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BY THE COMPTROLLER GENERAL 111884

Report To The Subcommittee On Intergovernmental  
Relations And Human Resources,  
House Committee On Government Operations  
OF THE UNITED STATES

**Compliance With Requirements  
To Hold Public Hearings  
On Use Of Revenue Sharing Funds**

To encourage citizen participation in the budgetary process, State and local governments receiving revenue sharing funds are required to hold two public hearings -- the first on use of revenue sharing funds only; the second, on use of these funds in relation to the entire budget.

All of the governments GAO reviewed held the second hearing as required. However, about 30 percent of the small communities did not hold the first hearing on revenue sharing funds only.

Although the hearings were publicized, the fact that very few citizens attended either hearing raises doubts about their effectiveness in fostering citizen participation in budgetary decisions. The Subcommittee may wish to consider whether the requirement for the first hearing should be retained. Nevertheless, the Office of Revenue Sharing should remind participating governments of the requirement to hold both public hearings.



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

B-197232

The Honorable L.H. Fountain  
Chairman, Subcommittee on  
Intergovernmental Relations  
and Human Resources  
Committee on Government Operations  
House of Representatives

Dear Mr. Chairman:

In response to a request from your Office, we are reporting on citizen participation provisions of the Revenue Sharing Program. Comments obtained from Office of Revenue Sharing officials were considered in preparing the final report.

On page 16 of the report, we suggest that the Subcommittee consider whether the requirement for the first hearing on proposed uses of revenue sharing funds only should be retained. On page 12, the report discusses the questionable value of that hearing.

We trust that the information contained in the report will be helpful to the Subcommittee when considering extending authority for the Revenue Sharing Program beyond the current expiration date of September 30, 1980.

Because we are making a recommendation to the Secretary of the Treasury, we are sending copies of the report to the Secretary and to the Director, Office of Revenue Sharing. We are also providing copies of the report to other committees and Members of Congress and to others having responsibility for or an interest in the revenue sharing program.

Sincerely yours

A handwritten signature in black ink, appearing to read "James B. Heath".

Comptroller General  
of the United States

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COMPTROLLER GENERAL'S  
REPORT TO THE SUBCOMMITTEE  
ON INTERGOVERNMENTAL  
RELATIONS AND HUMAN RESOURCES  
COMMITTEE ON GOVERNMENT  
OPERATIONS  
HOUSE OF REPRESENTATIVES

COMPLIANCE WITH REQUIREMENTS  
TO HOLD PUBLIC HEARINGS ON  
USE OF REVENUE SHARING FUNDS

D I G E S T

GAO's review at 181 State and local governments showed that the governments held the second of two public hearings required by the Revenue Sharing Act, but many small communities did not hold the first required hearing covering proposed uses of revenue sharing funds only.

The Revenue Sharing Act was amended in 1976 to require jurisdictions receiving revenue sharing funds to hold two separate public hearings: (1) an initial public hearing covering proposed uses of only revenue sharing funds and (2) a later public hearing on the proposed uses of revenue sharing funds in relation to the entire budget before the final budget is enacted into law. The 1976 amendments and the implementing regulations are designed to assure that reasonable opportunity exists for citizens and groups to be informed and make their views known during both the budget planning process and the final budget enactment process. (See p. 1.)

GAO made its review at 13 State governments and 168 local governments, which included 13 counties and 155 cities, towns, and villages. Of the 168 local governments, 164 had populations of 10,000 or less. GAO concentrated its review efforts on smaller local governments because two recent studies by other groups covered citizen participation aspects of the revenue sharing program for larger communities. (See p. 18.)

All of the State and local governments reviewed complied with the requirements for holding the second revenue sharing public hearing on the entire budget. The State governments and most

of the local governments also met the requirement for the first public hearing on proposed uses of only revenue sharing funds. However, about 30 percent of the local governments did not hold that hearing. (See p. 6.)

The governments reviewed generally had been holding public hearings as part of the budget formulation process for a number of years. Therefore, the Revenue Sharing Act's requirement for a hearing on the proposed uses of revenue sharing funds in relation to the entire budget did not introduce a significant change in those governments. The requirement for another hearing which covered proposed uses of revenue sharing funds only, however, was a new step which may partly explain why so many communities did not hold the hearings. (See p. 4.)

GAO was unable to document the level of citizen attendance at the hearings because most governments did not record such information. According to local officials, the hearings that were held were very poorly attended and therefore appeared to have little, if any, effect in influencing budget decisions. While the minimum requirements for publicizing the hearings were complied with, citizens and special interest groups interviewed preferred to influence budgetary decisions by maintaining continuous contact with executive and legislative officials throughout the year. (See pp. 9 and 15.)

The first hearings cover proposed uses of only revenue sharing funds. Due to the interchangeability of money, revenue from various sources loses its identity in the budget and expenditure process. Therefore, GAO and others believe that budgeting for revenue sharing funds separately from other sources tends to be meaningless. (See p. 12.)

Accordingly, the Subcommittee may wish to consider whether the requirement for the first hearing should be retained. Nonetheless, to ensure compliance with existing revenue sharing legislation, GAO recommends that the Secretary

of the Treasury emphasize to recipient governments the legal mandate to hold the first public hearing covering proposed uses of revenue sharing funds only. (See p. 16.)

AGENCY COMMENTS

GAO requested written comments from the Secretary of the Treasury, but they were not received in time to be incorporated in the report. However, oral comments from officials of the Office of Revenue Sharing were considered in preparing the final report.

1000

C O N T E N T S

|         |   | <u>Page</u> |
|---------|---|-------------|
| DIGEST  |   | i           |
| CHAPTER |   |             |
| 1       | INTRODUCTION  | 1           |
|         | Public hearings required  | 1           |
| 2       | STATES AND MOST LOCAL GOVERNMENTS ARE<br>COMPLYING WITH PUBLIC<br>HEARING REQUIREMENTS--BUT THERE<br>ARE PROBLEMS | 4           |
|         | All State and local governments held<br>the required second hearing   | 4           |
|         | Many local governments did not hold<br>the required first hearing   | 6           |
|         | Hearings were poorly attended   | 9           |
|         | Hearings were publicized  | 11          |
|         | The first hearing on proposed uses<br>of revenue sharing funds has<br>questionable value                          | 12          |
|         | Conclusions   | 15          |
|         | Recommendation  | 16          |
|         | Matter for consideration by the<br>Subcommittee   | 16          |
|         | Agency comments   | 17          |
| 3       | SCOPE OF REVIEW   | 18          |

ABBREVIATIONS

|     |                           |
|-----|---------------------------|
| GAO | General Accounting Office |
| ORS | Office of Revenue Sharing |



## CHAPTER 1

### INTRODUCTION

The State and Local Fiscal Assistance Act of 1972 (P.L. 92-512, 86 Stat. 919), commonly called the Revenue Sharing Act, provided for the distribution of \$30.2 billion over a 5-year period to the 50 States, the District of Columbia, and about 39,000 local governments. Amendments to the act in 1976 (P.L. 94-488, 90 Stat. 2341) extended the program through fiscal year 1980 and authorized an additional \$25.8 billion.

The revenue sharing program enables the Federal Government to provide financial assistance to State and local governments while allowing them the flexibility to use the funds for what they consider their most vital needs.

The Office of Revenue Sharing (ORS), Department of the Treasury, administers the revenue sharing program, including distributing funds to State and local governments, establishing regulations for the program, and providing accounting and auditing procedures, evaluations, and reviews to ensure compliance with program requirements.

#### PUBLIC HEARINGS REQUIRED

The initial Revenue Sharing Act of 1972 contained limited requirements for the public to have a voice in the use of revenue sharing funds. Recipient governments were required to publish reports of planned use and, later, of actual fund use. During the 1975-76 congressional debates on renewal of revenue sharing, considerable attention was focused on the degree to which local citizens and groups had an opportunity to have their views considered in the local budgetary and decisionmaking process. An important part of this issue was the degree to which citizens and groups were informed about the budgetary process, proposals made, and decisions reached.

The Revenue Sharing Act was subsequently amended in 1976 to require jurisdictions receiving revenue sharing funds to hold two public hearings: the first on the proposed uses of revenue sharing funds only and the second on the proposed uses of revenue sharing funds in relation to the entire budget. 1/ The 1976 amendments and subsequent regulations

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1/See 31 U.S.C. 1241. For ORS implementing regulations, see 31 Code of Federal Regulations, Subtitle B, Part 51.

established by ORS are designed to help assure that citizens and groups have a reasonable opportunity to be informed and to make their views known to local officials during both the budget planning process and the budget enactment process.

First hearing focuses on revenue sharing funds

The Revenue Sharing Act, as amended, requires that at least 7 days before the proposed budget is presented to the governmental body responsible for enacting the budget, a public hearing be held at which local citizens and groups can present written or verbal comments on how they think the revenue sharing money should be spent. ORS regulations require that at least 10 days before this hearing, the public must be notified in at least one newspaper of general circulation of the time and place of the hearing, the subject(s) to be discussed, and the public's right to submit written and/or oral comments. The act authorizes ORS to waive the first hearing requirements if the costs associated with adherence to those requirements would be unreasonably burdensome in relation to the recipient's revenue sharing entitlement.

Second hearing focuses on revenue sharing funds in context of total budget

The act requires the governmental body responsible for enacting the budget to have one public hearing on the proposed use of revenue sharing funds in relation to the entire budget before enacting the budget. ORS regulations provide that bicameral State legislatures may hold the hearing before a committee in each house or before a joint committee of both houses. Alternative budget hearing processes may be used if State or local law provides for a budget process that includes a public hearing allowing all citizens the opportunity to participate. The hearing must be held at a place and time which will encourage public attendance and participation.

Citizens must be given a reasonable opportunity during the hearing to ask questions concerning the entire budget and the relationship of revenue sharing funds to that budget, as well as to express their views either verbally or in writing.

At least 10 days before the hearing, the proposed uses of revenue sharing funds, a summary of the entire proposed budget, and the notice of the time and place of the hearing must be published in one newspaper of general circulation

in the geographic area of the government. This material must also be available for public inspection in the principal office of the government (or an appropriate public place if the government has no principal office.)

If State and local law establishes a time period for advance notice of hearings, that time period will apply instead of the 10-day provision; however, the notice of the budget hearing must always be published at least 3 working days before the hearing.

## CHAPTER 2

### STATES AND MOST SMALL LOCAL GOVERNMENTS VISITED

#### ARE COMPLYING WITH PUBLIC HEARING

#### REQUIREMENTS--BUT THERE ARE PROBLEMS

Because the governments reviewed generally had been holding public hearings as part of the budget formulation process for several years, they readily adopted and complied with the revenue sharing program requirement to hold a hearing on the proposed uses of revenue sharing funds in relation to the entire budget. However, the program requirement to hold an earlier hearing covering proposed uses of revenue sharing funds only introduced a new budget step, and many of the communities we visited did not hold that first hearing. According to local officials, even the hearings that were held were very poorly attended and therefore appeared to have little, if any, effect in influencing budget decisions.

Most officials and citizen groups interviewed questioned the usefulness of the first hearing on the proposed uses of revenue sharing funds only, primarily because they believed that more effective means were available to the public for influencing budget decisions. In addition, we believe that the designation of uses for revenue sharing funds tends to be meaningless. Because such funds are commingled with total funds available to a government for budgetary purposes, it is impossible to objectively identify the effect of revenue sharing funds on specific activities. Accordingly, since the second hearing required by the act gives citizens the opportunity to react to the total budget (including revenue sharing funds), the first public hearing covering the uses of revenue sharing funds only has questionable value.

#### ALL STATE AND LOCAL GOVERNMENTS HELD THE REQUIRED SECOND HEARING

All State and local governments we visited--181 in all--held the required second public hearing.

Eight of the 13 States visited set up special joint committees of their house appropriations or ways and means committees and senate appropriations, finance, ways and means, or budget committees to conduct the revenue sharing budget hearings. The other States incorporated revenue sharing matters in their regular budget hearings, or committees of each house held separate hearings on the revenue sharing funds.

Because some State budgets cover a 2-year period, they hold budget hearings only every 2 years. Four of the States included in our review--Indiana, Iowa, Ohio, Virginia--had a 2-year budget cycle.

State legislatures are usually in session for at least several months, and during that period legislative and appropriation committees hold public hearings where citizens can make their views known on many programs and subjects. For example, Indiana officials said that the legislative budgetary process covers a 6-month period. During that time as many as 75 to 100 advertised public hearings may be held, some involving revenue sharing funds, at which citizens can make comments.

The 13 counties reviewed were generally governed by a board of commissioners or supervisors, performing both executive and legislative functions. One county had an elected county council acting as the legislative body and an elected county executive responsible for the executive function. The county boards and councils conducted regularly scheduled public meetings that included financial and budget matters. The frequency of the public meetings varied from at least monthly to as many as twice a week. Because public discussion of the use of revenue sharing funds was incorporated in one of these regularly scheduled meetings, the revenue sharing program requirements did not impose any significant changes in their normal budgetary practices.

The two cities with populations over 10,000 included in our review had separate executive and legislative branches. Both cities had an elected mayor, an elected city council, and an appointed city administrator. The councils held open public meetings regularly as required by State law or city charter. Budgeting for revenue sharing funds, then, was easily absorbed into their regular public budget hearings.

The other group of local governments included in our review consisted of 153 small cities, towns, townships, and villages with populations of under 10,000. Over 55 percent of these communities had less than 2,000 people. In these mostly rural communities, town business did not require a great deal of attention--the elected officials and paid employees, if any, worked only part-time on government affairs.

Almost all of the small communities were governed by a mayor and a board--city council, board of trustees, or board of aldermen. In regular public meetings, conducted at least monthly, the mayor and the board discussed and

voted on community business, including financial and budget matters. The requirement for public discussion on the use of revenue sharing funds was met by merely including those funds on the agenda of the annual budget meetings.

Several of these small communities had unique situations. For example, 2 towns--1 in Georgia and 1 in Missouri--with 300 to 500 residents did not have formal budgets. The mayors and councils held regular monthly public meetings, and expenditure decisions were made at those meetings as the need arose. As explained by one town citizen, "the only budget they have is at these council meetings when they vote to buy something, if they have the money--if they don't have the money, they don't buy it."

In another instance, a Missouri village of 300 people deliberately did not comply with the revenue sharing hearing requirements in 1979 because village officials decided to withdraw from the program. For the last several years, village revenue had exceeded expenses and the village had accumulated a sizeable surplus. Because the village was financially well off, it informed ORS that it no longer wanted its annual entitlement of about \$1,100. The mayor expressed the view that revenue sharing funds were fine for those communities which needed the money but that his community did not need the funds.

MANY LOCAL GOVERNMENTS DID NOT  
HOLD THE REQUIRED FIRST HEARING

All of the States and almost all of the counties reviewed held the required first hearings. But 2 of the 13 counties and 48 (about 30 percent) of the 155 communities did not hold the first public hearing covering the proposed uses of revenue sharing funds only. One of the two counties, governed by a board of supervisors, believed it did not have to hold the hearing because the budget was not presented by one governmental body to another governmental body for enactment. Although ORS regulations initially provided that recipients were not required to hold the hearing under those circumstances, the regulations were later revised to provide otherwise. The county was not aware of the change--it was guided by an outdated ORS "Fact Sheet."

A board of county commissioners in the other county held annual publicized budget meetings, as required by State law, and monthly public meetings. At these public meetings, a list showing details of each expenditure claim, including those to be paid from revenue sharing funds, was presented to the county commissioners for payment approval. The

complete minutes of these meetings, including the list of claims approved for payment, were prominently published in the local newspaper. Because the county did not hold a separate hearing on proposed uses of revenue sharing funds, it was technically not in compliance with the regulations. However, the annual public budget meeting, the monthly public Commissioners' meeting, and the publication of the details of all such meetings provided citizens with a wealth of information on how county funds were spent.

The 48 small communities (towns, townships, and villages) which had not held the first of the 2 required hearings were generally governed by a mayor and/or a board, and community business was decided at regular public meetings conducted jointly by the mayor and/or board. The populations of the 48 communities ranged from 56 to almost 5,900, and they received an average of \$9,500 a year in revenue sharing funds. Seventy-three percent (36) of the communities had less than 1,500 people and their revenue sharing receipts averaged about \$3,900 annually.

Officials of over half of the local governments not holding the hearing felt that a separate hearing on proposed uses of revenue sharing funds would serve no purpose because no one attends the regular public meetings. Other officials felt that the regular open council meetings satisfied the revenue sharing program requirements. Even in those communities where the first hearing was held, many officials questioned the value of the hearings because of the poor attendance and because of other, more effective means available to citizens for influencing budget decisions. (See p. 15.)

As amended, the Revenue Sharing Act provides that the first public hearing will be held by the "governmental authority" responsible for presenting the proposed budget to the governmental body responsible for enacting the budget. In October 1976, ORS published in the Federal Register proposed revenue sharing rules to become effective January 1, 1977. One of the proposed rules said that requirements for holding the first hearing were not applicable to recipient governments that did not provide for one governmental authority to present a budget to another governmental body or official for enactment. The proposed rules also provided for waiver of the first hearing if either of the following circumstances applied:

--A government's revenue sharing entitlement was less than \$10,000.

--The direct incremental cost of holding the hearing would exceed 2 percent of the entitlement funds.

After receiving public comments on the proposed rules, ORS published interim regulations in the Federal Register in January 1977. The interim regulations retained these three provisions, except that the incremental cost percent was raised to 5 percent. A public hearing held on the interim regulations in February 1977 resulted in an additional set of proposed rules published in the Federal Register in July 1977. The proposed rules eliminated the waiver for recipients whose entitlement was less than \$10,000. The 5 percent incremental cost waiver was raised to 15 percent so that the waiver would be more in line with the intent of Congress regarding what would constitute an unreasonably burdensome cost. To take advantage of the waiver provision, however, a recipient government had to apply in writing to the Director, ORS.

The proposed rules differed significantly from the interim regulations in one other particular; namely, they provided no categorical exclusion for recipient governments that did not provide for one governmental authority to present a budget "to another governmental body for enactment." The effect of this change was to apply the first hearing requirements to jurisdictions with a unitary form of government--that is, the requirements also applied to jurisdictions that had merged traditional executive functions (budget presentment) and traditional legislative functions (budget enactment) into one branch of government. A jurisdiction with a unitary form of government would of course be on the same footing as other jurisdictions if the direct incremental costs of holding a hearing exceeded 15 percent of its entitlement. The changes in the regulations were made because the majority of the comments received by ORS were from public interest groups who were staunch advocates of public hearings and therefore objected strongly to what they considered much too lenient waiver provisions in the interim regulations.

ORS received comments from the public on the July 1977 proposed rules and then in September 1977 published the final regulations effective October 1, 1977, in the Federal Register. The final regulations retained the one provision for obtaining relief from the first hearing requirement by requesting a waiver if the incremental cost of holding the hearing exceeded 15 percent of entitlement funds.

The 50 local governments reviewed that did not hold the first hearing would have qualified for exemptions under one or more of the provisions of the initial, proposed rules or interim regulations. These small rural communities may not have kept abreast of the changing regulations. However, ORS did notify recipient governments of the changing requirements when they occurred and later reminded the governments of the current public participation requirements when quarterly payments of entitlement funds were made. An ORS official said that elected officials and administrative personnel of the local governments changed frequently and that orderly records were not often kept. Therefore, the continuity of knowledgeable people or readily available information on the revenue sharing program requirements was often lacking.

#### HEARINGS WERE POORLY ATTENDED

We were unable to document the level of citizen attendance at the hearings, because most governments did not record such information. According to State and local officials, the hearings were very poorly attended and therefore appeared to have little, if any, effect in influencing budget decisions. Minimum requirements for publicizing the hearings were complied with.

#### Few citizens attended State hearings

According to State officials, the most recent hearings held by the governors' offices (first hearing) on proposed uses of only revenue sharing funds attracted not 1 citizen in 6 of the 13 States we visited. One State had one citizen in attendance and another State had two people at the hearing--a newspaper reporter and a professor from the State university. Another State's officials said attendance at recent hearings varied from none to 15. In two other States eight people each, representing senior citizens and retired teachers, attended the first hearings.

Only 2 of the 13 States had received any written communication on the proposed uses of revenue sharing funds. One State got three letters, the other four letters. Even when citizens did attend the hearings, they offered their views in only one instance when several people spoke--all representing senior citizens.

According to State officials, attendance at the second revenue sharing hearing, which covered the entire budget, was not discernibly better. In 9 of the 13 States we visited, no one attended the most recent hearings, and another State's hearing had two attendees. Officials of two other States

said attendance varied from none to about 25. One State, which has budget hearings every 2 years, had 12 people attend the most recent joint revenue sharing hearings of its house and senate committees. Eleven of the attendees represented nine diverse special interest groups concerned with subjects such as health, education, and retarded people.

Our visit to one State capital coincided with the time of its special hearing on proposed uses of revenue sharing funds in relation to the entire budget which was held jointly by the State's senate and house appropriations committees. No public witnesses were at the hearing and only one observer attended in the gallery. In addition to the chairman from the senate and vice-chairman from the house, nine senators and three representatives were at the session. After an explanation of the revenue sharing program, the chairman opened the meeting to debate. Because there were no questions or comments from the public, the meeting was adjourned. The hearing lasted 30 minutes.

According to an official of this State's legislative branch, the special revenue sharing hearings do not foster additional citizen participation at the State level and are needless. He said individuals and special interest groups get involved in earlier budget meetings held over a 6-month period when the budget is being formulated. The earlier meetings are widely publicized and are also open to the public as required by State law.

Officials from most of the States we visited echoed the comments of the previously mentioned State official--that the usefulness of special revenue sharing hearings is questionable. They cited as reasons the lack of public attendance and the more productive means available to the public for influencing legislation, namely, communication with executive and legislative officials and participation in regular legislative committee hearings. Officials of two other States, however, felt that the hearings gave citizens an additional opportunity to participate in the budget process, even though they may not choose to exercise the privilege.

#### Few citizens attended local government hearings

According to local officials, the two required hearings held by local governments were also poorly attended. About 50 percent of the local governments we visited had no citizen attendance at the most recent hearings held to consider proposed uses of only revenue sharing funds. Similarly, about

60 percent of the governments we visited had no citizen attendance at the most recent revenue sharing hearing on the entire budget. At the other governments' hearings, attendance for the most part was minimal--one to five people.

The following tabulation shows the estimated attendance at the most recent hearings held by the local governments we visited.

| <u>Citizen attendance</u> | <u>Number of local governments</u> |                       |
|---------------------------|------------------------------------|-----------------------|
|                           | <u>First hearing</u>               | <u>Second hearing</u> |
| None                      | 60                                 | 100                   |
| 1 to 5                    | 33                                 | 36                    |
| 6 to 10                   | 3                                  | 5                     |
| 11 to 20                  | 7                                  | 10                    |
| 21 to 30                  | 5                                  | 3                     |
| 31 to 50                  | 3                                  | 2                     |
| No data                   | <u>7</u>                           | <u>12</u>             |
| Total                     | <u>a/118</u>                       | <u>168</u>            |

a/Two counties and 48 small communities did not hold the first hearings.

Most of the local government offices we visited did not have records of the number of people attending the hearings. Those governments which kept minutes of the hearings often would record only the comments of people who spoke at the hearing. Consequently, many of the attendance figures in the above table were estimates provided by local government officials.

#### HEARINGS WERE PUBLICIZED

State and local governments which held the required hearings met the minimum requirements for notifying citizens in advance of the dates that the first and second hearings would be held.

The Revenue Sharing Act requires that the hearing on proposed uses of revenue sharing funds shall be held only "after adequate public notice \* \* \* ." The law is more specific about the publicity requirements for the revenue sharing hearings on the entire budget by stating that at

least 10 days before the public hearing, recipient governments shall "publish, in at least one newspaper of general circulation \* \* \*" a notice of the time and place of such hearing.

In its implementing regulations covering adequate public notice for the first hearing, ORS adopted the legal requirement applicable to the second hearing--publication in at least one newspaper of general circulation 10 days or more before the hearing. The newspaper publication requirements may be waived by the Director, ORS, if newspaper publication is impractical or infeasible, provided that an alternative method of notification or publication informs citizens of the date, place, time, and subject of the public hearings.

All of the 13 States published notices of both hearings in at least 1 newspaper of general circulation in the State. Several States published notices of the hearings in two or more newspapers. In addition to the newspaper advertisements, officials of several States said that the hearings are publicized also through press releases to the news media and the distribution of legislative calendars. Some States mailed notices or legislative calendars directly to citizen groups.

Almost all of the local governments published notices of forthcoming hearings in local newspapers. In addition to newspaper advertisements, 17 communities used other means to publicize the first hearing including posting notices in public places and radio and television announcements. Similarly, 21 communities used additional means to publicize the second hearing, such as notices posted in public places, radio and television announcements, and notices of the meetings mailed to all citizens. Even when these extra efforts were made to inform the citizenry of the hearings, however, they did not result in noticeably greater citizen attendance.

Eight small communities did not publish notices of hearings in newspapers. Six of these communities advertised the hearings by posting notices in public places, such as the city hall, post office, police station, feed store, and grain elevator. The other two communities informed the citizens of the meetings by mailing monthly newsletters or minutes of meetings to townspeople.

THE FIRST HEARING ON PROPOSED  
USES OF REVENUE SHARING FUNDS  
ONLY HAS QUESTIONABLE VALUE

The first hearing covers proposed uses of revenue sharing funds only. Due to the interchangeability of money, revenue from various sources loses its identity in the budget

and expenditure process. Because citizens have the opportunity to participate in the second hearing covering the entire budget, we question the need for the first hearing.

When the revenue sharing program was in its infancy, we issued our first reports 1/ on the use and impact of revenue sharing on State and local governments. We reported that, because of the interchangeable or fungible nature of money, the actual effect of the use of revenue sharing funds could be quite different from the uses shown in a government's financial records or reports. We concluded that, because budget choices are made on the basis of total resources available, the reporting of a specific expenditure as having been made possible by revenue sharing funds could be misleading. The inability to identify the specific source of funds that financed or had impact on a particular expenditure or program makes any budget decisions derived from public hearings dealing only with revenue sharing funds somewhat meaningless.

In a September 1975 report to the Congress, 2/ we reiterated our concerns about the meaningless and misleading aspects of isolating revenue sharing funds from all other funds for budgeting or reporting purposes. We also cited the views of others on the futility of attempting to isolate revenue sharing funds from other available funds for budgeting or reporting purposes.

For example, the National Planning Association, an independent, nonpolitical, nonprofit organization engaged in research on public policy, in reporting on a revenue sharing conference, stated that the consensus of participants (Federal, State, and local government officials and academic and private organizations' researchers) was that the fungibility of revenue sharing funds render virtually meaningless information purporting to show the planned and actual use of such funds.

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1/Comptroller General's reports to the Congress:

"Revenue Sharing: Its Use By and Impact on State Governments," B-146285, August 2, 1973.

"Revenue Sharing: Its Use By and Impact on Local Governments," B-146285, April 25, 1974.

2/"Revenue Sharing: An Opportunity for Improved Public Awareness of State and Local Government Operations," GGD-76-2, September 9, 1975.

Similarly, the Advisory Commission on Intergovernmental Relations concluded that the interchangeable nature of revenue sharing dollars and State and local own source dollars makes attempts to show the budgeting and actual use of revenue sharing funds versus the other funds "an exercise bordering on futility \* \* \*."

The 1976 amendments to the Revenue Sharing Act directed the Advisory Commission on Intergovernmental Relations to make a broad study of the American Federal fiscal system, including a study and evaluation of "the legal and operational aspects of citizen participation in Federal, State, and local governmental fiscal decisions." As part of the study, the Commission made a survey of citizen participation in fiscal decision-making. The Commission sent questionnaires to officials of all municipalities over 10,000 population (1,495 responses) and all counties over 50,000 population (322 responses).

The Commission's draft report of December 1978 concluded generally that "there is a wide gap between the theoretical benefits expected from participation and the benefits actually observed in practice." Concerning the revenue sharing program citizen participation requirements, the Commission's survey indicated the revenue sharing requirements generated a modest increase in citizen involvement in the local budget process.

ORS commissioned Peat, Marwick, Mitchell and Co., a nationally recognized public accounting and management consulting firm, to study various aspects of the revenue sharing program, including public participation in State and local governments' budget processes. Peat, Marwick, Mitchell and Co. included 6 States and 34 local governments in their study--all but 4 with populations well over 30,000. The firm's 1978 report showed that both the first and the second hearings were poorly attended and the first hearing was the least attended.

Peat, Marwick, Mitchell and Co. recommended eliminating the first hearing on the basis of the following conclusions.

"The first of the two citizen hearings, designed to focus only on the possible use of GRS [General Revenue Sharing] funds, does not appear to effectively generate any substantial increase in citizen participation. Advocacy by individual citizens and local public interest groups occurs on a private basis and is targeted to particular executive and legislative branch decision makers. Citizen groups

tend to focus on the use of all funds for particular programs rather than on one relatively narrow funding source, and most jurisdictions have already existing public participation mechanisms. For these reasons, almost all of the 40 jurisdictions studied had little (if any) interest in, or attendance at, the initial proposed use hearing."

Many State and local government executive and legislative officials we interviewed characterized the first hearing in the following terms: "a waste of time and money," "meaningless and costly," and "serves no useful purpose." It appeared that such comments were based primarily on the fact that very few, if any, people attend the hearings. As one official stated, "Why hold two hearings when nobody shows up for one?"

Several officials felt that people are not interested in the source of funds but in how the funds are to be spent. Furthermore, they said that citizens and special interest groups believe that a more effective means of influencing budget decisions is by (1) continuously communicating (written and oral) throughout the year with executive and legislative officials, such as department heads, committee chairmen, and staff assistants responsible for special interest subjects and (2) attending committee hearings covering specific subject matters.

We interviewed representatives of several public interest groups operating on a State level to get their views directly on the usefulness of the revenue sharing hearings. The president of the League of Women Voters in one State said that attending public hearings on revenue sharing at the State level is not one of the League's priorities. The League participates earlier in the legislative budget process when input has more impact. She said that by the time of the budget hearing, the "die has been cast" in terms of how the revenue sharing funds are divided up. Similarly, a State representative of Common Cause said that his organization does not participate in the State revenue sharing special hearings.

An official of a State commission for the aged said his organization does not participate in and is not concerned with the use of Federal revenue sharing funds--it has input into the State budget process at the time programs for the aged are reviewed. He said the commission "does not concern itself with the source of the appropriations used to fund the programs the commission supports."

A consultant for a lobbying organization for influencing State funding of social service programs said his organization has ignored revenue sharing--"most citizen organizations are primarily concerned with where money is spent, and not with where it comes from."

There were rarely any organized citizen groups in the small communities we visited. The few citizen groups that we did locate in the smaller communities were almost all concerned with senior citizen issues. Representatives of senior citizen groups in eight communities located in seven different States said that rarely if ever do they attend the hearings. Leaders of four of the groups said that they deal directly with government officials for their needs. Two of the groups' directors said that they did not like to beg for money at public meetings.

Leaders of several other senior citizen groups said that the hearings were a mere formality and that decisions on allocating revenue sharing funds had already been made before the hearings were held.

#### CONCLUSIONS

The governments we visited generally complied with the public hearing requirements of the revenue sharing program. All of the State and local governments held the required second hearing. However, about 30 percent of the small communities had not held the required first hearing covering proposed uses of revenue sharing funds only. Because the designations of the uses of revenue sharing funds tend to be meaningless, the first hearing held on the proposed uses of only the revenue sharing funds has questionable value. Nonetheless, recipient governments are required to hold the first public hearing and the Secretary of the Treasury must act to promote greater adherence to the legal requirement.

#### RECOMMENDATION TO THE SECRETARY, DEPARTMENT OF THE TREASURY

We recommend that the Secretary of the Treasury require ORS to emphasize to recipient governments the legal mandate to hold the first public hearing.

#### MATTER FOR CONSIDERATION BY THE SUBCOMMITTEE

Because the second hearing covers proposed uses of revenue sharing funds in relation to the entire budget it provides citizens with the opportunity for more meaningful

participation in budget decisions than the first hearing. Accordingly, the Subcommittee may wish to consider whether the requirement for the first hearing should be retained.

AGENCY COMMENTS

We requested written comments from the Secretary of the Treasury, but they were not received in time to be incorporated in the report. However, oral comments from ORS officials were considered in preparing the final report.

CHAPTER 3

SCOPE OF REVIEW

Our review was made in response to a request from the House Subcommittee on Intergovernmental Relations and Human Resources, Committee on Government Operations. Our review of State and local government compliance with the public participation requirements of the Revenue Sharing Act was made at the Office of Revenue Sharing in Washington, D.C., and in Alabama, California, Delaware, Georgia, Indiana, Iowa, Kansas, Maryland, Michigan, Missouri, Nebraska, North Carolina, Ohio, South Carolina, Tennessee, and Virginia. The States were selected to provide wide geographical coverage of the United States.

We visited 13 State governments and 168 local governments--164 with populations of 10,000 or less, including 13 county governments. Most of our visits were made in July and August 1979. The population dispersion of the 164 small local governments was as follows:

|                    |                  | <u>Population</u> |              |              |              |               |  |
|--------------------|------------------|-------------------|--------------|--------------|--------------|---------------|--|
| <u>Total</u>       | <u>Less than</u> | <u>1,001</u>      | <u>2,001</u> | <u>3,001</u> | <u>4,001</u> | <u>5,000</u>  |  |
| <u>governments</u> | <u>1,000</u>     | <u>to</u>         | <u>to</u>    | <u>to</u>    | <u>to</u>    | <u>to</u>     |  |
|                    |                  | <u>2,000</u>      | <u>3,000</u> | <u>4,000</u> | <u>5,000</u> | <u>10,000</u> |  |
| 164                | 53               | 31                | 21           | 12           | 12           | 35            |  |

We concentrated our review efforts on the smaller local governments because two recent studies by other groups covered citizen participation aspects of the Revenue Sharing Program at governmental units serving larger population areas.

The governments selected were a judgmental sample and therefore are not statistically representative of all governments in the Revenue Sharing Program.

We reviewed available records and documentation on the public revenue sharing hearings held by the State and local governments and discussed the subject with State and local officials. We also interviewed citizens and spokespersons for special interest groups operating at State and local levels to obtain their views on the usefulness of the revenue sharing hearings. We also reviewed ORS policies, procedures, regulations, and records pertaining to the public participation requirements of the Revenue Sharing Act and discussed these with appropriate ORS officials.

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