The original documents are located in Box 11, folder "Revenue Sharing" of the Norman Ross Files, 1974-75 at the Gerald R. Ford Presidential Library.

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REVENUE - SP081

INDIANS AND THE REVENUE SHARING PLAN

BY RICHARD LA COURSE

WASHINGTON, D.C.--(AIPA)--A joint Senate-House conference committee will soon be at work ironing out differences over a significant revenue sharing bill, which includes a special last-minute amendment providing for Indian participation.

While the substance of those final agreements over differences has yet to be established, key particulars can be presented in a question and answer format.

Q. What is revenue sharing?

A. Revenue sharing is the concept of grants of specific amounts of federal income to state and local governments over a set period of time, which is expected to become a permanent federal program. In its form as passed by the House, revenue sharing would provide up to $3.5 billion for local governments and up to $1.8 billion to state governments annually, for a period of five years.

Q. How would Indian tribes participate?

A. Under a separate category, self-governing Indian tribes would qualify for one fourth of one percent of all monies set aside under the revenue sharing concept. The overall allocation for the tribes would be based on the total reservation population of about 488,000. Included would be federal, state and even non-treaty tribes, as envisioned by Sen. Lee Metcalf, D-Mont., sponsor of the amendment. Overall, this comes down to about $20 per enrolled tribal member. For example, the Colville Tribe with about 5,000 members would receive $100,000 annually.

Q. How would funds be delivered?

A. Tribes would receive the new revenue directly from the U.S. Treasury Department, bypassing the state governments in which their reservations are located.

Q. How would these funds be regulated?

A. Payments would be regulated by the Secretary of the Treasury, who would prescribe new regulations for dividing the funds among the tribes.

Q. Would off-reservation Indians benefit?

A. Only indirectly. Off-reservation Indians do not qualify under the specific Indian amendment, since they are not "self-governing tribes." However, both cities and suburbs qualify under terms of the bill, and urban Indians should be able to obtain funds under the overall social services concept.

MORE

Q. Would funds be restricted in any way?

A. Details remain to be worked out. One version directs funds toward general governmental operations, while the other speaks of "social services" primarily. Among the latter would be the areas of public safety (law enforcement, fire protection, building code enforcement), protection of the environment (sewage disposal and sanitation, anti-pollution work), public transportation and the building of roads, together with capital expenditures for all of the above.

Q. Would revenue sharing involve loss of other funding?

A. No. Funds would be allocated without any relation to other funding currently being received by tribes or planned by the tribes for the future.

Q. Has the concept received Indian support?

A. Yes. The National Congress of American Indians, the National Tribal Chairmen's Association and Americans for Indian Opportunity have all studied the concept and made known their support publicly. Says NTCA: "We believe this amendment is a test of congressional willingness to grant reservation Indians the right to shape their own future." NCAI has been lobbying heavily in the Senate for acceptance of the Indian amendment.

Q. What are prospects for favorable passage of the bill?

A. The bill goes to a joint Senate-House conference committee, consisting of about 15 members of the Senate and House, where final compromises between the two versions are worked out. Then the bill is delivered to the President for signature. Currently, the Office of Minority Affairs in the White House is uncommitted. Pressure can be expected from the Revenue Branch in the Treasury Department against the Indian amendment, since Treasury is customarily hostile to special provisions for Indians. The Interior Department and the Indian Bureau are also publicly uncommitted.

Q. Is the President expected to sign the bill?

A. Very likely. President Nixon is known to favor the House version authored by Rep. Wilbur Mills, D-Ark. Nixon's own bill has not been acted on by Congress, but Nixon can live with the Mills version. If the Senate-House conference committee accepts the Indian amendment, the President is expected to sign it.

UNITED STATES GOVERNMENT

Memorandum

TO : Commissioner of Indian Affairs DATE: October 3, 1972

FROM : Legislative Development Officer

SUBJECT: Indian participation in Revenue Sharing

We have received a copy of the September 26 Conference Report on the State and Local Fiscal Assistance Act of 1972. The bill is divided into three titles but this memorandum only deals with the title I revenue sharing provisions.

As anticipated, the "Title I - Fiscal Assistance to State and Local Governments" provisionsrelating to Indian participation have been significantly changed from that proposed by Senator Metcalf and adopted by the Senate.

Title I Provisions Relating Specifically to Indians
The following are the specific parts of title I of the bill and Report relating to Indian participation.

Section 108(b) (4) of the bill as agreed to by the Conference Committee provides:

> "Indian Tribes and Alaskan Native Villages. - If within a county area there is an Indian tribe or Alaskan native village which has a recognized governing body which performs substantial governmental functions, then before applying paragraph (1) there shall be allocated to such tribe or village a portion of the amount allocated to the county area for the entitlement period which bears the same ratio to such amount as the population of that tribe or village within that county area bears to the population of that county area. If this paragraph applies with respect to any county area for any entitlement period, the amount to be allocated under paragraph (1) shall be appropriately reduced to reflect the amount allocated under the preceding sentence. If the entitlement of any such tribe or village is waived for any entitlement period by the governing body of that tribe or village, then the provisions of this paragraph shall not apply with respect to the amount of such entitlement for such period."

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Section 108(d) (1) of the bill provides the following definition:

> "Units of Local Government. - The term 'unit of local government' means the government of a county, municipality, township, or other unit of government below the State which is a unit of general government (determined on the basis of the same principles as are used by the Bureau of the Census for general statistical purposes). Such term also means, except for purposes of paragraphs (1), (2), (3), (5), (6)(C), and (6)(D) of subsection (b), and, except for purposes of subsection (c), the recognized governing body of an Indian tribe or Alaskan native village which performs substantial governmental functions."

In explanation, the Report states:

> "Indian tribes and Alaskan native villages. - Section 108 (b) (4) of the conference agreement contains a provision for allocating part of the county area allocation to the recognized governing body of an Indian tribe or Alaskan native village where that recognized governing body performs substantial governmental functions. This allocation is to be made on the basis of population.
>
> "This provision is based on section 104(e) of the Senate amendment. Under the Senate amendment, one-fourth of one percent of the amount available for allocation among the States under section 104 of the Senate amendment was to be set aside for allocation and payment to Indian tribes, bands, groups, pueblos, communities, and Alaskan native villages which performed governmental functions. Under this provision, the Secretary of the Treasury was to prescribe regulations for dividing the funds, which regulations were to reflect the policies contained in subtitle A of the bill.
>
> "The House contained no provision comparable to section 108(b) (4) of the conference agreement."

Authorized Uses of Funds

Section 103 of the Conference bill restricts the use of funds received under title I as set out below:

> "Funds received by units of local government [defined above to include tribal governing bodies] under this subtitle may be used only for priority expenditures. For purposes of this title, the term 'priority expenditures' means only -
>
> (1) ordinary and necessary maintenance and operating expenses for -
>
> (A) public safety (including law enforcement, fire protection, and building code enforcement),
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> (B) environmental protection (including sewage disposal, sanitation, and pollution abatement),
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> (C) public transportation (including transit systems and streets and roads),
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> (D) health,
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> (E) recreation,
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> (F) libraries,
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> (G) social services for the poor or aged, and
>
> (H) financial administration; and
>
> (2) ordinary and necessary capital expenditures authorized by law."

It should be noted that the use of the revenue sharing funds provides under title I of the bill for capital expenditures is practically unlimited. However, in the case of the use of funds for "ordinary and necessary maintenance and operating expenses," the provision precludes use of the funds for school operations or any other items which cannot be brought under one of the listed categories.

Section 104 prohibits the use of funds received under title I "directly or indirectly" as a local contribution under any Federal program requiring a local contribution.

The Secretary of the Treasury may accept a certification from "the chief executive officer of a unit of local government" (e.g., tribal chairman) that funds have not been used in violation of section 103 and 104. However, section 121 requires each unit of local government (tribe) to submit a written report to the Secretary of the Treasury "setting forth the amounts and purposes for which funds received * * * have been spent or obligated." In addition, beginning with the funds provided for fiscal year 1974, each unit of local government (tribe) must also submit a report as to what uses it plans to make of its anticipated revenue sharing funds. Both types of reports (i.e., on plans for use and on actual use of the funds) must be published in a local newspaper and other news media must be advised of their publication.

Section 123a (3) provides for the payment to the U.S. Treasury of an amount equal to 110 percent of any funds used for other than "priority expenditures."

Reservation Extending Into More Than One County

Section 108(d) (5) provides, in essence, that each portion of a tribe's reservation which is located in a different county shall be treated as a separate unit of local government for purposes of revenue sharing allocations and computations. Section 123a (8) which applies only to tribes and Alaskan Native villages, requires that funds received by a tribal government must be expended "for the benefit of members of the tribe or village residing in the county area from the allocation of which funds are allocated to it * * *." Therefore, a tribe which receives funds from the allocation of two counties may not expend the funds from one county's allocation to benefit residents of the other county.

Expenditure Procedures

Section 123 also requires the establishment of a separate trust fund for deposit of revenue sharing funds received by a unit of local government (tribe). Expenditures from such fund (including any interest earned in the fund) are to be made "during such reasonable period or periods as may be provided in" regulations prescribed by the Secretary of the Treasury. In addition, such expenditures are to be made "in accordance with the laws and procedures applicable to the expenditure of [the tribe's] own revenues." The tribe must "use fiscal, accounting, and audit procedures [for the fund] which conform to guidelines established therefore by the Secretary of the Treasury.

The Comptroller General (GAO) is authorized to review compliance and operations of the tribes and others in the use of the revenue sharing funds.

Nondiscrimination Provision

Section 122 provides that -

> "No person in the United States shall in the grounds of race, color, national origin, or sex be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity funded in whole or in part with funds made available under [the revenue sharing provisions of the Act]."

When Payments Are To Be Made

Normally, payments to tribes and others are to be made quarterly not later than 5 days after the close of each quarter. The first checks are expected to go out this month, assuming the bill becomes law. However, as pointed out in the Conference Report (page 21), "it may not be possible to obtain sufficient data initially to make the division of payments in some county areas between Indian tribes and other units of local government, in which case partial payments may be made promptly in the basis of such information as is initially available with the remaining amounts paid as the necessary data are obtained."

Determination of Eligibility and Amounts

It will not be possible to determine how much specific tribes will receive under these revenue sharing provisions until the Treasury Department establishes their criteria for determining eligible tribal governments (i.e., those which have "recognized" governing bodies which "perform substantial governmental functions") and the population figures for those governments. It would seem logical for the Treasury Department to call upon the BIA's expertise in these area. Lou Conger has been advised that a letter is on its way from the Treasury Department requesting the Bureau to identify those governing bodies which we recognize.

It does seem clear that it is intended to include "state tribes" as well as federal/recognized tribes.

Here are some examples of how the amounts might be calculated to give some ball park idea of how much might be involved.

About .1 percent (662) of the population of Broward County (includes Hollywood) Florida is Indian according to preliminary 1970 census figures. The revenue sharing total for the Broward County area is shown as $4,762,562. One-tenth of one percent of that figure would be $4,762.56 and, if our figures were correct, that would be the amount the Seminole tribal council would receive for their members in Broward County.

The Navajo County Arizona population is about 50 percent (23,000) Indian and the revenue sharing amount for the county is shown as $902,588. Therefore, the Indian share could be up to $450,000 for that county.

I must hasten to add before these figures are taken as accurate (or even close), that it will not be possible to establish actual amounts until the Treasury Department decides what its criteria is to be for determining the population upon which a tribe's share is to be based.

Ralph R Reeser

Ralph R. Reeser

OFFICE OF MANAGEMENT AND BUDGET
ROUTE SLIP

TO Brad Patterson

Take necessary action	☐
Approval or signature	☐
Comment	☐
Prepare reply	☐
Discuss with me	☐
For your information	☐
See remarks below	☐

FROM Naomi Sweeney DATE 10/6/72

REMARKS

The attached pages from the Senate Finance Committee report on the general revenue sharing bill should help answer the question you asked me yesterday.

See particularly the marked sections.

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of a State in matching the formula to its needs and the interests of local governments in planning their budgets, the bill provides that each State may change the bill's basic formulas only once.

Governmental definitions and related rules.—A unit of local government, to be taken into account under this subtitle, is a general government of a political subdivision of a State. A unit must have a government (i.e., it must exist as an organized entity, have governmental characteristics and have substantial autonomy)—it is not enough that it have a political boundary.[4] So, for example, election districts and magisterial districts (even though they may be used for representation purposes or other electoral purposes) will not be considered units of local government. Nor, for that matter, will a congressional district or State legislative district be considered such a unit.

Not only must the unit have a government, but also the government must be a general government. In particular, it must not be a special-purpose unit. This definition excludes school districts, special utility districts, library districts, and agencies of local governments, even though these agencies might be relatively autonomous. On the other hand, the definition includes a general government even though it might not perform all of the functions that might be regarded as "municipal" functions or might contract to have some of those functions performed by other entities. In general, the principles used by the Bureau of the Census for general statistical purposes are to be followed to resolve questions that may arise with regard to particular units.

Title I of the United States Code defines "county" to include "parish" (as in Louisiana) and other similar units below the State. In some States, some geographic parts of the State do not fall within any counties of the State. Where this occurs, those parts of the State generally are independent cities. Any such independent city (for example, Baltimore City in Maryland and Richmond and Alexandria in Virginia) is to be treated as a county government for purposes of this bill. In Alaska, which has no units called counties, the census districts established by the Bureau of the Census may be treated as county areas. In New York State, New York City is the local government for five counties. For that area, New York City is to be treated as a county, and the government of New York City is to be treated as a county government. A number of States have counties which have merged with cities that formerly occupied a portion of the areas within those counties. In such cases, the combined county-city is to be treated as a county under this bill, and the government of the combined entity is to be treated as the county government.

Many States have a level of government between the county and the incorporated municipality. Such units generally are described in the bill as "townships". In the New England States, New York, and Wisconsin, the corresponding unit of government is generally referred to as a "town". The existence of a township is determined on the basis of the same principles as are used by the Bureau of the Census for general statistical purposes.

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[4] See, for greater detail, Bureau of the Census, Classification Manual, Governmental Finances, February 1971, pp. 6–8.

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In many places, cities cross county lines. One example of this occurs in the case of the city of Atlanta, Georgia, which is partly in De Kalb County and partly in Fulton County. In such a case, each part of the city or other unit of local government is treated as a separate unit of local government and is to participate, under the formulas of the bill, in the allocation of funds to units of local government within the county of which it is a part. If information as to the per capita income or the per capita adjusted taxes is not available for each separate county portion of such a divided city, then the Treasury Department is to treat the population in the two parts as if they had the same per capita income and taxes.

However, in applying the $200 viability test and the 50-percent limit used in determining a city's eligibility to receive its full entitlement under the bill, any city located in two or more counties is to be treated as a single unit of government. Consequently, if each part of such a city would be entitled to receive $195 in a given entitlement period, then that city would be treated as entitled to $390 for the period even though each part of the city, when considered separately, would appear not to satisfy the $200 viability requirement. (A possible example, based on the Census Bureau's Advance Report Final Population Counts for Georgia (PC (V 1)–12, December 1970) is the town of Braswell, whose 30 people are divided between Paulding County (22) and Polk County (8).)

It is recognized that census data collected by governmental units might be outdated or unusable merely because of structural changes, even though neither the residences nor the other characteristics of the individuals involved have changed. Annexations, new incorporations, relinquishment of charters, and mergers of government units, take place every year. It is understood that reasonable efforts will be made to determine the population and per capita income of new or expanded units using the 1970 census data (rather than conducting a new partial census). It is expected that this will be done whenever the annexation or other change involves a change in municipal or county population of more than 5 percent, if that change involves at least 250 people. It is expected that the localities involved will have the obligation to inform the Treasury Department and the Census Bureau whenever such an event occurs; each State, too, is expected to be required to report to the Treasury Department and the Census Bureau information on a regular basis concerning new incorporations and annexations.

The bill also authorizes the Treasury Department, in any other circumstances, to issue regulations under which this provision will apply so as to carry out the purposes of this subtitle. Such regulations, for example, would be expected to deal with the situation that is understood to exist in some places in Alaska where, for a part of the area of the State, there is no county or similar unit of local government. Also, this provision would permit classifications or definitions somewhat different from those which the Census Bureau has formulated primarily for other purposes when a modification would more nearly meet the objectives of the bill.

5. DEFINITIONS AND SPECIAL RULES FOR APPLICATION OF ALLOCATION FORMULAS (SEC. 106 OF THE BILL)

The bill provides definitions and special rules for purposes of application of the allocation formulas provided in this subtitle.

Population.—For purposes of this bill, population is to be determined on the same basis as resident population is determined by the Bureau of the Census for general statistical purposes. This refers to the population residing in the State or in the unit of local government on the census date. Population for these purposes does not include Americans living overseas who, for the purposes of apportioning representatives among the several States, were distributed according to their "home" States.

Income.—"Income", which is relevant for the allocation formulas, means total money income derived from all sources, as determined by the Bureau of the Census for general statistical purposes.

Dates used for data.—In general, the data to be used for allocations and entitlements under this subtitle are to be those available on April 1 immediately preceding the beginning of the entitlement period for which the data are to be used. The data are to be the most recently available data provided by the Bureau of the Census. However, the Treasury Department is given authority to vary these general rules in order to achieve more equitable allocations, to attain greater uniformity, and to reflect the most recent developments. It is important to note that the data for any unit of local government used with regard to any allocations must be comparable to the data used for the other units of local government sharing in that allocation. For example, a special census of population for a municipality may not be used in allocating funds among municipalities within a county area unless there are corresponding updated population data for all the other municipalities located in that county area. If, as the committee understands and expects, information gathered as a result of Internal Revenue Service efforts to determine residences of taxpayers and their dependents (sec. 124 of this bill, described below) enables the Bureau of the Census to make accurate estimates of population and per capita income for all the units in a county area, then such updated estimates may be used even though they are later than the last official census figures.

The operation of these provisions may be illustrated by the following example, relating to the data to be used for allocating funds between the county government on the one hand, and the units of local government located within that county on the other hand. That allocation is to be made on the basis of the adjusted taxes of those governments. The most recent information now available on that point relates to fiscal year 1967, having been gathered in the regular 5-year Census of Governments for 1967. That information is to be used as the basis for the allocations for the January–June 1972 entitlement period. The committee has been informed that the Census Bureau is prepared to conduct a special survey of all the units of local government to gather data from which their adjusted taxes for fiscal year 1971 may be determined.

This information is expected to become available by the end of October, 1972. It is intended that this information be used in the

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allocation of funds between county governments and local governments (and as one of the elements in the allocation of funds among local governments) for the fiscal year 1973 entitlement preiod. If this information is not available early enough, then it may be that the first quarterly installment of the fiscal year 1973 entitlement period may have to be paid in accordance with estimates based on the 1967 data. In such a case, the subsequent installments are to be so adjusted that the total amounts paid for the fiscal year 1973 entitlement period are based upon the fiscal year 1971 data.

The committee has further been informed that data relating to fiscal year 1972, derived from the regular 1972 Census of Governments, can be made available early in 1973. That information is to be used for determining allocations for the fiscal year 1974 entitlement period. Annual limited censuses are to provide this data for later years.

The type of data used for the various sections of this subtitle, the data currently available, and the source and expected time at which later data is expected to be available is shown in Table 4 below.

TABLE 4—H.R. 14370, DATA USED AND SOURCE OF DATA

Type of data	Bill section and use of data	Basic source of data
1. Resident population, money income.	Sec. 104(a) and sec. 105(a) and (b) allocation among States, county areas, and local governments.	Bureau of the Census Decennial Census
2. Determination of eligible local governments.	Sec. 105 allocation to local governments.	Bureau of the Census, Decennial Census and Census of Governments.
3. Adjusted taxes (all taxes minus those for education), intergovernmental transfers.	Sec. 104(a) and sec. 105(a) and (b) division among county government, all cities, and all townships and allocation among county areas and among local governments, sec. 105(b)(4)(C) limitation.	Bureau of the Census, Census of Governments (complete coverage every 5 years).
4. State and local government tax collections, by State, fiscal year basis.	Sec. 104(a)(1) allocation among State areas.	Bureau of the Census, Governmental Finances, annual.
5. Personal income, by State	Sec. 104(a)(1) allocation among State areas.	Department of Commerce, Survey of Current Business.
Type of data	**Data currently available**	**Date and source of later data**
1. Resident population, money income	1970 population and urbanized population and 1969 money income (for places over 2,500; under 2,500 not published but available from the 1970 census).	Anticipated Census estimates of population and income based on income tax return data for local units and welfare recipients; data provided by HEW if feasible and at reasonable cost. Estimates if feasible, probably every 2 or 3 years.
2. Determination of eligible local governments.	1967 Census of Governments and 1970 decennial census.	Bureau of the Census, annual investigations, and local reports of incorporations, annexations, etc.
3. Adjusted taxes (all taxes minus those for education), intergovernmental transfers.	Fiscal year 1967 taxes and taxes for education. Fiscal year 1967 intergovernmental transfers on Census tape.	Limited census of all local governments for fiscal year 1971 taxes and education taxes and intergovernmental transfers in process. Results expected in October 1972. To be done annually.
4. State and local government tax collections, by State, fiscal year basis.	Fiscal year 1970	In September of each year the data for the prior fiscal year are to be available.
5. Personal income, by State	Fiscal year 1970	Data are generally available with about a 3-month lag.

General tax effort of a State.—The general tax effort factor of a State is relevant for purposes of the allocation formula dividing the amounts available under the bill between the States. This basic allocation formula is population times general tax effort times relative income (the ratio of U.S. per capita income to the per capita income of that State). The general tax effort of a State for an entitlement period is determined by dividing the net amount collected from the State and local taxes in that State by its aggregate personal income, using the most recent data available.

State and local taxes.—"State and local taxes" is relevant in determining the general tax effort of a State for purposes of the basic allocation formula provided under the bill (population times general tax effort times relative income). The State and local taxes taken into account for this purpose are defined in the bill as the compulsory contributions exacted by the State or any of its political subdivisions for public purposes as such contributions are determined for general statistical purposes by the Bureau of the Census. For this purpose, taxes do not include employee and employer assessments and contributions to finance retirement and social insurance systems, which are classified by the Bureau of the Census as insurance trust revenue, and special assessments for capital outlay which are classified as miscellaneous general revenue.

Generally, taxes include property taxes conditioned on ownership of property and measured by its value; sales and gross receipts taxes including taxes (and licenses levied at more than nominal rates) based upon the volume or value of transfer of goods or services, upon gross receipts therefrom, or upon gross income, and related taxes based upon use, storage, production, importation or consumption of goods; license taxes exacted either for revenue raising or for regulation, for business or nonbusiness privilege, at a flat rate or measured by such bases as capital stock or surplus, the number of business units, or capacity; income taxes; individual and corporation net income and payroll and earnings taxes imposed by city governments; death and gift taxes imposed on the transfer of property at death, in contemplation of death, or as a gift; documentary and stock transfer taxes; poll taxes; severance taxes; and miscellaneous taxes. Taxes include compulsory contributions exacted by local governments on consumers of utility commodities and services, but do not include charges and fees for utility commodities and services. The Census Bureau generally determines the classification of a levy as a charge or fee, or tax, on a case-by-case basis.

The State and local taxes taken into account are those for the most recent fiscal year available from the Bureau of the Census before the close of the entitlement period. The State and local tax data are those regularly published by the Bureau of the Census in *Governmental Finances.*

Personal income.—For purposes of the bill, personal income is the income of individuals determined by the Department of Commerce for national income accounts purposes. Generally, personal income is the current income received by persons from all sources, inclusive of transfers from government and business, but exclusive of transfers among persons. Personal income is measured on a before-tax basis, and is the sum of wage and salary disbursements, other labor income, proprietors' income, rental income of persons, dividends, personal interest income, and transfer payments, less personal contributions for social insurance.

General tax effort factor of a local government.—Under the bill, the general tax effort factor of a county area or local government for an entitlement period must be determined for purposes of the basic allocation formula and for the optional formula based on population weighted by general tax effort. The general tax effort factor is determined by dividing the adjusted taxes of the government (plus, in the case of the county area, the adjusted taxes of all the local governments within the county) by the aggregate income attributable to that government for the most recent reporting year. For example, in determining the entitlements for the fiscal year 1973, it is expected that fiscal year 1971 data probably will be used.

Adjusted taxes.—"Adjusted taxes" are required for determining the division of funds between a county government and all the other units of general government in a county under the basic formula in the bill and under one of the factors that may be used in the optional formula. It is also relevant in the case of the basic formula in the bill which uses population times general tax effort times relative income and the optional formula which uses population weighted by general tax effort. The taxes of a local government are defined in the bill in the same manner as the local taxes taken into account for purposes of determining the general tax effort of a State (described above). However, two adjustments apply for purposes of determining the adjusted taxes of a local government which are not necessary for purposes of determining the amount of State and local taxes in calculating the general tax effort of a State. In general, the taxes of a government are those which are exacted by that government. However, the bill provides that in calculating adjusted taxes there is to be excluded that portion of the taxes properly allocable to expenses for education. Also, where a county government exacts sales taxes within a municipality and transfers part or all of those taxes to the municipality without specifying the purposes for which the municipality may spend the revenues and the governor of the State in which the county is located notifies the Secretary of the Treasury that this is the case, the taxes so transferred are to be treated as the taxes of the municipality and not as the taxes of the county government. Apart from this specific county-municipal rule, intergovernmental transfers are not taxes of the unit of government receiving the transfer.

Intergovernmental transfers.—The concept of intergovernmental transfers is used in connection with the 50-percent limit (provided in sec. 105(b)(4)(C)). An intergovernmental transfer is an amount received from another government as a share in financing or as reimbursement for the performance of governmental functions. However, it does not include a payment for what may normally be regarded as the furnishing of a utility or a payment for a service or for articles which are normally sold by persons in nongovernmental capacities. For example, if the State purchases liquor from a county package store the payment by the State for the liquor would not constitute an intergovernmental transfer. Only those items characterized as intergovernmental transfers by the Bureau of the Census for general statistical purposes are to be so treated for purposes of this subtitle.

Relative income factor.—The relative income factor is applicable under the bill to the basic formula (population times general tax effort times relative income) and the optional formula based on population inversely weighted for per capita income. This factor is a fraction which in the case of a State is the per capita income of the United States over per capita income of that State, in the case of a county area is the per capita income of the State over the per capita income of the county area, and in the case of a local government is the per capita income of the county area over the per capita income of the local government.

Definitions omitted by committee.—The committee amendment removes from the House bill the definitions of "State individual income taxes," and "Federal individual income tax liabilities attributable to a State," since those terms are not used in the committee amendment.

6. SUBMISSION OF REPORTS TO SECRETARY AND THEIR PUBLICATION (SEC. 107 OF THE BILL)

The bill provides that each State and local government is to submit an annual report for each entitlement period to the Treasury Department. Each report is to set forth the purposes for which the amounts received during an entitlement period have been spent or obligated and the amount spent or obligated for each purpose. The Treasury Department may prescribe the form and detail of these reports and the times at which they are to be submitted. It is intended that these reports will set forth the amounts and sources of non-revenue-sharing funds used for matching Federal grants [5] and the amounts of Federal grants thus obtained. In part the purpose of these reports is to indicate to Congress whether the discretion left with the States and localities as to the purpose for which the revenue sharing funds are to be spent has led to misuse of the funds. The committee is also concerned that the funds not be used directly or indirectly as State or local matching funds for Federal matching programs. The reports are also intended to serve as a way of being sure that the revenue sharing funds are not used for this purpose.

Each State and local government that expects to receive funds for any entitlement period beginning after June 30, 1972, also is to submit plans to the Treasury Department, setting forth the amounts and purposes for which that government plans to spend the funds which it expects to receive during the next entitlement period. The Treasury Department may prescribe the form and detail of these reports and these reports must be submitted before the beginning of the entitlement period. However, in the case of the entitlement period beginning July 1, 1972, the report is to be submitted at any time prescribed by the Treasury Department which is before January 1, 1973.

The bill further provides that each State and local government is to publish a copy of the reports described in the preceding paragraphs in a newspaper which is published within the State and has general circulation within the geographic area of that government. The government must also advise the news media of the publication of its reports in the newspaper.

This provision, which was not in the House bill, has been added by the committee in order to facilitate the public scrutiny—by the citizenry as well as by the Congress and the Treasury Department—of the uses to which revenue sharing funds are to be put and the extent to which the planned uses are carried out.

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[5] Under the bill, revenue sharing funds are not to be used to match Federal grants.