties	50.4%	41.0%	52.9%
Other Counties in State	<u>49.6</u>	<u>59.0</u>	<u>47.1</u>
TOTAL	100.0%	100.0%	100.0%

SOURCE: U.S. Department of Commerce, Bureau of the Census, *Census of Governments: 1972*, vol. 4, no. 3; and Office of Revenue Sharing, *4th Entitlement Period Allocations*, July 1973.

Allocations during the current period (July 1974 to June 1975) reflect a higher percentage of funds received by the 22 counties (49.5 percent) since allocations increased sharply for six major Texas counties. This increase resulted from a reclassification of the county hospital districts as dependent agencies of the county as opposed to independent special districts. The amount of tax receipts used to calculate county shares under the allocation formula was thus changed for these six counties, resulting in an average 53.3 percent increase in their revenue sharing funds over the previous entitlement period.

Information on actual expenditures of revenue sharing funds is available for the 22 counties for two federal reporting periods.<sup>29</sup>

<sup>29</sup>Actual-use reports submitted to the federal Office of Revenue Sharing.

For the first reporting period, which extended from the enactment of the program in late 1972 through June 1973, the counties had received \$31.0 million and spent only \$8.6 million. During the next reporting period from July 1973 through June 1974, the 22 counties received \$28.8 million but spent \$25.5 million. County expenditures thus increased substantially during the second period in a manner similar to city expenditures.

For the two reporting periods combined, the counties received \$59.4 million and spent \$34.1 million, which was about 57.1 percent of the funds received. Interest earned on unexpended balances was \$2.3 million for the 22 counties.

Most of the counties for which second period actual-use reports have been obtained indicated that the availability of revenue sharing funds either prevented tax increases (ten counties) or helped maintain current tax levels (seven counties). Only one county reported that the funds allowed a reduction in taxes. Eight counties stated that the funds helped to prevent new debts or reduce old debts.

#### DISTRIBUTION OF REVENUE SHARING FUNDS AMONG COUNTIES

General revenue sharing allocations for 1972 were less than \$5 per capita for a large majority of the counties. Eight counties received less than \$3.50 per person. Tarrant County received the lowest allocation of \$2.09 per capita. Seven counties received \$5 or more, including Fort Bend with the highest allocation of \$9.54 per person.

Table 36

PER CAPITA DISTRIBUTION OF 1972  
REVENUE SHARING ALLOCATIONS  
AMONG 22 TEXAS COUNTIES

<u>Amount Per Capita</u>	<u>No. of Counties</u>
Less than \$3.50	8
3.50 but less than 5.00	7
5.00 but less than 6.50	4
6.50 but less than 8.00	2
8.00 or more	1

SOURCE: Office of Revenue Sharing, 4th Entitlement Period Allocations, July 1973; and U.S. Department of Commerce, Bureau of the Census, Census of Population: 1970.

COMPARISON OF GENERAL REVENUE  
SHARING ALLOCATIONS WITH  
COUNTY REVENUES AND EXPENDITURES

General revenue sharing allocations to the 22 counties represented an average addition to tax revenues in 1972 of 15.7 percent but ranged from just over 10 percent to almost 40 percent of tax receipts. Fifteen counties received funds equal to 16 percent or more of 1972 tax revenues.

County spending for operating purposes (excluding hospitals) could be increased by about 9 percent in Dallas County and by just over 31 percent in Webb County. As shown in Table 38, general revenue sharing would add less than 18 percent to county operating expenditures in 1972 in 11 counties and 18 percent or more in 11 other counties. In five counties the general revenue sharing allocation would equal or exceed 22 percent of spending for operations in 1972.

Table 37

1972 REVENUE SHARING ALLOCATION  
AS A PERCENTAGE OF TAX REVENUES  
OF 22 TEXAS COUNTIES

<u>Percentage of 1972 Tax Revenues</u>	<u>No. of Counties</u>
Less than 16%	7
16 but less than 22	8
22 but less than 28	4
28 but less than 34	2
34 or more	1

SOURCE: Office of Revenue Sharing, 4th Entitlement Period Allocations, July 1973; and U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 3.

Table 38

1972 REVENUE SHARING ALLOCATION  
AS A PERCENTAGE OF OPERATING EXPEN-  
DITURES<sup>a</sup> FOR 22 TEXAS COUNTIES

<u>Percentage of Operating Expenditures</u>	<u>No. of Counties</u>
Less than 14%	5
14 but less than 18	6
18 but less than 22	6
22 but less than 26	2
26 or more	3

SOURCE: Office of Revenue Sharing, 4th Entitlement Period Allocations, July 1973; and U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 3.

<sup>a</sup>Direct general expenditures for current operations. Hospital expenditures are excluded.

General revenue sharing could raise the lowest level of spending for operating purposes among the 22 counties from \$14.40 to \$17.30 per capita. Assuming these funds are used to finance county operating budgets, a majority of counties would still spend between \$20 and \$30 per person, as shown in Table 39. In comparison with actual spending in 1972, the addition of revenue sharing appears to increase expenditures in seven counties to \$30 or more and leave only two counties below \$20. While potential expenditures would be significantly higher for all counties, the range of potential expenditures among counties would also increase. The county with the lowest per capita expenditure in 1972 could increase its level by

\$2.90 per capita while the county with the highest expenditure in that year could increase its level by \$5.81 per capita.

By using a statistical comparison of actual and potential per capita expenditure levels as indicated in Table 39, it appears there is a greater statistical variation in potential expenditure levels than actual expenditure levels. The average deviation of actual per capita expenditures was \$4.98. With revenue sharing amounts added, the average deviation was \$6.

RECENT TRENDS IN TAXES  
AND OTHER REVENUES

Between 1962 and 1972 total taxes and other revenues collected

<u>Amount Per Capita</u>	<u>Actual Expenditures, No. of Counties</u>	<u>Potential Expenditures, No. of Counties<sup>b</sup></u>
Less than \$20	6	2
20 but less than 25	6	6
25 but less than 30	7	7
30 but less than 35	2	4
35 or more	1	3

SOURCE: Office of Revenue Sharing, 4th Entitlement Period Allocations, July 1973; and U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 3.

<sup>a</sup>Direct general expenditures for current operation. Hospital expenditures are excluded.

<sup>b</sup>Includes revenue sharing funds.

Table 40

## GROWTH IN TAXES AND OTHER REVENUES FROM OWN SOURCES FOR 22 TEXAS COUNTIES, 1962 TO 1972

	<u>1962</u>	<u>1972</u>	<u>Increase</u>	<u>Percent Increase</u>
	----- (in millions) -----			
Taxes	\$ 89.0	\$157.4	\$ 68.4	76.9%
Charges & Misc.	<u>21.2</u>	<u>56.9</u>	<u>35.7</u>	168.4
TOTAL	\$110.2	\$214.3	\$104.1	94.5%

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1962, vol. 4, no. 2; and 1972, vol. 4, no. 3.

by the 22 counties from their own sources rose by approximately 95 percent to a total of \$214.3 million. This increase of \$104.1 million was attributable to growth of tax receipts of \$68.4 million, composed primarily of property taxes, and of income from other sources of \$35.7 million. In percentage terms, receipts from these other sources increased more than twice as much as property tax revenues. These latter revenues, however, still accounted for about \$3 of every \$4 county income from local sources in 1972.

Unlike cities, county governments were not afforded access to a major new source of revenue during the 1960s and thus continued to rely on the property tax for most of the revenues raised from their own sources. The counties covered by this study have not found it necessary to expand property tax levies significantly in recent years, however. As Table 41 shows, property tax revenues rose by an annual average of less than 4 percent in one-third of the counties,

Table 41

## RATES OF GROWTH OF TEXAS CITY AND COUNTY PROPERTY TAX REVENUES, 1962 TO 1972

<u>Average Annual Rate of Growth (Percent)</u>	<u>No. of Counties</u>	<u>No. of Cities</u>
Less than 2%	2	3
2 but less than 4	5	7
4 but less than 6	9	7
6 but less than 8	4	3
8 or more	<u>2</u>	<u>7</u>
TOTAL	22	27

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1962, vol. 4, no. 2 and no. 3; and 1973, vol. 4, no. 3 and no. 4.

and almost three of every four counties increased their receipts each year by less than 6 percent between 1962 and 1972.

The property tax revenues of these counties have increased somewhat more slowly than similar revenues of major cities. Greater growth is particularly noticeable in the seven cities that experienced increases in property tax revenues over 8 percent per year. Only two counties recorded an annual growth

rate of at least that much, and in no case did yearly increases equal 9 percent.

Although data on property values are not available for two of the counties, estimates of the actual market value of property on the tax rolls in 20 of the counties have been made by the U.S. Bureau

of the Census.<sup>30</sup> A comparison of these estimates with tax collections (see Table 42) indicates that effective tax rates (or tax burdens) in a

<sup>30</sup>U.S., Department of Commerce, Bureau of the Census, Census of Governments: 1962 and 1972, vol. 2, Taxable Property Values, pt. 2.

Table 42

PROPERTY TAXES COLLECTED FOR \$1,000 OF ESTIMATED MARKET VALUE BY 22 TEXAS COUNTIES, 1962 AND 1972

<u>County</u>	<u>1962</u>	<u>1972</u>	<u>Change</u>
Webb	\$7.06	\$4.46	\$ - 2.60
Tom Green	4.26	4.06	- .26
Nueces	4.32	3.78	- .56
Potter	3.24	3.66	.42
Wichita	3.27	3.42	.15
McLennan	3.38	3.29	- .09
Cameron	5.73	3.22	- 2.51
Smith	3.99	2.81	- 1.18
Taylor	2.33	2.69	.36
Travis	3.24	2.69	- .55
Tarrant	3.57	2.62	- .95
Harris	3.69	2.56	- 1.13
Lubbock	3.02	2.55	- .57
Bexar	3.40	2.53	- .87
Dallas	2.53	2.51	- .02
Midland	2.95	2.48	- .47
Jefferson	2.75	2.35	- .40
El Paso	2.62	2.31	- .31
Ector	3.99	2.13	- 1.86
Galveston	2.50	2.05	- .45
Montgomery	*	1.44	*
Fort Bend	*	1.18	*

SOURCE: Staff estimates based on data from U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1962 and 1972, vol. 2, Taxable Property Values, pt. 2; Census of Governments: 1962, vol. 4, no. 2; and Census of Governments: 1972, vol. 4, no. 3.

\*Data not available.

large majority of the 20 counties might actually have declined between 1962 and 1972 and have risen only slightly in the three counties where they do appear to have increased. County property tax burdens were relatively low in all the counties. The effective rate was less than one-half of 1 percent (.005) in Webb County, which had the highest tax burden.

Per capita general revenues from local sources in 19 of the 22 counties ranged from a low of \$15.45 to a high of \$39.95 in 1972. The other three counties (Ector, Galveston, and Montgomery) operate county hospitals and received revenues from hospital charges that raised their per capita collections to a level more than double the highest of the remaining counties. The average was \$26.84 for the 19 counties that do not operate hospitals. In 13 of them general revenues from local sources were at least \$20 but less than \$30 per capita in 1972.

<u>Amount Per Capita</u>	<u>No. of Counties</u>
Less than \$20	2
20 but less than 25	6
25 but less than 30	7
30 but less than 35	3
35 or more	1

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 3.

When only the tax revenues of the 19 counties are considered, it is apparent that most of the counties were levying annual taxes of less than \$25 per person in 1972. The lowest per capita amount was \$11.55 in El Paso, and the highest was \$33.91 in Fort Bend.

<u>Amount Per Capita</u>	<u>No. of Counties</u>
Less than \$16	4
16 but less than 24	12
24 but less than 32	2
32 or more	1

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 3.

#### RECENT TRENDS IN COUNTY SPENDING

Total expenditures by the 22 counties in 1972 were about 88 percent higher than 1962 outlays. In some counties these expenditures included a substantial amount of support for county hospitals which were not a part of spending requirements in other counties. When these hospital expenditures are removed from consideration, the percentage increase in expenditures is about 90 percent over the ten-year period. Operating expenditures were approximately 126 percent higher in 1972.

In 1972 per capita spending for operations in the 22 counties varied from a low of \$14.40 in El Paso

Table 45

GROWTH IN NONHOSPITAL EXPENDITURES<sup>a</sup>  
OF 22 TEXAS COUNTIES, 1962 TO 1972

	<u>1962</u>	<u>1972</u>	<u>Increase</u>	<u>Percent Increase</u>
	----- (in thousands) -----			
Total	\$116,787	\$221,803	\$105,016	89.9%
Less: Capital Outlay	<u>44,786</u>	<u>58,706</u>	<u>13,920</u>	31.1
Operating Expenditures	\$ 72,001	\$163,097	\$ 91,096	126.5%

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1962, vol. 4, no. 2; and Census of Governments: 1972, vol. 4, no. 3.

<sup>a</sup>Includes direct general expenditures less expenditures for hospital purposes, but capital outlay also includes some hospital expenditures that could not be separated. As a result the operating expenditure figures are somewhat understated.

Table 46

DISTRIBUTION OF 1972 PER CAPITA  
EXPENDITURES FOR OPERATIONS OF  
22 TEXAS COUNTIES<sup>a</sup>

<u>Amount Per Capita</u>	<u>No. of Counties</u>
Less than \$20	6
20 but less than 25	6
25 but less than 30	7
30 but less than 35	2
35 or more	1

SOURCE: U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 3.

<sup>a</sup>Direct general expenditures for current operation.

County to a high of \$37.56 in Galveston County. Six counties spent less than \$20 per capita, and 12 spent under \$25. Nineteen counties were spending under \$30 per capita, but among these counties per capita spending differences were spread over a range of approximately 100 percent.

EXPENDITURES FOR  
HOSPITAL PURPOSES

A complicating factor in the analysis of expenditure patterns for the 22 counties is the difference in the way hospital revenues and expenditures are handled for the various counties. Three of the 22 counties operate their own hospitals under the county government. Hospital expenses represent a rather large portion of these



counties' expenditures; in this chapter therefore the hospital expenses for the three counties have been removed from comparative figures concerning operating expenses. In most of the other 19 counties an independent hospital district is responsible for these services, or they are provided by municipal or private agencies.

As mentioned at the outset of this chapter, the U.S. Bureau of the Census has classified hospital districts in six major Texas counties as dependent agencies of county government. Therefore the taxes of these hospital districts are now counted as county taxes in the calculation of the revenue sharing allocations for those counties.

7  
SUMMARY

There is little question that federal revenue sharing has provided an important source of new revenue to Texas state and local governments. Approximately \$1.4 billion will be received by Texas governments combined during the five-year period defined by the State and Local Fiscal Assistance Act. The relative importance of revenue sharing funds is perhaps best illustrated by comparing annual allocations with general revenues from the governments' own sources. This comparison excludes federal categorical grants and other funds over which the individual governments may not have substantial control in allocation decisions.

Counties received the largest portion of revenue sharing funds in comparison to their own revenues in 1972. Cities received a noticeably lower percentage than that of counties. The state received the least support in comparison to its own revenues, but the actual dollar amount received was substantial.

Besides illustrating the impact of federal revenue sharing on the availability of state and local government revenues, this report analyzes distribution patterns among governments and the potential and actual effects on levels and types of expenditures. The local government analyses were restricted by the almost nonexistence of comparable financial data for local governments in Texas for years during which the revenue sharing allocations have actually been used. Consideration of the impact on local governments, therefore, has generally

Table 47

REVENUE SHARING AS PERCENTAGE OF  
1972 GENERAL REVENUE OF TEXAS GOVERNMENTS

	General Revenue From Own Sources ----- (in millions)	General Revenue Sharing Allocation ----- (in millions)	General Revenue Sharing as Percent Of Own Revenue
State of Texas	\$3,105.2	\$ 82.3	2.7%
Cities	965.3	104.1	10.8
Counties	<u>426.7</u>	<u>60.2</u>	14.1
TOTAL	\$4,497.2	\$246.2	5.5%

SOURCE: Office of Revenue Sharing, 4th Entitlement Period Allocations, July 1973; U.S. Department of Commerce, Bureau of the Census, Census of Governments: 1972, vol. 4, no. 5; and State Government Finances in 1972, no. 3.

been limited to 1972 revenue sharing allocations and revenue and expenditure data reported for that year. Since the most recent comprehensive source of data for the state government is the 1972 Census of Governments, it was possible to perform more extensive analyses due to the availability of the appropriations act for the 1974-1975 biennium and actual revenue and expenditure data for fiscal year 1974, the first half of the biennium.

Following is a summary of the major findings in this report.

PERSPECTIVES ON REVENUE SHARING  
AND OTHER FEDERAL AID

During the past 30 to 40 years, changes in governmental functions and increased levels of governmental activity have been accompanied by dramatic changes in

expenditure patterns and greater revenue needs. The importance of intergovernmental aid has also been heightened, particularly grants from the federal government to the states and localities. From 1940 to 1970, aid to state and local governments was the fastest growing element of federal civil expenditures. In 1974 federal grants totaled about \$48 billion and represented nearly 26 percent of all federal spending, excluding expenditures for defense, space research, and international programs.

Revenue sharing represents a significant component of federal aid. In 1974 the \$6.1 billion allocation was equivalent to 13 percent of all federal aid going to state and local governments. As a percentage of total federal aid it exceeded all other individual federal grant programs in 1974 including highway trust fund aid (\$4.4 billion),

medical assistance (\$5.8 billion), and income maintenance grants (\$5.3 billion).

The distribution of federal categorical grants among the states varies widely on a per capita basis. Texas falls into the group of states that receives a below average amount, but some 15 other states receive even less in relation to their populations.

Under the revenue sharing formula the variation in per capita amounts distributed to the states is substantially less than the per capita variation for other types of federal aid, but the range is still almost 100 percent. In 1972 the extremes were Ohio with \$20.08 per capita and Mississippi with \$39.90 per capita. Texas received \$22.14 per capita and falls into the group of states receiving the lowest per capita revenue sharing entitlement. Only five states received lower per capita amounts in that year.

The distribution pattern among the states is determined by formulas weighted by factors including urbanized population, income tax collections, per capita income, and tax effort. If funds were distributed to the states based on population alone, Texas would have received \$44 million more than it actually received in 1972. Ohio and several other states would also have received considerably more. On the other hand, New York would have lost by far the most under these circumstances--\$113.4 million.

Within each state two-thirds of the funds are distributed to local governments, and one-third goes to the state treasury. There are two commonly mentioned reasons for the adoption of this state-local distribution pattern in the formula: (1) local tax sources are more

limited than those of the states, and (2) local governments are responsible for about two-thirds of state-local expenditures on a national basis.

The first rationale is better supported by factual information than the second. Local governments in Texas and elsewhere depend heavily on the local property tax. Many proponents of revenue sharing feel the property tax should be at least partially replaced by other sources of revenue. Concerning the second rationale, the two-thirds/one-third division reflects the approximate split of local-state expenditure responsibility in Texas, but there are more significant variations from this pattern elsewhere. In three states, local governments were responsible for 70 percent or more of total spending in 1972; in 16 states local governments were responsible for less than 50 percent of aggregate expenditures.<sup>31</sup>

Much local government spending is attributable to school districts, and these local governments do not receive federal revenue sharing support. When school district expenditures are excluded from local outlays, there are only four states in which local government spending exceeded 60 percent of total state-local outlays in 1972. If school district spending is dropped from local expenditures in Texas, local governments accounted for only 41 percent of the total.

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<sup>31</sup>State-local comparisons are based on direct general expenditures which exclude state aid to school districts as a state-level expenditure.

REVENUE SHARING AND  
GOVERNMENTAL FINANCE IN TEXAS

Governmental revenues and expenditures in Texas have increased rapidly in recent decades in a manner similar to those of other states and the federal government. During the last 30 years aid from the federal government has increased at a much faster rate than have the other revenues of state and local governments in Texas.

Spending for public education has particularly become more prominent at both the state and local levels. During the period from 1962 to 1972, one-half the \$1.1 billion increase in local tax revenues was raised by school districts. State-local outlays for highways have decreased in proportion to spending for other purposes, and welfare outlays have remained relatively constant as a percentage of total expenditures.

The overall distribution pattern of revenue sharing funds among types of governments in Texas bolsters the finances of municipal and county governments, but provides less assistance to the state in relation to other sources of revenue. Based on cumulative disbursements through June 1974, the approximately 1,000 cities in the state had received 42.5 percent of all revenue sharing funds allocated; the state had received almost exactly one-third; and the 254 counties had received 24.2 percent of the total.

As illustrated in Table 48, revenue sharing provides a relatively large supplement to existing city and county tax revenue sources. Considered as new money in 1972, revenue sharing assumes much greater importance for all three types of government. Annual revenue sharing allocations were more than three times the average annual increase

	1972 GRS Allocation (in millions)	Percent of Tax Revenues
State	\$ 82.3	3.2%
Municipal	104.1	16.1
County	60.2	20.3

SOURCE: Office of Revenue Sharing, 4th Entitlement Period Allocations, July 1973.

for county tax revenues over the previous five years and more than one and one-half times the average annual tax revenue increase for all cities. Revenue sharing funds were equivalent to almost one-third of the five-year average increase in tax revenue for the state government. Considering only the increase in tax revenues from 1971 to 1972, revenue sharing allocations were equal to 124 percent of the increase for the 27 largest cities in the state and 22 percent of the increase for the state government.

An important point to consider concerning the relationship of revenue sharing funds to total tax revenue receipts is that these percentages also indicate that substantial amounts of local tax funds may be required to keep county and municipal expenditures at the same level if revenue sharing is not continued beyond 1976. If city and county governments should desire to maintain the same expenditure levels without revenue sharing support, then a substantial tax increase would probably be

necessary for many of these local governments.

#### IMPACT ON TEXAS STATE GOVERNMENT

Because of the two-year appropriation cycle used in Texas state government, revenue sharing funds received in late 1972 and early 1973 could not be spent by the state until the 1974-1975 appropriation act became effective in September 1973. The result was that about three and one-half years of revenue sharing funds were available to be spent during the two-year appropriation period. During the following 1976-1977 biennium only one and one-half years of revenue sharing funds will be available under the current revenue sharing law. The act may be renewed by the 94th United States Congress during 1975 or 1976, but unless renewal occurs before June 1975, the state legislature may not be able to appropriate these additional amounts until the next regular biennial appropriation act is adopted in 1977.

On an annual basis revenue sharing funds received by the state represent about 5.5 percent of state general revenue. Compared to proceeds from the state sales and use tax, the single largest tax source for the general fund, revenue sharing was equivalent to 8.5 percent of tax receipts in state fiscal year 1974.

The impact of revenue sharing can be illustrated better by considering the use of the funds during the first period in which they were appropriated, the current 1974-1975 biennium. The \$316 million in revenue sharing money was equivalent to 6.2 percent of the comptroller's 1973 estimate of key fund revenue available for the biennium. Based on the official

revenue estimates available prior to the adoption of the current appropriation act in early 1973, it appears that the availability of revenue sharing funds was critical in helping to avoid a significant tax increase. After the estimates were made and the appropriation act adopted, it became evident that actual revenues from consumer-based taxes and taxes on oil and gas production were exceeding projected receipts by a considerable amount. These increases could not reasonably be predicted at the time the official estimate was made.

It appears from an analysis of 1974-1975 appropriations that federal revenue sharing funds were used by the state largely as a supplement to state general revenue. Most of the agencies that were appropriated revenue sharing funds traditionally have received large portions of their support from the state general fund. Revenue sharing money was allocated to approximately 69 state agencies, institutions of higher education, and the state courts. Consistent with this approach to budgeting, there is no indication that the availability of revenue sharing money has influenced the overall level of state spending. This observation is reinforced by the fact that total state appropriations and appropriations from key funds increased less in the 1974-1975 biennium than in previous two-year periods.

Particular consideration was given to the possibility that appropriations for some state government functions might have increased due to the availability of revenue sharing money as a supplement to general revenue. Again this does not appear to be the case since appropriations for the functions that received substantial appropriations from revenue sharing funds

did not increase more than would be expected by comparison with previous appropriation levels.

Over 60 percent of revenue sharing funds appropriated during the 1974-1975 biennium went for the support of state colleges and universities and community colleges. Substantial amounts were also budgeted for the state courts, health agencies, and administrative departments. Eighty percent or more of the revenue sharing funds appropriated for the biennium will probably be spent for salaries and other operating expenses of the recipient agencies, institutions, and courts. Only about 13 percent of the funds were budgeted for identifiable capital expenditures.

#### IMPACT ON THE STATE'S LARGEST CITIES

Approximately one-half the citizens of Texas live in the 27 largest cities in the state. In 1972 these cities collected 72 percent of city general revenues and spent 74 percent of all municipal outlays. They received only 67 percent of total revenue sharing funds going to municipalities, however.

Revenue sharing represents an appreciable, but not substantial, new spending power for most of the 27 cities. The allocation of 1972 revenue sharing funds added less than 10 percent to total general revenues of 15 cities. For others, the amounts were more substantial in relation to their other sources. Five cities received allocations that exceeded 15 percent of their revenues. For Brownsville, the revenue sharing entitlement was more than 25 percent of 1972 general revenues from all other sources.

The impact of revenue sharing on per capita operating expenditures is expected to vary (1) according to whether the funds are used for capital or operating purposes and (2) according to the magnitude of each city's allocation in relation to its current spending. Potentially, most cities could add at least 10 percent to their per capita operating outlays as they existed before revenue sharing. Four cities could raise the level of municipal services by 20 percent or more on the basis of per capita expenditures.

If general revenue sharing funds were used solely to finance operating budgets, the spending levels of all cities would obviously be increased measurably. It appears that some narrowing of the differences in per capita expenditures among the cities would occur, but that the range of potential expenditures would not change significantly.

#### RECENT TRENDS IN CITY REVENUES

Recent trends in revenue collections of the 27 cities indicate a decreased reliance on property taxes due to the introduction of the local-option city sales tax in 1967. About 23 percent of city general revenues from their own sources were provided by the sales tax in 1972. This allowed a decrease in the percentage raised from property taxes from 61.7 percent to 46.5 percent of the cities' revenues from their own sources between 1962 and 1972. While the dollar amounts received by the cities from their taxes on property increased, much of the growth of revenues from this source resulted

from increases in property values and not from imposition of higher tax rates. Actual property tax burdens, or effective tax rates, appeared in fact to have declined in some of the cities since the local option city sales tax was initiated in 1967.

#### IMPACT ON THE STATE'S LARGEST COUNTIES

Nearly two-thirds of Texas residents live in the 22 counties where the state's largest cities are principally located. In 1972 these counties raised 50 percent of total county general revenues and were responsible for 53 percent of total expenditures. They received only 41 percent of the annual general revenue sharing allocation to counties in that year. The percentage going to these 22 counties is 49.5 percent during the 1975 entitlement period, however, due to the reclassification of hospital district taxes as county tax income in six major counties.

General revenue sharing allocations in 1972 were less than \$5 per capita for a large majority of the counties. Despite this relatively low per capita distribution figure, the funds represented an average addition to 1972 tax revenues of 15.7 percent. This increase in available revenues could raise county operating expenditures substantially if all revenue sharing dollars received by the counties were used for this purpose. For example, in 11 counties the availability of revenue sharing funds could increase county operating expenditures by 18 percent or more. In Webb County operating expenditures could be increased by 31 percent.

Although revenue sharing could raise the level of operating expenditures for counties significantly, the range of per capita expenditures would increase. This assumes, of course, that all funds would be allocated for operating purposes.

#### RECENT TRENDS IN COUNTY REVENUES

Although county governments raise only 15 percent of all local property taxes in the state, counties still depend heavily on the property tax as a source of local revenue. In 1972 property tax receipts provided almost \$3 of every \$5 of county income from local sources. The relative amount of revenue received from charges and miscellaneous sources increased more rapidly than property taxes during the 1962-1972 period, however.

The property tax revenues of the 22 counties have generally increased more slowly than similar revenues of major cities during the past ten years. Although estimates must be based solely on Bureau of the Census data, it appears that the effective tax rates of most counties may have actually declined between 1962 and 1972.

#### EXPENDITURE OF REVENUE SHARING FUNDS BY LOCAL GOVERNMENTS

Actual-use reports submitted by the 27 cities and 22 counties to the federal Office of Revenue Sharing indicate that around 70 percent of all city funds and about 57 percent of all county funds received through the end of June 1974 had been spent. During the first reporting period ending June 1973 a much smaller portion of funds received had been



used, probably because of the time required to process the funds through local budget cycles.

Local governments may spend their revenue sharing allocations only for certain priority expenditures defined in the revenue sharing law. In practice these priorities encompass most of the functions of local government in Texas. The actual-use reports contain data on direct expenditures of revenue sharing funds according to the Office of Revenue Sharing categories and according to character of expenditures--capital or operating.

The utility of these actual-use figures by themselves in determining impact on either state or local government expenditures is questionable. In some cases revenue sharing money may be substituted for local resources, in which case the real impact of the funds may be measured only by indirect results. That is, the revenue sharing funds may allow increased expenditures in an area for which they were not budgeted since equivalent local resources would be freed up. Another possible result is simply the substitution of revenue sharing for new local tax revenue that would otherwise be required to maintain preexisting levels of services. Or, the result may be new spending directly attributable to the availability of revenue sharing dollars.

The ability of local governments to substitute revenue sharing funds for other local revenues has been thoroughly discussed in other studies.<sup>32</sup> The Office of Revenue Sharing itself pointed out that:

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<sup>32</sup>National Advisory Commission on Intergovernmental Relations, General Revenue Sharing: An ACIR Re-evaluation, p. 19.

Caution is necessary in assessing the impact of revenue sharing on local jurisdictions. In several instances it is certain that the net impact of revenue sharing was felt in areas other than those to which funds were allocated. For example, one jurisdiction allocated its entire funds to public safety, but reported that the real impact was an increase in social services funding. This shifting of funds appears to be fairly widespread on the local level, but is difficult to examine without study of complete past and prospective budgets.<sup>33</sup>

It should be pointed out, however, that shifting of local funds may not always be valid under the revenue sharing law. In the case of *Mathews v. Massell*, 356 F. Supp. 291 (N.D. Ga. 1973) a federal district court enjoined the City of Atlanta from implementing its plan to spend local revenue displaced by revenue sharing money for nonpriority purposes.

#### DATA AVAILABILITY

An important consideration in this study was the availability of data on governmental finance with which to assess the impact of revenue sharing, particularly the impact on local governments. The 1972 Census of Governments provided a complete analysis of state, city, county, and special district finances in that year. But, information on finances of local governments is generally lacking for subsequent

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<sup>33</sup>U.S., Department of the Treasury, Office of Revenue Sharing, General Revenue Sharing: Compliance by the States and Large Urban Jurisdictions--Initial Report, 1973, p. 16.

years in which revenue sharing funds were received and used by local governments.

In Texas there is no systematic program for collection or dissemination of data on local government finances. The comptroller of public accounts publishes annual figures for county ad valorem tax collections and assessed values of property in each county, and information on city sales tax receipts may also be obtained from that office. For the other items of city, county, and special district finance, however, there is no state source.

There is normally about a two-year lag in the publication of Census Bureau reports in the annual Governmental Finances series. Even the scope of these publications is not adequate for a comprehensive analysis of local finances, however. Annual data are published for the 27 largest cities in Texas in the annual report City Government Finances, but no other detailed information is provided for other types of local governments. Estimated financial data for all cities, counties, school districts, and special districts are published as aggregate local government data in the annual Governmental Finances volume. In summary, the lack of financial information from state and federal sources makes studies on the impact of federal revenue sharing on local governments since the enactment of

the program both difficult and limited.

#### CONCLUSION

As illustrated in Table 47, p. 66, general revenue sharing provides significant amounts of funds to cities and counties in Texas in relation to their own revenues. Counties receive more support in relation to their receipts and disbursements. Although the state receives a significant amount of revenue sharing money annually, the amount is smaller in relation to total state revenue and expenditures than is the amount distributed to cities and counties. When revenue sharing allocations are compared only to state general revenue receipts and expenditures, however, the percentage is considerably larger.

An important conclusion that can be drawn from analyzing the relationship of revenue sharing funds to tax revenues is that substantial amounts of local tax funds may be required by many cities and counties to keep their expenditures at the same level if revenue sharing is not continued beyond 1976. The state government would also face a need for revenue replacement, but discontinuation would not affect the state as severely because revenue sharing provides a smaller percentage of total revenue to the state than it does to cities and counties.

APPENDIXES

## APPENDIX A

### ALLOCATION FORMULAS AND PROCEDURES

Revenue sharing payments are made quarterly. These payments are each one-fourth of the estimated annual entitlement amounts calculated each year in April as specified in the act. The calculation necessarily includes sophisticated computer techniques because the formulas divide a national total among the states and then divide each state total among the state and its local governments according to the relative shares determined from the formulas developed by congress.

The procedure used by the Office of Revenue Sharing to calculate entitlement amounts is as follows, using the fiscal year 1974 appropriation of \$6.05 billion for illustration.

1. \$6.05 billion is allocated among the states according to the three-factor Senate formula (population, tax effort, and income);
2. \$6.05 billion is also allocated among the states according to the five-factor House formula (population, urbanized population, per capita income, state income tax collections, and tax effort);
3. The higher of the two amounts is selected for each state. Since the sum is greater than \$6.05 billion, each amount is scaled down proportionately so that the total allocation equals \$6.05 billion.
4. If either Alaska or Hawaii uses the three-factor formula, its allocation is increased by the same percentage adjustment as applies to the base pay allowances of federal government employees residing in those states (15 percent in Hawaii and 25 percent in Alaska).

The next step is to allocate within each state, according to the following process:

1. One-third of the state's allocation is paid to the state government, and the remaining two-thirds is apportioned to units of local government within the state.

2. The amount to be allocated to units of local government is divided by the population of the state to establish the per capita entitlement for all governments within the state.
3. The local government amount is distributed to county areas (these are geographic areas, not governments) based upon the ratio that each county area bears to all county areas within the state according to the formula:

(population) X (tax effort) X (relative income).

4. If this calculation allocates to any county area an amount which on a per capita basis exceeds 145 percent of the per capita entitlement calculated in step 2, its payment is reduced to the 145 percent level, and the resulting surplus is shared proportionately by all the remaining unconstrained county areas within the state.
5. Similarly, if any county area is allocated less than 20 percent, on a per capita basis, of the amount calculated in step 2, its allocation is increased to the 20 percent level, and the remaining deficit is taken proportionately from all the remaining unconstrained county areas within the state.
6. Each county area allocation is then divided into four parts:
  - a. First, an amount for Indian tribal governments or Alaskan native villages is determined on the ratio of tribal/village population to the total population of the county area.
  - b. Then, from the remainder, a township allocation is determined on the basis of the ratio of all township adjusted taxes to the total adjusted taxes in the county.
  - c. Next, a county government share is determined similarly on the basis of county government adjusted taxes.
  - d. Finally, the remaining proportion is for the other units of local government.

7. Townships and other local governments are then allocated funds on the basis of the formula:

(population) X (tax effort) X (relative income).

If a unit of government receives more than 145 percent on a per capita basis, it is adjusted to the 145 percent level. If a unit receives less than 20 percent, its allocation is increased to the lower of either the 20 percent level or 50 percent of its adjusted taxes and transfers. If any unit receives more than 50 percent of its adjusted taxes and transfers, its allocation is reduced to that level, and the excess is given to the county government.

8. If the county government has been allocated more than 50 percent of its adjusted taxes and transfers, its allocation is reduced to that level, and the excess is returned to the state government.
9. If any allocation is less than \$200, or any unit of local government waives its entitlement, those funds are allocated to the next higher level of government.
10. Finally, if the amounts allocated by the above procedure do not total 100 percent of the funds available for distribution, the appropriate adjustment is made to the entitlement figure in step 3. The process (steps 3 through 8) is repeated until the amounts allocated total 100 percent of the funds available.

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SOURCE: U.S. Department of the Treasury, Office of Revenue Sharing, Annual Report of the Office of Revenue Sharing (Washington, D.C.: Government Printing Office, 1974).

APPENDIX B

Table 49

REVENUE SHARING FUNDS ALLOCATED TO  
TEXAS GOVERNMENTS, 1972 TO 1976

Entitlement Period	Dates	STATE		CITIES		COUNTIES	
		Amount	Cumulative Total	Amount	Cumulative Total	Amount	Cumulative Total
1	1/1/72 to 6/30/72	\$41,144,234	\$ 41,144,234	\$ 52,050,931	\$ 52,050,931	\$30,096,656	\$ 30,096,656
2	7/1/72 to 12/31/72	41,144,210	82,288,444	52,053,134	104,104,065	30,094,477	60,191,133
3	1/1/73 to 6/30/73	47,178,210	129,466,654	59,987,990	164,092,055	34,368,430	94,559,563
4	7/1/73 to 6/30/74	95,174,979	224,641,633	122,450,560	286,542,615	67,899,398	162,458,961
5	7/1/74 to 6/30/75	98,081,488	322,723,121	119,088,316	405,630,931	77,074,660	239,533,621
6	7/1/75 to 6/30/76	99,483,333*	422,206,454*	120,790,405*	526,421,336*	78,176,262*	317,709,883*
7	7/1/76 to 12/31/76	52,091,667*	474,298,121*	63,248,519*	589,669,855*	40,934,814*	358,644,697*

SOURCE: Office of Revenue Sharing, 4th Entitlement Period Allocations, July 1973; 5th Entitlement Period Allocations, May 1974; and Texas ACIR staff estimates.

NOTE: Totals do not include amounts allocated to the two Indian reservations in Texas: Alabama-Coushatta, Polk County and Tigua, El Paso County. Totals received by the two tribes are estimated to total approximately \$97,932 for the five-year period.

\*Estimates based on prior allocations.

APPENDIX C

Table 50

COMPARISON OF BIENNIAL APPROPRIATIONS BY AGENCY,  
FROM GENERAL REVENUE AND REVENUE SHARING

	1974-1975		Total	1972-1973
	Percent from General Revenue	Percent from Revenue Sharing		Percent from General Revenue
<u>General Government</u>				
Aeronautics Commission	13.9%	38.4%	52.3%	10.6%
Attorney General	34.5	56.7	91.2	90.3
Building Commission	-0-	35.9	35.9	69.6
Board of Control	52.2	47.8	100.0	100.0
Firemen's Pension	-0-	100.0	100.0	100.0
Good Neighbor Commission	-0-	100.0	100.0	100.0
Advisory Commission on Intergovernmental Relations	89.8	10.2	100.0	100.0
Board of Private Investigators and Security Agencies	-0-	100.0	100.0	100.0
Bureau of Labor Statistics	32.1	35.3	67.4	86.0
General Land Office	51.2	31.0	82.2	75.0
Railroad Commission	15.5	7.2	22.7	15.3
Secretary of State	86.0	14.0	100.0	100.0
Securities Board	64.4	35.6	100.0	100.0
Treasury Department	52.6	34.6	87.2	84.4
Texas Amusement Machine Commission	-0-	100.0	100.0	100.0
Water Well Drillers Board	-0-	100.0	100.0	100.0
<u>Education</u>				
Texas Schools for the Blind and Deaf	85.3	14.7	100.0	100.0
Public Junior Colleges State Aid	90.1	9.9	100.0	100.0
The University of Texas at Arlington	70.6	28.2	98.8	90.3
The University of Texas at Austin	73.1	20.8	93.9	90.2
The University of Texas at El Paso	69.8	27.0	96.8	85.6
Texas A&M University	70.9	19.9	90.8	89.6
Prairie View A&M College	62.3	26.4	88.7	90.7
Tarleton State College	48.9	38.0	86.9	84.0
Texas A&I University at Corpus Christi	54.2	40.7	94.9	-0-
Texas A&I University at Kingsville	55.3	30.7	86.0	87.7
East Texas State University	61.0	25.1	86.1	85.0
University of Houston	68.4	22.3	90.7	80.5
Lamar University	56.6	26.5	83.1	83.3
Midwestern University	38.8	45.8	84.6	83.9
North Texas State University	66.5	21.1	87.6	85.9
Pan American University	62.0	24.6	86.6	86.5
Stephen F. Austin State University	65.6	21.3	86.9	86.4
Texas Southern University	60.9	22.9	83.8	81.2
Texas Tech University	68.4	22.9	91.3	92.2
Texas Tech University School of Medicine at Lubbock	84.8	11.0	95.8	99.9
Texas Woman's University	65.1	23.8	88.9	89.0
West Texas State University	59.9	27.0	86.9	83.6
Angelo State University	49.6	37.6	87.2	86.3
Sam Houston State University	65.8	20.9	86.7	87.4
Southwest Texas State University	66.4	19.2	85.6	84.5
Sul Ross State University	56.0	29.7	85.7	87.2

(continued on next page)



APPENDIX C continued

	1974-1975		Total	1972-1973
	Percent from General Revenue	Percent from Revenue Sharing		Percent from General Revenue
<u>Health</u>				
Cosmetology Commission	85.2%	14.8%	100.0%	100.0%
Governor's Commission on Physical Fitness	-0-	100.0	100.0	100.0
Department of Health	63.8	5.0	68.8	63.9
Department of Mental Health and Mental Retardation	89.6	5.7	95.3	100.0
<u>Transportation:</u> None				
<u>Social Services</u>				
Texas Youth Council	89.4	6.2	95.6	95.5
Veterans Affairs Commission	-0-	100.0	100.0	100.0
<u>Housing and Community Development:</u> None				
<u>Economic Development</u>				
Tourist Development Agency	53.7	46.3	100.0	100.0
<u>Environmental Conservation</u>				
Water Rights Commission	59.8	40.2	100.0	100.0
<u>Public Safety</u>				
Department of Corrections	74.5	25.5	100.0	99.4
Board of Pardons and Paroles	60.9	39.1	100.0	100.0
<u>Recreation/Culture:</u> None				
<u>Judicial</u>				
Courts of Civil Appeals				
First District, Houston	-0-	100.0	100.0	100.0
Second District, Fort Worth	-0-	100.0	100.0	100.0
Third District, Austin	-0-	100.0	100.0	100.0
Fourth District, San Antonio	-0-	100.0	100.0	100.0
Fifth District, Dallas	-0-	100.0	100.0	100.0
Sixth District, Texarkana	-0-	100.0	100.0	100.0
Seventh District, Amarillo	-0-	100.0	100.0	100.0
Eighth District, El Paso	-0-	100.0	100.0	100.0
Ninth District, Beaumont	-0-	100.0	100.0	100.0
Tenth District, Waco	-0-	100.0	100.0	100.0
Eleventh District, Eastland	-0-	100.0	100.0	100.0
Twelfth District, Tyler	-0-	100.0	100.0	100.0
Thirteenth District, Corpus Christi	-0-	100.0	100.0	100.0
Fourteenth District, Houston	-0-	100.0	100.0	100.0
Supreme Court	-0-	100.0	100.0	100.0
Judicial Qualifications Commission	-0-	100.0	100.0	100.0
Judicial Section - Comptroller's Department	-0-	100.0	100.0	100.0

SOURCE: General and Special Laws of the State of Texas, chapter 659, (1974-1975 Appropriations Act), Regular Session, 63d Texas Legislature, 1973; and chapter 1047, (1972-1973 Appropriations Act), Regular Session, 62d Texas Legislature, 1971.

APPENDIX D

Table 51  
FEDERAL GRANTS RECEIVED BY TEXAS  
STATE GOVERNMENT, 1965 TO 1974

Amounts Received by Category						
<u>Year</u>	<u>Highways</u>	<u>Public Health</u>	<u>Public Welfare</u>	<u>Education</u>	<u>General Government</u>	<u>Total</u>
1965	\$213,427,676	\$ 6,775,205	\$176,855,189	\$ 22,175,486	\$ 20,157,591	\$ 439,391,147
1966	183,573,272	8,597,741	189,600,265	106,365,449	26,020,770	514,157,497
1967	203,972,468	9,778,766	206,529,013	122,208,581	31,868,338	574,357,166
1968	229,851,638	12,555,526	265,754,692	144,947,951	46,159,844	699,269,651
1969	190,568,458	12,000,715	295,778,587	155,224,742	48,427,452	701,999,954
1970	229,101,855	13,118,790	401,070,196	132,288,707	55,844,140	831,423,688
1971	276,686,861	15,056,022	483,550,262	156,727,415	74,999,331	1,007,019,891
1972	240,262,281	18,207,543	611,491,459	190,655,396	89,881,438	1,150,498,117
1973*	217,220,197	19,735,622	603,761,703	212,685,737	111,983,685	1,165,386,944
1974*	219,704,962	20,555,748	563,327,787	239,090,514	143,601,568	1,186,280,579
Avg. Annual Increase	0.3%	13.1%	13.7%	30.2%	24.4%	11.7%
Percent Distribution by Category						
<u>Year</u>	<u>Highways</u>	<u>Public Health</u>	<u>Public Welfare</u>	<u>Education</u>	<u>General Government</u>	<u>Total</u>
1965	48.6%	1.5%	40.3%	5.0%	4.6%	100.0%
1966	35.7	1.7	36.9	20.7	5.0	100.0
1967	35.5	1.7	36.0	21.3	5.5	100.0
1968	32.9	1.8	38.0	20.7	6.6	100.0
1969	27.2	1.7	42.1	22.1	6.9	100.0
1970	27.6	1.6	48.2	15.9	6.7	100.0
1971	27.5	1.5	48.0	15.6	7.4	100.0
1972	20.9	1.6	53.1	16.6	7.8	100.0
1973*	18.6	1.7	51.8	18.3	9.6	100.0
1974*	18.5	1.7	47.5	20.2	12.1	100.0

SOURCE: Comptroller of Public Accounts, Annual Report, 1974, Part IA, "Receipts and Disbursements of State Funds"; and Texas ACIR staff estimates.

\* Does not include revenue sharing money.

## APPENDIX E

Table 52

1972 PER CAPITA REVENUE SHARING ALLOCATIONS AND  
GENERAL REVENUE OF 27 LARGEST TEXAS CITIES

	<u>Revenue Sharing</u>	<u>General Revenue</u>	<u>Total</u>
Houston	\$12.10	\$148.49	\$160.59
Dallas	13.75	184.16	197.91
San Antonio	13.00	128.84	141.84
Fort Worth	11.62	137.67	149.29
El Paso	16.84	111.21	128.05
Austin	11.42	163.00	174.42
Corpus Christi	15.45	136.32	151.77
Lubbock	12.81	128.68	141.49
Amarillo	12.42	127.88	140.30
Beaumont	13.03	124.80	137.83
Irving	6.12	74.22	80.34
Wichita Falls	14.26	132.34	146.60
Waco	15.90	179.65	195.55
Arlington	7.60	131.02	138.62
Abilene	15.00	94.59	109.59
Pasadena	8.60	102.87	111.47
Garland	6.10	93.52	99.62
Odessa	7.85	76.23	84.08
Laredo	15.26	96.20	111.46
San Angelo	13.68	89.96	103.64
Galveston	11.64	235.66	247.30
Midland	8.27	114.32	122.59
Tyler	10.20	103.86	114.06
Port Arthur	18.21	153.04	171.25
Mesquite	8.43	85.76	94.19
Brownsville	19.87	77.66	97.53
Grand Prairie	7.51	130.21	137.72

SOURCE: Office of Revenue Sharing, 4th Entitlement  
Period Allocations, July 1973; and U.S. Department of  
Commerce, Bureau of the Census, Census of Governments:  
1972, vol. 4, no. 4.

APPENDIX F

ESTIMATES OF CHANGES IN EFFECTIVE  
PROPERTY TAX RATES OF 27 LARGEST TEXAS CITIES

I. CHANGES IN NOMINAL TAX RATES

In ten cities the year-to-year changes in assessed values suggest that there was no revision in assessment ratios between 1962 and 1972 and that any changes in property tax burdens were due only to changes in tax rates. These cities are shown in Table 53. In seven of the cities, property taxes appear to have been higher in 1967 when the city sales tax was enacted by the legislature than they were in 1962. San Antonio, with an increase of 14.3 percent, was the median. Five cities had property tax burdens in 1967 that were 10 percent or more above 1962 rates: Abilene, Austin, Pasadena, San Antonio, and Wichita Falls. Comparing 1972 and 1962 property tax levels, three cities apparently had lower property tax burdens in 1972, and only three cities were taxing property 10 percent or more above their 1962 levels. Only Brownsville and Wichita Falls were taxing at a higher level in 1972 than in 1967. Every other city had a lower apparent property tax burden in 1972 than in 1967, with the exceptions of Amarillo and Odessa where there was no change.

	1967 as Percent of 1962	1972 as Percent of 1962
Abilene	110.7%	107.1%
Amarillo	102.4	102.4
Austin	116.5	110.4
Beaumont	95.6	88.3
Brownsville	93.8	96.9
Fort Worth	107.6	102.4
Odessa	95.0	95.0
Pasadena	125.0	115.0
San Antonio	114.3	103.8
Wichita Falls	123.1	127.9

SOURCE: Texas ACIR staff estimates based on data from Legislative Property Tax Committee, State of Texas.

## II. CHANGES IN ASSESSED VALUES

In the other 17 cities there was at least one substantial change in assessed values between two years which suggests the assessment ratio used in the city was increased. In each instance the nominal tax rate was lowered, further supporting the assumption that the assessment ratio was revised upward. Dallas and Houston, for example, each had a major change in assessed values after 1967 as shown in Table 54. The changes occurred in Dallas in 1970 and in Houston in 1971. Nominal tax rates in both cities also changed to a lower figure in the year assessed values increased markedly.

	<u>1967-68</u>	<u>1968-69</u>	<u>1969-70</u>	<u>1970-71</u>	<u>1971-72</u>
Dallas	3.4%	5.7%	26.9%	3.2%	5.2%
Houston	1.9	6.2	7.7	41.8	7.4

SOURCE: Texas ACIR staff estimates based on data from Legislative Property Tax Committee, State of Texas.

To compare the real change in tax burden in cases where the assessment ratio has changed, it is necessary to adjust the nominal tax rate for the year in which assessed values changed substantially and in each succeeding year in order to make these rates comparable to prior years. The adjustment was made by computing the rate required to produce the actual property tax revenues in the new year using the assessed values of the prior year increased by the median growth rate for assessed values between years when there was no marked rise in assessed values. The method is demonstrated in part III of this appendix.

Using adjusted tax rates determined by the foregoing procedures, apparent changes in property tax burdens in the 17 cities between 1962 and 1972 can be examined in Table 55, p. 87. Because of the adjustment procedure used, the tax rates are subject to some degree of error and should therefore be regarded as approximate figures.

Table 55

CHANGES IN PROPERTY TAX BURDENS IN 17 TEXAS CITIES  
COMPARING ADJUSTED TAX RATES, 1962 TO 1972

	<u>1967 as Percent of 1962</u>	<u>1972 as Percent of 1962</u>
Arlington	99.3%	99.3%
Corpus Christi	121.9	110.6
Dallas	114.7	142.9
El Paso	104.1	124.1
Galveston	96.6	95.4
Garland	100.0	110.8
Grand Prairie	100.0	118.8
Houston	100.0	101.0
Irving	100.0	112.0
Laredo	119.5	110.2
Lubbock	102.0	109.3
Mesquite	120.0	116.2
Midland	106.3	91.3
Port Arthur	100.0	83.2
San Angelo	114.2	124.6
Tyler	114.0	97.9
Waco	100.0	101.8

SOURCE: Texas ACIR staff estimates based on data from Legislative Property Tax Committee, State of Texas.

Based on the information in Table 55, nine cities appear to have had higher property tax burdens in 1967 than in 1962, while in eight cities real property taxes had either remained the same or had decreased. Among cities where the tax burden had risen, several had increases of over 10 percent. Corpus Christi and Mesquite were highest with increases of 20 percent or more.

Tax burdens in 1972 were about the same as or somewhat lower than in 1962 in seven of these cities. Nine cities were levying property taxes at a level of 10 percent or more higher than in 1962. The property tax burden in Dallas appears to have been

over 40 percent higher, and the tax burden was also greater by 20 percent or more in El Paso and San Angelo. Compared with 1967 the tax burden was about the same or lower in ten cities in 1972. In six other cities the tax burden was at least 10 percent greater.

It should be noted that no attempt has been made to compare real or effective property tax rates between cities here. Because neither actual market values of property nor true assessment ratios are known, it is not possible to determine the actual level at which property is being taxed in any city, much less to compare cities. It is assumed in these comparisons that changes in effective rates (tax burdens) can be determined from changes in nominal rates, adjusted as necessary where assessed values substantially increase over average years. Using this method it is possible to compare the direction and magnitude of change in effective rates but not the rates themselves.

### III. ADJUSTMENT OF THE NOMINAL TAX RATE

- A. The procedure used to adjust nominal tax rates for the 17 cities is as follows:
  1. Compute the year-to-year percentage change in assessed value for each city.
  2. Determine the year or years of large increases in assessed values.
  3. Determine the median rate of annual changes in assessed values (excluding unusually large increases).
  4. Multiply the median rate of change plus one times the assessed value of the year *previous* to the large increase in assessed value. The product is the "adjusted assessed value."
  5. Multiply the tax rate times the assessed value in the year of the large increase to determine actual tax levy.
  6. Divide tax levy (#5) by "adjusted assessed value" (#4) to find the adjusted tax rate.

B. Example: City of Dallas

	<u>Assessed Value</u> (in thousands)	<u>Nominal Tax Rate</u> (per \$100)
1967	\$3,317,365	1.79%
1968	3,431,662	1.79
1969	3,626,152	1.90
1970	4,600,094	1.75
1971	4,747,934	1.75
1972	4,994,825	1.87

1. Year-to-year percentage changes in assessed values.

<u>Year</u>	<u>Percentage</u> <u>Change</u>
1967-1968	3.4%
1968-1969	5.7
1969-1970	26.9
1970-1971	3.2
1971-1972	5.2

2. The assessed value for 1970 was 26.9 percent larger than in 1969.
3. The median rate of growth in assessed values for the years 1961 through 1972 was 5.4 percent.
4. Multiply median growth rate plus one times the assessed value in the year prior to the increase:

$$.054 + 1 = 1.054\%$$

$$1969 \text{ assessed value} = \$3,626,152,000$$

$$\$3,626,152,000 \times 1.054\% = \$3,821,964,208 \text{ (adjusted assessed value)}$$

5. Determine actual tax levy:

$$.0175 \times \$4,600,094,000 = \$80,501,645 \text{ (tax levy)}$$



$$6. \frac{\$80,501,645 \quad (\text{tax levy})}{\$3,821,964,208 \quad (\text{adjusted assessed value})} = .02106$$

.02106 = \$2.11 (per \$100 valuation) adjusted tax rate

NOTE: Nominal tax rates and assessed values for the 27 cities used in the study were obtained from the Legislative Property Tax Committee. Data were obtained for the years 1961 through 1972 inclusive.

APPENDIX G

Table 56

1972 PER CAPITA REVENUE SHARING ALLOCATIONS AND  
GENERAL REVENUE OF 22 TEXAS COUNTIES

	<u>Revenue Sharing</u>	<u>General Revenue</u>	<u>Total</u>
Harris	\$3.49	\$ 36.61	\$ 40.10
Dallas	2.30	31.67	33.97
Bexar	3.18	16.45	19.63
Tarrant	2.09	26.17	28.26
El Paso	2.89	16.21	19.10
Travis	2.93	25.23	28.16
Jefferson	4.79	29.68	34.47
Nueces	6.21	34.74	40.95
Lubbock	3.03	24.79	27.82
Galveston*	5.81	87.18	92.99
McLennan	4.00	28.34	32.34
Cameron	6.71	35.96	42.67
Wichita	4.12	23.96	28.08
Taylor	3.54	22.08	25.62
Smith	3.84	27.08	30.92
Ector*	5.37	109.54	114.91
Potter	3.56	32.89	36.45
Webb	6.82	29.98	36.80
Tom Green	3.89	26.10	29.99
Midland	2.65	29.05	31.70
Fort Bend	9.54	42.26	51.80
Montgomery*	6.18	100.65	106.83

SOURCE: Office of Revenue Sharing, 4th Entitlement  
Period Allocations, July 1973; and U.S. Department of  
Commerce, Bureau of the Census, Census of Governments:  
1972, vol. 4, no. 3.

\*Including general revenue from county hospital.

## APPENDIX H

### REVENUE EFFORT AND ABILITY CHART FOR 27 LARGEST TEXAS CITIES

Following are measurements of relative revenue effort and ability, with and without federal revenue sharing, for the 27 largest cities in Texas. The chart was prepared by the staff of the Texas Advisory Commission on Intergovernmental Relations as a preliminary instrument for comparative analysis. It is included in this report simply as an illustration of one possible approach to constructing indices of revenue effort and ability. No conclusions have been drawn from the figures as presented below.

The "effort" index is based on per capita revenues from four sources: (1) property tax, (2) selective sales taxes, (3) limited sales and use tax allocations, and (4) current charges. Per capita amounts from each of these sources were totaled for each city and then divided by the per capita ability figure of that city. These percentages were converted to an index number by dividing the percentage for each city by the median percentage for all cities.

The "ability" index is based on four factors: (1) computed per capita property tax revenues based on estimated market value of property (derived from claimed assessment ratios) and the 75th percentile tax rate of the 27 cities, (2) per capita selective sales tax collections, (3) per capita limited sales and use tax allocations, and (4) computed per capita revenues from current charges based on the median city rate of collections per \$1,000 of personal income. The total for each city (per capita ability) was divided by the average per capita ability for all 27 cities to obtain the ability index numbers.

The "ability with revenue sharing" index was computed by the same procedure as the "ability" index, except that the per capita revenue sharing allocation was added as a fifth factor.

## APPENDIX H continued

## EFFORT AND ABILITY INDICES

	<u>Effort</u>	<u>Ability</u>	<u>Ability with Revenue Sharing</u>
Average, 27 cities	100	100	100
Houston	74	138	134
Dallas	103	129	128
San Antonio	100	62	66
Fort Worth	108	90	90
El Paso	118	66	72
Austin	122	85	86
Corpus Christi	106	78	82
Lubbock	73	87	88
Amarillo	94	100	100
Beaumont	114	80	82
Irving	64	87	84
Wichita Falls	112	74	77
Waco	80	105	107
Arlington	77	107	103
Abilene	104	71	75
Pasadena	74	97	95
Garland	64	105	103
Odessa	73	78	77
San Angelo	103	65	69
Galveston	107	95	95
Port Arthur	118	75	81
Midland	97	93	90
Mesquite	80	78	77
Brownsville	104	50	60
Grand Prairie	68	97	93
Laredo	122	49	56
Tyler	92	86	85

## APPENDIX I

### USE OF COUNTY REVENUE SHARING ALLOCATIONS FOR HOSPITAL PURPOSES

Beyond the requirements contained in the federal revenue sharing law, recipient governments may use their funds in any way consistent with state and local law. One of the few questions that has arisen concerning the legal authority of cities and counties to use their revenue sharing allocation concerns grants from counties to hospital districts. At least two major Texas counties have considered it desirable to grant portions of their revenue sharing receipts to support various health programs administered by hospital districts within their respective boundaries. Hospital districts in Texas have separate status under the constitution and state laws, so grants of this type are considered as transfers from one political subdivision to another even though hospital districts usually have boundaries coterminous with the county and are in a sense "dependent" agencies of the county.

In August 1974, the attorney general of Texas concluded in response to a question from Willacy County that the county could not spend either its own money or revenue sharing funds for medical purposes since neither the state constitution nor the legislation creating the district authorized the county to do so. (Opinion No. H-367, August 5, 1974.) This interpretation was later modified by Opinion No. H-454 (November 20, 1974) in view of article 9, section 13 of the state constitution. In that opinion the attorney general concluded that:

. . . a county's federal revenue sharing funds may be used to contract with a hospital district or other entity or by the county itself for the specific public health activities described in Article 9, Section 13 when the district's enacting legislation has not expressly prohibited it.

Thus it appears that Texas counties may provide revenue sharing funds to hospital districts and other public health organizations if the legislation establishing the hospital district does not prohibit counties from engaging in these activities. According to the opinion, the transfer must be made by means of a contract rather than an outright grant.