

MONTHLY TAX FEATURES



Tax Foundation, Inc.

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Federal Grants-in-Aid To State-Local Governments and Estimated Tax Burden of Federal Grants by State^a

Fiscal Year 1977

State	Millions		Tax burden per dollar of aid
	Grants	Tax burden for grants ^b	
Indiana.....	\$1,094.5	\$1,563.4	\$1.43
Connecticut.....	895.0	1,215.3	1.36
Kansas.....	547.6	735.7	1.34
Ohio.....	2,509.4	3,277.9	1.31
Texas.....	2,877.4	3,770.6	1.31
Illinois.....	3,200.7	4,039.9	1.26
New Jersey.....	2,199.7	2,759.0	1.25
Nebraska.....	367.1	453.3	1.23
Florida.....	1,985.4	2,430.5	1.22
Iowa.....	714.3	847.4	1.19
Missouri.....	1,140.1	1,353.2	1.19
Maryland.....	1,244.8	1,438.6	1.16
Virginia.....	1,308.9	1,497.7	1.14
Washington.....	1,108.2	1,261.2	1.14
Colorado.....	695.6	781.7	1.12
Delaware.....	187.3	210.2	1.12
Nevada.....	199.6	223.3	1.12
California.....	6,779.9	7,350.7	1.08
New Hampshire.....	233.0	249.6	1.07
Michigan.....	2,911.6	2,929.8	1.01
Pennsylvania.....	3,626.5	3,639.2	1.00
Wyoming.....	139.0	138.0	.99
Arizona.....	638.7	604.4	.95
Minnesota.....	1,222.0	1,162.7	.95
Oklahoma.....	779.8	722.6	.93
Tennessee.....	1,144.9	1,057.6	.92
Oregon.....	783.0	702.9	.90
Massachusetts.....	2,079.8	1,852.5	.89
Wisconsin.....	1,491.2	1,313.8	.88
North Carolina.....	1,509.2	1,320.4	.87
Rhode Island.....	357.5	302.2	.85
Kentucky.....	1,011.2	834.3	.83
New York.....	7,446.0	6,096.0	.82
North Dakota.....	222.5	177.4	.80
South Carolina.....	801.1	637.2	.80
Idaho.....	274.0	216.8	.79
Louisiana.....	1,235.1	978.8	.79
Utah.....	380.0	295.6	.78
Alabama.....	1,102.6	840.8	.76
Hawaii.....	400.0	295.6	.74
West Virginia.....	630.0	459.8	.73
Arkansas.....	636.0	446.7	.70
New Mexico.....	406.4	282.5	.70
Georgia.....	1,858.1	1,221.8	.66
South Dakota.....	237.9	157.7	.66
Maine.....	409.8	262.8	.64
Alaska.....	376.4	229.9	.61
Montana.....	331.9	203.6	.61
Mississippi.....	795.2	453.3	.57
Vermont.....	222.0	118.2	.53
Washington, D.C.....	942.1	275.9	.29
U.S. TOTAL.....	\$65,690.0	\$65,690.0	\$1.00

a. Excludes shared revenues, e.g., payments in lieu of taxes on Federal lands in certain states; but includes general revenue sharing grants.

b. The total tax burden for aid payments is assumed to equal aid payments.

Source: Tax Foundation's computations based on data from U.S. Treasury Department and Office of Management and Budget.

Taxes Vs. Grants Washington's Help Doesn't Come Cheap

People in Indiana sent more to Washington than they got back in 1977, according to analysis by the Tax Foundation. Hoosiers paid \$1.43 in Federal taxes for each \$1 in aid that returned to their state from the nation's capital, a higher tax "deficit" than any other state in the nation.

On the other hand, Vermont got the biggest return on its tax dollars, paying only 53 cents for each dollar in aid state and local governments received from Washington in 1977.

Tax Foundation researchers use a special formula to determine each state's tax costs for all grant programs. The tax costs, in turn, are related to actual amounts each state receives in grants, as reported by the U.S. Treasury.

Even when a state is heavily involved in Federal grants on the "receiving" end of the ledger as regards tax costs per dollar of aid, Federal assistance is not always a bargain. On the average, states and localities must put up \$1 of their own money to get \$3 worth of assistance from Washington. In fiscal 1977, for example, state and local governments had to raise nearly \$22 billion from their own revenue sources to qualify for the \$66 billion Federal aid package. Altogether, Federal, state and local taxpayers contributed some

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Federal Budget Masks Government's True Size

Depending on how you look at it, the Federal budget deficit for fiscal 1979 may be \$65 billion, rather than the \$59.6 billion figure commonly used by the Office of Management and Budget and reported in the press.

What's more, Federal outlays in 1979 will be closer to \$575 billion, than to the \$499 billion now estimated in the official budget.

The differences are accounted for by two different ways of counting Federal

receipts and expenditures: the unified budget concept, currently in use, vs. a gross transactions concept, which some fiscal experts regard as a more accurate indication of the size, scope and impact of Federal government transactions.

The OMB currently prepares the Federal budget according to the unified budget concept unanimously recommended in the 1967 report of the Commission on Budget Concepts. This Commission was set up by then-President Lyndon B. Johnson to

“undertake a thorough review of the budget and recommend an approach to budgetary presentation which will assist both public and congressional understanding of this vital document.” It had a two-fold mandate:

- 1) To provide for annual submission of a comprehensive Federal budget with as few exclusions as possible.
- 2) To de-emphasize certain competing budget concepts which had become confusing to both the public and the Congress.

After initial criticism, particularly from the Congress, the unified budget concept has gained general acceptance and has, for the most part, been adhered to.

However, certain government activities are not fully reflected in the unified budget. Some are placed in an “off-budget” status, excluded by law from budget totals. Others, involving certain types of funds or transactions, are “netted out” - only the excess of disbursements over receipts (or vice versa) shows up in budget totals. Finally, certain types of payments to the government are treated in the unified budget not as receipts, but as offsets against outlays (or negative expenditures).

Tax Foundation researchers point out that, if all governmental transactions with the public were included in the budget, and if all budget receipts and outlays were strictly reported as such, the totals of budgetary transactions would differ significantly from those now reported in the unified budget. Such a method of reporting would also provide a measure of the gross impact of Federal budgetary transactions with the public.

Thus, gross receipts for 1979 would total an estimated \$509.7 billion with outlays estimated at \$574.7 billion for an estimated deficit of \$65.0 billion. Estimates for 1978 would be: receipts, \$465.9 billion; outlays, \$525.0 billion; deficit, \$59.1 billion.

The accompanying table gives figures for “Gross Federal Budget Transactions with the Public” for 1977, and estimated figures for 1978 and

Gross Federal Budget Transactions with the Public

(1977-1979 - Amounts in billions)

	1977 Actual		Estimated			
	Receipts	Outlays	1978		1979	
			Receipts	Outlays	Receipts	Outlays
UNIFIED BUDGET TOTALS ^a	\$356.9	\$401.9	\$400.5	\$143.5	\$439.8	\$499.4
Off-budget transactions.....	16.3	16.4	17.5	18.4	19.6	19.6
Public enterprise funds.....	26.0	34.0	28.9	45.6	30.8	42.9
Trust revolving funds.....	3.0	3.7	3.1	4.5	3.3	4.5
Proprietary receipts from the public ^b	16.7	16.7	16.9	16.9	17.7	17.7
Subtotal, gross transactions.....	\$418.9	\$472.7	\$466.9	\$538.9	\$511.2	\$584.1
Deduct: Net outlays, public enterprise funds.....	-	-5.0	-	-13.9	-	-9.4
Net receipts, trust revolving funds.....	-1.5	-	-1.0	-	-1.5	-
TOTAL, Gross transactions with the public.....	\$417.4	\$467.7	\$465.9	\$525.0	\$509.7	\$574.7
Deficit, unified budget basis.....	\$45.0		\$53.0		\$59.6	
Deficit, gross transactions basis.....	\$50.3		\$59.1		\$65.0	

^aReceipt and outlays estimates for 1978 and 1979 reflect revisions announced in March, 1978.

^bExcept for revised receipts for rents and royalties on Outer Continental Shelf, totals shown for 1978 and 1979 are taken from January 1978 budget document, the latest data available.

Source: Tax Foundation computations based on data from Office of Management and Budget.

State and Local Grants Are Fastest Growing Budget Item

Federal grants to state and local governments are among the fastest growing outlays in the Federal budget. In the past ten years, this assistance has increased at an annual rate of 16.2 percent, as compared to a 9.8 percent growth in total Federal spending and a 9.0 percent annual increase in the Gross National Product, according to Tax Foundation economists.

Federal grants currently account for over 17 percent of all Federal outlays (up from 9 percent in 1965) and for 26 percent of state and local expenditures (up from 15 percent in 1965).

While growth in total aid has been persistent, the composition of the grant package has changed considerably over the years. Aid for transportation, largely highways, which accounted for 27 percent of all grants in 1967, represented only 12 percent of the 1977 total. On the other hand, assistance in the health field, largely medicaid, made up only 10 percent of all grants in 1967, but totaled \$12 billion (18 percent of total grants) ten years later.

Another significant shift is the rise of grants for general-purpose fiscal

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Spending by Local Government Triples Despite Drop in Total of Local Units

Although the number of local government jurisdictions declined from 1966 to 1976, local units were spending almost three times as much money at the end of that ten-year period as they were at the beginning, according to Tax Foundation research.

Looking at broad trends in local government finances, Foundation economists made these observations:

Over the decade, the number of local units declined by about 1 percent - from 81,248 in 1966 to 80,120 in 1976. The sharpest decline, resulting from a loss of over 6,500 school districts, was partially offset by an increase in the number of special districts (water, sewer, flood control, etc.) The number of counties, municipalities and townships, which make up the remaining forms of local government, remained relatively unchanged.

General expenditures by counties rose the most - 228 percent. School districts continued to be the most costly unit of local government, spending a total of \$58.2 billion in 1976, an increase of 175 percent over the decade.

Examining spending by each type of local government, Foundation researchers reported that, counties spent most in 1976 (\$11,631,000 on the average), followed by school districts (\$3,815,000 on the average), and municipalities (\$2,803,000 on the average).

While total revenues grew proportionately with spending, the local government units found themselves responsible for raising less and less of the money they spent. In 1966, localities collected from their own sources 67 cents of every revenue dollar, with 33 cents coming from grants-in-aid by state and Federal government. By 1977, they were raising only 57 cents of each dollar, with state and Federal grants supplying 43 cents.

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Trends in Local Government Finances

Fiscal Years 1966 and 1976

	1966	1976	Percent change 1966-1976
<u>Direct general expenditures^a (billions)</u>			
All units, total.....	\$53.7	159.7	+ 198
Counties.....	10.8	35.4	+ 228
Municipalities.....	17.0	52.9	+ 210
Townships.....	2.0	5.5	+ 169
School districts.....	21.2	58.2	+ 175
Special districts.....	2.7	7.8	+ 194
<u>Number of units^b</u>			
All units, total.....	81,248	80,120	- 1
Counties.....	3,049	3,042	*
Municipalities.....	18,048	18,856	+ 4
Townships.....	17,105	16,822	- 2
School districts.....	21,782	15,260	- 30
Special districts.....	21,264	26,140	+ 23
<u>Source of general revenue^a (billions)</u>			
All units:			
General revenue, total.....	\$53.2	\$162.9	+ 206
Own sources, total.....	35.4	93.2	+ 163
Taxes.....	27.4	67.6	+ 147
Property tax.....	23.8	54.9	+ 130
Other taxes.....	3.5	12.7	+ 260
Charges and miscellaneous.....	8.0	25.6	+ 219
Intergovernmental revenues, total..	17.8	69.7	+ 292
Federal.....	1.4	13.6	+ 885
State.....	16.4	56.2	+ 242

* Less than 1%.

a. "General" operations exclude transactions of utilities, liquor stores, and insurance-trust funds.

b. Number as of 1967 and 1977.

Sources: Tax Foundation computations based on data from Bureau of the Census, U.S. Department of Commerce.

Property Classification Tax No Sound Answer, Brown Warns

"There's no such thing as a free lunch," Robert C. Brown, Executive Vice President of the Tax Foundation, reminded Pennsylvania lawmakers on May 3. Brown had been invited by the Senate Finance Committee of the Commonwealth of Pennsylvania to testify on a package of senate bills which would replace the state's present residential property tax with increased personal income and business taxes and amend the constitution to permit property classification for tax purposes.

"Unfortunately, when you look at the consequences of a graded property tax, a classified property tax, a split

assessment roll—whatever you want to call it," he told the state senators, "you see all the earmarks of the 'Free Lunch Syndrome.' Everybody knows that someone pays for the free lunch that comes with the mug of beer—and usually it's the guy who eats the lunch. It can wind up penalizing the very people you set out to help—in this case, the home-owning taxpayer—and other people as well."

Other points the nationally known tax authority made in his testimony include:

□ "Taxes on business—hidden and indirect as they are—may seem
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Property Tax

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tempting and politically attractive. But they are dangerous—dangerous for the community as well as for the companies imposed upon. Some potential investment would be discouraged. The mere possibility of extra tax can be a discouragement . . . If recent experience demonstrates anything in local economies, it must be the imperative importance of as strong a creative base of production as possible. The jobs created by such a base permit individuals to pay income and other taxes. Classification which frees residential properties from tax may well lead to high assessment and high rates of taxation on non-voting business property. Companies, unable to resist the high taxes in any other way, would 'vote with their feet' — not necessarily leaving but preferring other places for expansion and modernization."

□ "No matter what the intention of present sponsors, it has been true historically that the introduction of a preferential classification for any one category of property has led to a proliferation of illogical classifications, apparently related only to the relative clout of various special groups . . . Moreover, it would appear that for all practical purposes it is next to impossible to take away the advantage of a preferential tax category, once it has been granted."

□ "To recapitulate, I see a number of dangers and problems which could result from the introduction of a classified property tax system. It is potentially harmful to the future economic prosperity of the state, it would create many inequities partly because it is based on faulty reasoning as to property tax incidence, it would be expensive, and yet it would bring only temporary windfall benefits to a few. Besides all that, it opens up a Pandora's box of uncertainties regarding the future of state-local finances in Pennsylvania."

Brown concluded his testimony by recounting Minnesota's unhappy ex-

perience with a classified tax which ultimately led to the state's having to pay \$15 to \$20 million a year more in interest in order to market its bonds. He quoted Arthur Roemer, assistant tax commissioner of Minnesota, who told a group of Californians weighing a similar move, ". . . our recommendation with respect to a classified property system is, 'don't do it.' "

Local Spending

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The composition of taxes raised by local governments also shifted. Property taxes brought in 87 cents of every tax dollar raised by localities in 1966, but dropped to 81 cents by 1976. Non-property taxes, largely local sales and income taxes, rose over the same time period, from about 13 percent to 19 percent of local tax receipts.

The table on page 3 shows trends in local finance from 1966 to 1976.

Federal Budget

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1979. Tax Foundation Special Report No. V, "The Federal Budget for Fiscal Year 1979, Gross Budget Transactions with the Public," gives additional details on this approach to reporting the Federal budget. Single copies are available free of charge from Tax Foundation, Inc., 50 Rockefeller Plaza, New York, NY 10020.

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Taxes Vs. Grants

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\$88 billion to support Federal grant programs in 1977.

Twenty-one states paid out more in taxes than Washington gave back in grants. Following Indiana in the cost per dollar of aid were Connecticut, Kansas, Ohio and Texas - each paying more than \$1.30 per aid dollar. In total, these 21 "paying" states sent to Washington \$42.0 billion in taxes to support grants, and got back \$35.8 billion.

The \$6.2-billion difference went to support grant programs in the 29 "receiving" states plus the District of Columbia.

The table on page 1 provides a complete list of states, how much Federal aid each received, and what that aid cost citizens of the various states.

Growth of Grants

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assistance to states and localities, as distinguished from categorical grants limited to special uses. General assistance was virtually nonexistent until 1973, when the \$6-billion-plus annual general revenue-sharing program became effective. This type of aid was augmented by the temporary anti-recession financial assistance program.

By 1977, general purpose fiscal assistance accounted for 14 percent of all grants. Other major areas supported by Federal grants are education, training, employment and social services (\$16 billion in 1977, 23 percent of the total) and income security (\$13 billion, 18 percent of the total).

Federal grants-in-aid, as discussed here, comprise only the payments which go to state and local government units; not included are direct Federal payments to other institutions or individuals. However, about one-third of the grants-in-aid to states and localities are eventually paid to individuals, largely through programs for medicaid, public assistance, housing, and nutrition programs for children and the elderly.