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JOINT COMMITTEE PRINT

THE CURRENT FISCAL POSITION OF STATE AND LOCAL GOVERNMENTS

A SURVEY OF 48 STATE GOVERNMENTS AND 140 LOCAL GOVERNMENTS

A STUDY

PREPARED FOR THE USE OF THE

SUBCOMMITTEE ON URBAN AFFAIRS

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

DECEMBER 17, 1975

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LETTERS OF TRANSMITTAL

DECEMBER 12, 1975.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the members of the Joint Economic Committee and other Members of Congress is a study entitled "The Current Fiscal Position of State and Local Governments: A Survey of 48 State Governments and 140 Local Governments." The study has been prepared by the staff of the Joint Economic Committee.

The study is an examination of the budget adjustments that State and local governments will have to undertake in fiscal year 1976. Nothing in this study should be interpreted as representing the views or recommendations of the Joint Economic Committee or any of its individual members.

HUBERT H. HUMPHREY,
Chairman, Joint Economic Committee.

DECEMBER 10, 1975.

Hon. HUBERT H. HUMPHREY,
Chairman, Joint Economic Committee,
Congress of the United States, Washington, D.C.

DEAR MR. CHAIRMAN: I am pleased to transmit herewith a staff study prepared for the Subcommittee on Urban Affairs entitled "The Current Fiscal Position of State and Local Governments: A Survey of 48 State Governments and 140 Local Governments." This study was done at my request by the Joint Economic Committee staff.

This study is the first effort, to my knowledge to survey and analyze the budget adjustments that State and local governments undertake in response to current economic conditions. It provides a great deal of information about tax changes, expenditure cutbacks and capital construction modifications that State and local governments are undertaking. It is hoped that this study wil provide Congress with a better understanding of the current fiscal plight of State and local governments. Hopefully it will be useful in the development of programs designed to assist State and local governments.

The study is based on a survey completed and released by the committee in May. Supplemental tables and charts have been added since then and are included in this publication.

The views expressed in this study do not necessarily represent the views of the members of the subcommmittee.

Sincerely,

WILLIAM S. MOORHEAD,
Chairman, Subcommittee on Urban Affairs.

DECEMBER 8, 1975.

Hon. WILLIAM S. MOORHEAD,
Chairman, Subcommittee on Urban Affairs,
Joint Economic Committee,
Congress of the United States,
Washington, D.C.

DEAR CONGRESSMAN MOORHEAD: Transmitted herewith is a staff study entitled "The Current Fiscal Position of State and Local Governments: A Survey of 48 State Governments and 140 local Governments." The study examines in detail the budget adjustments that State and local governments will undertake in the upcoming fiscal year. It analyzes tax, expenditure and capital construction modifications that these governments will undertake in response to current economic conditions.

The study was prepared by Ralph Schlosstein of the Committee staff. Research assistance was provided by Jeannine Drysdale and Stephen Cullenberg.

Very truly yours,

JOHN R. STARK,
Executive Director, Joint Economic Committee.

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INTRODUCTION

In recent years, the State and local government sector of the economy, has become increasingly important, both as an employer and a provider of goods and services. Since 1967, total employment in the State and local government sector has grown 28 percent, a rate of growth significantly above that for the remainder of the economy (14.8 percent rate of growth in employment for all other sectors and 6.1 percent rate of growth in employment by the Federal Government). In the same period, State and local government purchases of goods and services have increased, as a percentage of gross national product, from 11.3 percent in 1967 to 13.7 percent in 1974. These sharp increases in activity have necessitated a more careful examination of the impact of national economic trends on the fiscal position of State and local governments, and conversely, of the impact of State and local government budget actions on national economic policy.

Unfortunately, the only data which might be used to analyze these important issues is too dated to be of value to the current economic situation or too aggregated to even differentiate between State and local governments. Consequently, the Subcommittee for Urban Affairs has undertaken an extensive survey of the State and local government fiscal situation. The survey was initiated through formal written responses but was accomplished primarily through extensive telephone followup, both to expand the sample and to clarify certain issues. Responses have been received from 48 State governments and from 140 local governments (43 governments with populations in excess of 500,000, 23 governments between 250,000 and 500,000 population, 22 governments from 100,000 to 250,000 population, and 52 with populations of less than 100,000) including the vast majority of cities and counties with populations in excess of 500,000 persons. The 140 governments had combined expenditures of $31 billion, approximately 40 percent of all local government expenditures.

The survey was designed to address two basic and interrelated issues. First, it was to assess the impact of the current economic situation on State and local finances and, to the greatest extent possible, quantify the budget adjustments that the recession has necessitated. Second, the survey was designed to evaluate the potential destabilizing impact of these budget actions on the Federal Government's efforts to stimulate an economic recovery.

This report, based exclusively on the results of the survey, is divided into three sections. The first describes the budget actions that State governments have had to undertake in response to the recession's impact on their budgets. It analyzes adjustments that have been or will be made by the 48 State governments in revenues, expenditures, government employment, and capital construction. It also estimates the changes that have occurred in the unencumbered surpluses (the surplus in general funds carried from one fiscal year to the next) that most States carried into their current fiscal years. Finally, this section delineates the statutory or constitutional provisions in each state concerning the legality of deficit spending.

The second section describes the budget actions taken by the 140 local governments in order to keep their budgets at or near balance. Included in this section is an analysis of adjustments that have occurred in revenues, expenditures, capital construction, employment, and unencumbered surpluses.

The third section summarizes the impact of the recession on the combined State and local government sector and attempts to measure the impact of State and local government budget actions on the national economy. Unfortunately, some of the budget adjustments undertaken by State and local governments have occurred so recently that it was impossible to quantify the effects of these actions (that is, if a hiring freeze had recently been imposed it was very difficult to quantify the number of positions effected). In other cases, inevitable difficulties were encountered in obtaining comparable data on State and local government financial positions. The wide range of budget and accounting practices, the variety of beginning dates for their fiscal years, the comparability of annual and biennual budgets, and in some cases, the quality of data available have all been taken into account and adjusted for, whenever possible. The result is a reasonably precise picture of the impact of the current economic situation on State and local governments and the effect that their budget actions will have on the economy.

STATE GOVERNMENTS

Unencumbered Surpluses

Most States finish their fiscal years with surpluses remaining in their general fund accounts after all revenues have been collected and all expenditures have been made. These unencumbered surpluses are carried over into the ensuing fiscal year and can be appropriated for expenditures in that fiscal year. More often, however, these surpluses act as a contingency fund, spent to keep the budget in balance if revenues fall short of expectations or expenditures exceed expectations. This contingency fund is essential to minimize the austerity measures necessary to keep the budget in balance (all States have some prohibitions against deficit spending) in the event that economic conditions deteriorate subsequent to the preparation of the budget. Shifts in the size of the unencumbered surplus are a good indication of the relative fiscal position of the States from one year to the next.

The survey of 48 States indicated that 12 had increased or anticipated an increase in the size of their unencumbered surplus from the beginning of fiscal year 1975 (July 1, 1974) to the beginning of fiscal year 1976. Two States had their unencumbered surpluses stay virtually constant and 34 States showed declines in the size of their unencumbered surpluses. This means that 34 States were drawing down their unencumbered surpluses in order to keep their budgets in balance.

The 46 States that reported data for July 1, 1974 and July 1, 1975 showed a combined unencumbered surplus of $6.5 billion on July 1, 1974 and will show a combined surplus of $3.9 billion on July 1. 1975. The States drew down approximately 40 percent of the unencumbered surpluses during the course of fiscal year 1975. The size of the surplus as a percentage of the States' budgets has declined from approximately 7 percent in fiscal year 1975 to approximately 4 percent in fiscal year 1976.

A more careful examination indicates an interesting pattern. The 13 States (Oklahoma, Texas, Louisiana, West Virginia, Ohio, Utah, Indiana, New Mexico, Alabama, Arkansas, Montana, Wyoming and Tennessee) that had a per capita energy input above the national average [1] (the major energy producing States) had a combined unencumbered surplus of $2.1 billion entering fiscal year 1975 and an estimated surplus of $1.8 billion on July 1, 1975. This $1.8 billion surplus will be approximately 8 percent of the combined budgets of the energy States. Thus the energy States experienced a 14-percent decline in the size of their unencumbered surplus, compared to a 52-percent decline for all other States. Seven of the 13 States experienced an increase in their unencumbered surplus and one State showed no change.

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[1] Source: "Fuel and Energy Data, United States by States and Regions, 1972." U.S. Department of Interior.

A similar pattern exists in the States that derive a large percentage of their income from agriculture. Of the eight States (Iowa, Minnesota, North Dakota, South Dakota, Wisconsin, Kansas, Nebraska, Idaho) that are significant agricultural producers, three experienced increases in the size of their unencumbered surplus and one stayed approximately constant. The eight States had a combined surplus of $1.1 billion entering fiscal year 1975, which will be reduced to an estimated $.8 billion by July 1, 1975, a decline of approximately 28 percent. Nevertheless, this $800 million surplus constitutes approximately 9 percent of the combined budgets of the agriculture States. Unlike the energy States, however, the agricultural States can expect to significantly deplete their unencumbered surpluses, since farm prices have declined and farm incomes have dropped.

Once the energy and agricultural States are removed, the remaining 25 States showed a decline in their unencumbered surplus from $3.3 billion on July 1, 1974 to an estimated $1.3 billion on July 1, 1975, a decline of more than 60 percent. This surplus of $1.3 billion is less than 2 percent of the budgets of these States. Moreover, if two States (California and Illinois) are omitted, the remaining 23 States entered the year with combined surpluses of $2.4 billion. This combined surplus is expected to be reduced to $265 million by the end of fiscal year 1975, a decline of almost 90 percent. These 23 States will have a combined surplus of approximately one-half percent of their budgets.

Finally, the 20 States that had unemployment rates equal to or in excess of the national average (Oregon, Washington, Delaware, Pennsylvania, West Virginia, Florida, Georgia, North Carolina, South Carolina, Connecticut, Maine, Massachusetts, Rhode Island, Vermont, New Jersey, New York, Indiana, Michigan, California and Nevada) experienced a combined reduction in their unencumbered surplus from $2.6 billion to $.8 billion, a decline of almost 70 percent. If the two high unemployment energy States are removed (West Virginia and Indiana), the decline is even more precipitous from $2.3 billion to $.4 billion, or 83 percent. This surplus is less than 1 percent of the combined budgets of all high unemployment States.

In summary, while the aggregate unencumbered surplus for all States is still significant, the surplus is concentrated in the resource rich, agriculturally dependent and low unemployment States. The States that have unemployment rates in excess of the national average (from here on referred to as high unemployment States) have virtually depleted their unencumbered surpluses, and undoubtedly will be forced to undertake major austerity measures to keep their budgets in balance in the current and the next fiscal years.

Revenues

Twenty States have adopted or will adopt tax increases for next fiscal year. The total value of these tax increases is approximately $2.1 billion. Four States will adopt tax reductions with a total value of approximately $50 million.

Seventeen of the 48 States will adopt general fund tax increases and five will adopt increases in the gasoline tax to be dedicated to their highway trust funds (two States proposed both highway fund and general fund increases). The total value of the general fund increases will be approximately $1.9 billion and the value of the highway fund increases will be approximately $200 million. All of the tax reductions will occur in the general fund.

Ten of the 18 high unemployment nonenergy States will enact tax increases in the upcoming fiscal year. The total value of these tax increases by the high unemployment States will be $1.8 billion, or approximately 3.5 percent of the combined budgets of the high unemployment States. The majority of these tax increases will be in business taxes, sales taxes, occupational privilege taxes, and other minor taxes. Less than 40 percent of the $1.8 billion in tax increases will be in the income tax.

Four of the 13 energy States will adopt tax increases and two will initiate tax reductions. The total value of the tax increases will be slightly over $100 million, with over 80 percent of the new revenue coming from oil and coal severance taxes. The total value of the tax reductions is approximately $45 million. The $60 million net tax increase is less than one-quarter of 1 percent of the combined budgets of the energy States.

Four of the agricultural States will adopt tax increases for the next fiscal year and two will reduce taxes marginally. The total value of the tax increases will be approximately $170 million, with close to 80 percent of the increase occurring in fuel taxes which are dedicated to the highway fund. The total value of the two tax reductions is approximately $5 million. The net tax increase of approximately $165 million is less than 2 percent of the combined budgets of the agricultural States.

In summary, net tax increases of approximately 2 percent of the combined State budgets can be expected in the upcoming year. The tax increases will be in a wide variety of levies, with less than 40 percent being income tax increases. The tax increases will be concentrated in the high unemployment States, where tax increases will average about 3.5 percent of the combined high unemployment State budgets. The tax increases will go as high as 15 percent of the budget in States that are particularly hard hit by the recession.

STATE TAX INCREASES

Type of tax	Number of States	Total amount (millions)
Personal income	5	$860
Sales	2	110
Corporate income	2	220
Oil, coal or gas severance tax	5	80
Gasoline	5	180
Various nuisance taxes (cigarette, liquor, business privilege, divided taxes)	11	640
Total	[1] 30	2,090

[1] Some States enacted more than 1 type of tax.

Expenditures

Many States were forced to cut current levels of services during the current fiscal year and for the upcoming fiscal year, in order to keep their budgets in balance without enacting significant tax increases or, in some cases, even with tax increases. Twenty-two States have been forced to cut services, thus reducing actual expenditures or limiting growth in expenditures necessary to provide current levels of services. Two States are increasing current levels of services by a total of approximately $100 million. The net total value of the cuts in current services by State governments is approximately $1.8 billion.

Most States have made reductions in State operations and personnel first, with only a few States reducing the level of State assistance to local governments. Cuts occurred most commonly in highway maintenance and servicing (affected by the slow growth rate in gasoline tax revenues), capital projects funded from general funds, salaries and personnel, and welfare and other social services, particularly mental health and corrections. Expenditures for higher education also seem to be subject to particular scrutiny.

Once again, the high unemployment States have been forced to make the most severe cutbacks in levels of services. Fourteen of the 18 high unemployment, nonenergy States have undertaken reductions in current levels of services. The total value of the reductions in services by the 14 States was almost $1.6 billion, or approximately 3 percent of their combined budgets. None of the high unemployment States increased services.

Among the agricultural States, only one (a State that is less dependent on agricultural income) has had to undertake reductions in current levels of services. The reduction was approximately $100 million and affected shared revenues with local governments, mental health and corrections. One agricultural State enacted a new program of property tax relief which will increase expenditures by about $20 million.

Four of the 13 energy-producing States have reduced services, while one has greatly increased levels of service. The total value of the service reductions is approximately $100 million, with the major declines in service levels occurring in the highway program as a result of declining gasoline tax revenues. The total value of the service increases in the one State that expanded services was approximately $80 million.

In summary, a net $1.9-billion reduction in current levels of services is occurring in order to maintain balanced State budgets. These service cutbacks are occurring in all types of programs, with social service and highway programs most significantly affected. Approximately 85 percent of the service cutbacks are occurring in the 18 high unemployment States, although these States make up only 50 percent of total State expenditures.

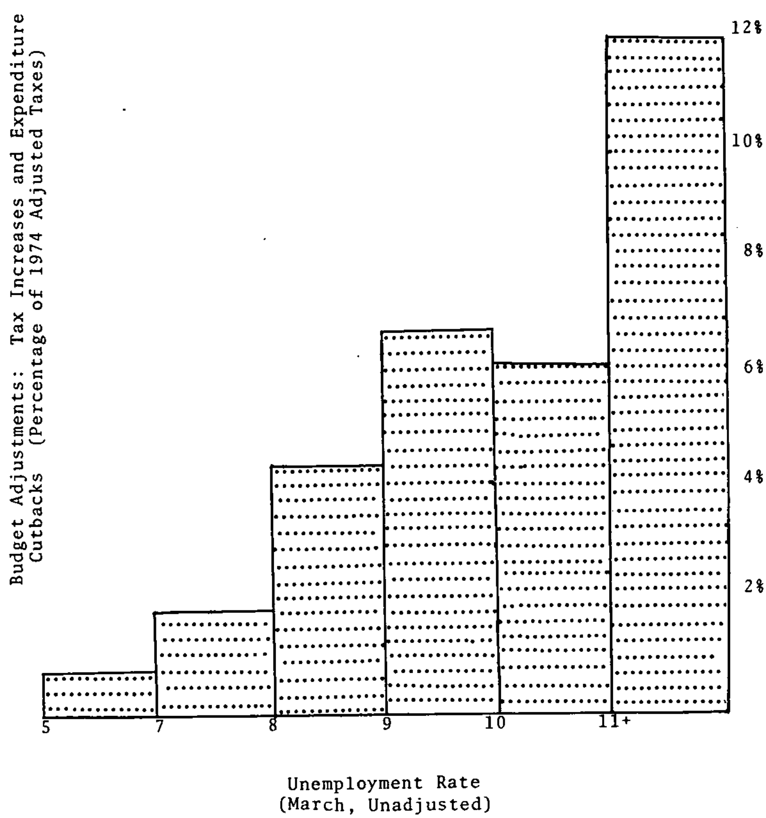
BUDGET ADJUSTMENTS BY STATE GOVERNMENTS (A SAMPLE OF 48 STATES)

[Dollar amounts in millions]

Unemployment rate (March)	Number of States	Tax increases	Expenditure cutbacks	Total budget adjustments	1974 adjusted taxes	Budget adjustments: Tax increases and expenditure cutbacks (as a percentage of adjusted taxes)
5 to 7	9	$50	0	$50	$7,462	0.7
7 to 8	7	70	$120	190	11,743	1.6
8 to 9	8	54	185	239	5,555	4.3
9 to 10	7	720	325	1,045	15,885	6.5
10 to 11	9	635	650	1,285	22,142	5.8
11 plus	8	600	645	1,245	10,705	11.6
Total	48	2,129	1,925	4,054	73,492	5.5

BUDGET ADJUSTMENT BY
STATE GOVERNMENTS

(48 States)



Employment

The cuts in service levels discussed above have had a significant impact on the anticipated number of State government employees; 23 of the 48 States have put into effect complete or limited hiring freezes, or have eliminated positions completely. Of the 23 States that have reduced expenditures for personnel, only 15 were able to specify the number of positions affected. (In most cases where specific information was unavailable, the hiring freeze was too recent to have had a measurable effect. In a couple of cases, the information requested was simply not available.) Approximately 29,000 positions were eliminated or left vacant in the 15 States.

While 13 of the 18 high unemployment States had some form of personnel reduction, the reductions were not limited to the high unemployment States. Nine of the 18 high unemployment States could quantify the number of positions affected, accounting for 18,500 vacancies, or about 65 percent of the identified vacancies. Four of the energy States and two of the farm States have undertaken some form of personnel reduction, with four States able to identify 9,000 vacancies.

In summary, reductions in personnel, although concentrated in the high unemployment States, seem to be more evenly distributed among low and high unemployment States than tax increases and cuts in current services. One possible explanation for this phenomena is that high unemployment rates undermine the effectiveness of work force reductions through attrition, because employees are reluctant to leave relatively safe positions in State government.

Capital Construction

Possibly the easiest budget adjustment that State governments can make to balance their budgets is to delay, or even cancel, capital construction; 25 States have delayed some capital projects—delays were defined as postponements of 1 fiscal year or more—although few were able to quantify the dollar amounts involved. The States that could quantify the adjustments delayed $160 million worth of projects, generally 15 to 20 percent of their capital budgets.

The delays occurred in all types of States, regardless of their financial position; 13 of 18 high-unemployment States, 3 of 8 farm States, and 5 of 13 energy States delayed projects. Most commonly delayed were highway projects, once again due to the reduction in the rate of increase of gasoline tax revenues. Several States had eliminated new highway construction completely, limiting highway activity to essential maintenance.

While half the States were delaying capital construction, seven States were accelerating the rate of expenditure on capital facilities. This was done to stimulate the economy of their States and also to take advantage of what were perceived as reduced construction costs.

In summary, while over half of the States surveyed indicated that economic conditions had forced them to delay capital construction, few were able to identify the precise dollar value of projects delayed. At least $160 million worth of projects has already been delayed by the States, but probably as much as $400 million worth of projects may be delayed by the end of fiscal year 1976. These delays will be partially offset by States that accelerate projects to stimulate construction activity and to take advantage of low costs.

Deficit Spending

Of the 48 States surveyed, 35 have specific constitutional provisions forbidding deficit spending. These prohibitions most commonly require the Governor to present a balanced budget, the legislature to enact a balanced budget and the Governor to keep the budget in balance throughout the year. In effect, new appropriations must be accompanied by new revenue-raising legislation.

Five other States have constitutional provisions that limit the size of the deficit to a once significant, but now minuscule amount. These five-State constitutions limit the deficit to somewhere between $250,000 and $2 million, depending upon the State.

One State constitution limits the deficit to 1 year, requiring that a surplus budget be enacted in any year that follows a deficit budget.

Four States have statutory provisions that require the presentation and enactment of a balanced budget.

In three States deficit spending is legal, although one has a strong tradition of balanced budgets.

In summary, at most, four States can undertake meaningful deficit spending without a statutory or constitutional change.

LOCAL GOVERNMENTS

Unencumbered Surpluses

Unencumbered surpluses are much less significant for local government budgets than for State governments. Local governments tend to operate as near to a balanced budget as possible, with surpluses generally returned to citizens through tax reductions or service improvements.

Nevertheless, 122 of the 140 local governments surveyed entered the current fiscal year with a combined surplus of approximately $340 million, or slightly above 1 percent of their total budgets. This surplus is being totally depleted and is expected to be a deficit of approximately $40 million by July 1, 1975. Of these 122 governments, 82 are drawing down their surpluses in the course of the current fiscal year; 17 will experience little change in the size of their unencumbered surplus and 23 will add to their surpluses during the course of the year.

The most significant deterioration in the size of the unencumbered surplus occurred in large jurisdictions with high unemployment (unemployment rates above the national average). Fifteen of the twenty-one high unemployment jurisdictions with populations in excess of 500,000 reported accurate data on the size of their unencumbered surplus. All 15 of these jurisdictions (combined budget of $17.8 billion) reduced their surpluses during the course of the fiscal year. They entered the fiscal year with a combined surplus of $89 million and project a combined deficit of $183 million by July 1, 1975. By contrast, the 17 (17 out of 22 reported accurate data) large jurisdictions (combined budgets of $4.9 billion) with unemployment rates below the national average entered the fiscal year with a combined surplus of $80 million and project a surplus of $53 million on July 1, 1975. Eleven of these jurisdictions are drawing down their surpluses during the course of the fiscal year, two expect no change, and four expect their surpluses to increase.

A similar situation prevails among jurisdictions with populations between 250.000 and 500,000. The nine high unemployment jurisdictions (combined budget of $1.1 billion) entered the current fiscal year with a combined surplus of $10 million and expect a combined deficit of $34 million by July 1, 1975. Seven of these jurisdictions expect the size of their unencumbered surplus to decline, while one will remain constant and one will actually increase.

By contrast, 14 jurisdictions with populations of 250.000 to 500.000, without severe unemployment problems (combined budget of $1.5 billion), entered the fiscal year with an $89 million unemcumbered surplus and expect that to be reduced to $66 million by July 1, 1975. Eight of these jurisdictions will draw down surpluses during the course of the fiscal year, three will experience no change, and three will experience increases in their surpluses.

The six jurisdictions with populations between 100,000 and 250,000 and severe unemployment problems (combined budget of $440 million) all will experience reductions in their unencumbered surpluses. Their combined unencumbered surplus was $9 million at the inception of the fiscal year, but it will decline to $1.5 million by the end of the fiscal year. The 16 low unemployment jurisdictions with populations between 100,000 and 250,000 (combined budget of $800 million) will experience a slight increase in their combined unencumbered surplus from $40 million to $43 million. Seven of these jurisdictions will experience a decline in their surplus, four will remain approximately constant, and five will increase their surpluses. The slight increase in the size of the unencumbered surplus for these jurisdictions is primarily due to significantly increased surpluses for two local governments located in coal production areas.

Finally, 45 small jurisdictions (population less than 100,000) reported a decline in combined unencumbered surplus from $24 million on July 1, 1974, to $16 million on July 1, 1975 (their combined budget is approximately $600 million). Twenty-eight jurisdictions will experience some decline in their unencumbered surplus, seven will experience little change, and 10 anticipate increases.

In summary, while unencumbered surpluses are not nearly as prevalent among local governments as among State governments, there has been a significant deterioration in the size of local goverment unencumbered surpluses. The aggregate decline in unencumbered surplus for the 122 jurisdictions reporting data was $380 million, turning a $340-million surplus into a $40-million deficit. The most significant deterioration occurred in the high unemployment jurisdictions with populations in excess of 250,000. These 24 jurisdictions will experience, without further adjustments in revenues and expenditures, a deficit of $220 million on July 1, 1975, after entering the fiscal year with a $99-million unencumbered surplus.

Revenues

Fifty-two communities reported that significant increases in the tax rate have been enacted or will be required to keep their budgets in balance. The total value of the tax increases was $850 million or approximately 2.7 percent of the combined budget of all 140 communities. Five communities enacted reductions in tax rates. The total value of the tax reductions was only $8 million, or less than .05 percent of the combined budgets of the 140 communities.

The tax increases occurred in both large and small communities, as well as in high and low unemployment jurisdictions. Twelve of the 21 high unemployment large jurisdictions (500,000+) enacted tax increases, amounting to 3.6 percent of the combined budget of the 21 communities. The total value of these tax increases was approximately $740 million. Eight of 22 low unemployment large jurisdictions enacted tax increases, amounting to 0.9 percent of the combined budget of the 22 communities. The total value of these tax increases was approximately $50 million.

Three of the nine high unemployment jurisdictions with populations between 250.000 and 500,000 will increase taxes in the current or upcoming fiscal year. The total amount of new revenues raised will be $20 million, or approximately 2 percent of the combined budget of the high unemployment jurisdictions with 250,000 to 500,000 population. Three of 15 low unemployment local governments in this population group raised taxes. The amount of new revenue raised is expected to be $10 million, or approximately 0.6 percent of their combined budget.

For communities with populations of 100,000 to 250,000, two out of six high unemployment jurisdictions increased their tax rate. These tax increases will raise $6 million in new revenue, or approximately 1.4 percent of the combined budget of the six communities. Only 2 of 16 low unemployment communities in this population group raised taxes. The total value of these changes in their tax rates was $2.6 million or less than 0.4 percent of the combined budget of these 16 communities.

Significant tax increases also occurred in the smaller communities (less than 100,000 population). Twenty-two of 52 small jurisdictions have already or will enact tax increases in the current or upcoming fiscal year. The total value of these tax increases is approximately $15 million, or over 2 percent of the combined budget of the 52 small communities. The high percentage of tax increases among small jurisdictions is probably attributable to the fact that most small jurisdictions operate with virtually balanced budgets and little room to cut personnel or expenditures without seriously reducing services. Unanticipated revenue shortfalls or expenditure increases will thus necessitate tax increases in these communities.

In summary, 52 of the 140 jurisdictions surveyed are increasing their taxes above existing rates by a total of $850 million. This increase was approximately 2.7 percent of the combined budget for all 140 jurisdictions. The tax increases occurred primarily in the large jurisdictions (500,000 or more population) with high unemployment rates, where tax rate increases amounted to 3.6 percent of these jurisdictions' total budgets. Without the high unemployment large jurisdictions, all other governments enacted tax increases amounting to 1.2 percent of their combined budget. Smaller jurisdictions (100,000 or less) also enacted significant tax increases, approximately 2 percent of their total budgets.

The sample of 140 local governments includes approximately 40 percent of all local government revenues and expenditures. Governments raising approximately $50 billion from their own sources were not included in the survey. Their tax increases must be estimated based on the results of the sample. However, since the survey is heavily biased toward jurisdictions with populations in excess of 500,000, which seem to have a higher propensity to raise revenues, it would be inappropriate to assume that all local jurisdictions will increase their taxes by approximately 2.7 percent of their budgets (as the governments in this survey did.) It is much more accurate to estimate the tax increases (as a percentage of their budgets) by jurisdictions with populations below 500,000 in the survey and to apply this percentage to the remaining $50 billion of revenue raised in unsurveyed jurisdictions. When this is done, tax increases by the remaining jurisdictions can be estimated.

The jurisdictions surveyed with populations below 500,000 raised revenues by approximately 1.3 percent of their total budgets. If this percentage is then multiplied by the $50 billion in revenues raised by local governments not covered by the survey, an estimate of approximately $650 million in increased taxes is obtained. When the $650 million in tax increases in unsurveyed governments is added to the $850 million in tax increases undertaken by the surveyed jurisdictions, an estimate of $1.5 billion in tax increases by all local governments is derived. This estimate is probably conservative as it does not attempt to account for the high percentage of unsurveyed local governments that are smaller than 100,000 population and thus have a higher-than-average propensity to increase taxes.

Expenditures

Expenditure reductions by the surveyed local governments followed almost exactly the same pattern as revenue adjustments. Fifty-six of the 140 surveyed governments reported that significant cuts had been made in current service levels. The total value of the expenditure cuts is $855 million, or approximately 2.7 percent of the combined budget of the 140 communities.

Eleven of the 21 large jurisdictions (500,000-plus population) with high unemployment rates have been forced to reduce service levels to keep their budgets in balance. The total value of these service cuts is $745 million, or approximately 3.6 percent of the combined budget for the 21 communities. Nine of the 22 low unemployment large jurisdictions have reduced current service levels. The total value of these reductions is $45 million, or approximately 0.8 percent of the combined budget of the 22 jurisdictions. For large jurisdictions, the service cuts enacted by high unemployment jurisdictions are 4.5 times larger than the service cuts enacted by low unemployment jurisdictions. (Comparison is of the dollar size of the reductions, as a percentage of the respective budgets.)

Six of the nine high unemployment jurisdictions with populations between 250,000 and 500,000 have undertaken significant service cutbacks. The total amount of the expenditure reductions is $30 million, approximately 2.8 percent of the combined expenditures of the nine jurisdictions. On the other hand, 7 out of 15 low unemployment jurisdictions in this population group have been forced to undertake expenditure adjustments. These reductions amount to a total of $15 million, approximately 0.9 percent of total expenditures by the 16 jurisdictions.

For communities with populations between 100,000 and 250,000, 5 of the 6 high unemployment communities have cut current service levels. The total value of these reductions is $14 million, or 3.2 percent of the combined expenditures of the six jurisdictions. By contrast, only 4 of the 16 low unemployment jurisdictions in this population group have embarked on expenditure reduction programs. The total value of these reductions is less than $1 million, or approximately 0.1 percent of the total expenditures of the 16 communities.

Among smaller jurisdictions, only 14 of 52 governments have reduced services below current levels. The total amount of expenditure reduction by small communities in the survey is $4.8 million, or approximately 0.7 percent of the total expenditures of the surveyed small communities. The comparatively low use of expenditure cuts by small communities tends to confirm the hypothesis that these communities react to deteriorating economic situations with tax increases, not service cuts.

The reductions occurred in a wide variety of services with waste removal, social service programs, fire protection and street maintenance making up the bulk of the expenditure reductions. Most of service reductions were accomplished through personnel reductions.

In summary, 56 of the 140 jurisdictions surveyed have undertaken significant cuts in current service levels. For all the jurisdictions surveyed, the expenditure reductions are 2.7 percent of their total expenditures, about $850 million in reductions. Once again, the expenditure reductions were concentrated in the high unemployment governments, with reductions in these jurisdictions often being more than four times as large (as a percentage of their budgets) as those in low unemployment areas. Smaller jurisdictions in the survey (less than 10,000) exhibited a reluctance to reduce service levels, cutting services by an amount equal to only 0.7 percent of their total expenditures.

In order to estimate the total value of service reductions by unsurveyed jurisdictions, the large governments (larger than 500,000 population) have been removed and the service reductions as a percentage of their combined expenditures are calculated. The surveyed governments with populations below 500,000 reduced expenditures through service cutbacks by 1.1 percent of their total expenditures. When this average expenditure reduction is applied to the unsurveyed $50 billion in expenditures, an additional $550 million in service cutbacks is estimated. When this $550 million in reductions for unsurveyed governments is combined with the $850-million reduction in expenditures by surveyed governments, a total of $1.4 billion in service reductions is obtained. This estimate is probably a slight overestimation, in the same manner that additional revenues were underestimated, because no adjustment was made for the low number of expenditure cutbacks undertaken by small jurisdictions.

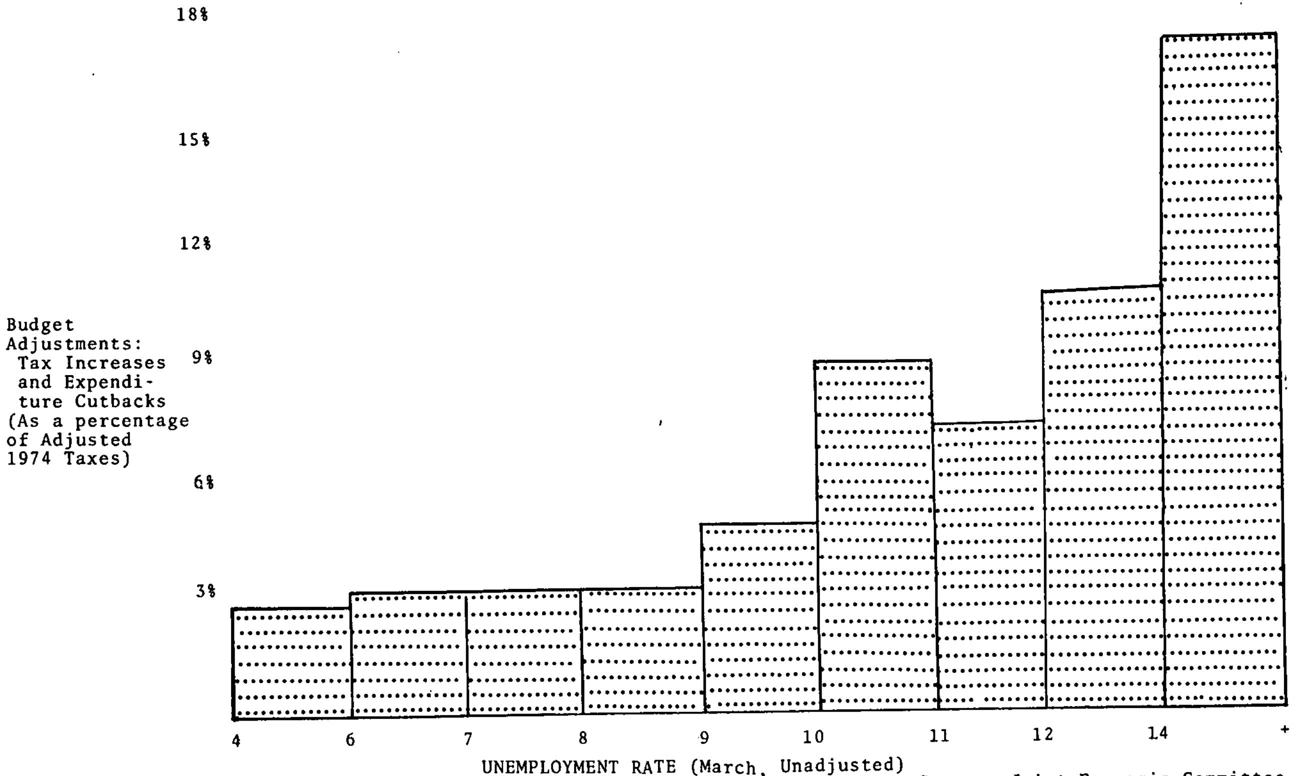
BUDGET ADJUSTMENTS BY LOCAL GOVERNMENTS (A SAMPLE OF 106 JURISDICTIONS)

[Dollar amounts in millions]

Unemployment rate (March)	Number of local governments	Tax increases	Expenditure cutbacks	Total budget adjustments	Adjusted taxes	Budget adjustments as percentage of adjusted taxes
4 to 6	13	$4.0	$5.2	$9.2	$330.5	2.7
6 to 7	12	14.6	2.1	16.7	578.0	2.9
7 to 8	14	16.6	5.1	21.7	690.3	3.1
8 to 9	12	3.3	15.8	19.1	666.68	2.9
9 to 10	8	18.9	3.3	22.1	446.8	4.9
10 to 11	17	26.8	63.2	90.0	999.2	9.0
11 to 12 [1]	9	66.2	16.4	82.6	1,154.9	7.2
12 to 14	14	36.6	32.8	69.4	639.5	10.9
14 plus	7	16.5	75.5	92.0	529.3	17.4

[1] New York would fit into this group, but has been excluded from the table due to its unique financial situation.

BUDGET ADJUSTMENTS BY LOCAL GOVERNMENTS: A sample of 106 jurisdictions



Source: Joint Economic Committee

Employment

Since local governments are more labor intensive than State governments, expenditure cutbacks are more likely to be accomplished through personnel reductions. In fact, 52,000 positions were affected by hiring freezes, layoffs, and reductions in the work week initiated by some of the surveyed local governments. All together, 48 of the surveyed local governments have taken some action to reduce employee requirements.

Once again, the reductions have been greatest in the high unemployment areas; 14 of 21 large jurisdictions (500,000 plus) with high unemployment are eliminating employee positions. The number of positions affected is 44,800, or approximately 2.2 positions per $1 million of budgeted expenditure by the 22 jurisdictions. By contrast, only 6 of 22 large jurisdictions with low unemployment are eliminating positions, and only at a rate equal to 0.5 positions per $1 million of budgeted expenditures.

A similar pattern exists for governments with populations between 250,000 and 500,000; 8 of 9 high unemployment jurisdictions in this population group reduced the total number of employee positions. All together, 2,900 positions were affected, or 2.6 positions per $1 million of budgeted expenditure. Only 7 of 15 low unemployment jurisdictions in this population group reduced employment, and, even then, only by 0.4 positions per $1 million of budgeted expenditure.

Smaller jurisdictions (250,000 people or less), in keeping with their reluctance or inability to reduce expenditures, are eliminating approximately 500 positions, or 0.3 positions per $1 million of budgeted expenditure. Only 13 of 74 jurisdictions smaller than 250,000 persons reduced employment levels at all.

In summary, 48 of the 140 surveyed governments are reducing manpower levels by a total of 52,000 positions, or 1.67 positions per $1 million of budgeted expenditure. Once again, reductions are concentrated in the large high unemployment jurisdictions that have had to undertake significant service cutbacks.

In translating the sample into a meaningful measure of employment reductions by all local governments, the number of positions eliminated by surveyed local governments (500,000 people or less) per $1 million of budgeted expenditure (0.9 positions) must be multiplied by the total expenditures (in millions of dollars) made by unsurveyed governments ($50,000 million). This results in an estimated of 45,000 positions eliminated by the unsurveyed local government. When this is added to the 52,000 positions being eliminated by surveyed governments, a total of almost 100,000 positions will be eliminated by local governments that are experiencing financial difficulties. This projection is probably a slight overestimation because smaller local governments (a large percentage of unsurveyed governments are small) have a lower propensity to eliminate personnel positions. On the other hand, the 100,000 person reduction does not truly reflect the impact of of the recession on employment by local governments. Principally, it does not measure the growth in employment that would have occurred had the recession not intervened.

It should be pointed out that this estimate of 100,000 positions eliminated does not necessarily portend a decline in total local government employment. Some growth in employment in fiscally healthy communities may well offset the declines in employment in financially troubled jurisdictions. Some substitution of CETA employees for eliminated positions may also have an impact on total employment in the local government sector.

Capital Construction

Delays and cancellations of capital construction are probably the most common and least disruptive adjustment, in the short run, that a local government can undertake to keep its budget in balance. The immediate impact on the residents of a jurisdiction (aside from construction and related workers) is certainly not as conspicuous as a tax increase or service reduction.

Some 71 of the 140 surveyed governments have initiated delays or cancellations in capital construction. These adjustments have occurred about equally in all jurisdictions—high unemployment and low unemployment, large and small.

In many cases, particularly in those jurisdictions where capital projects are financed through the general fund rather than through bonds, the delays and cancellations constitute a significant portion, or even all, of the capital budget. The delays have been caused by unavailability of general funds, inability to bond, transfer of revenue sharing funds from capital to operating accounts and escalating construction costs. The delays have occurred in all types of projects with street, recreation, public facility (that is, police and fire stations, city hall, courthouse, and so forth) and school construction constituting the bulk of the canceled or delayed projects.

Unfortunately, most surveyed local governments were unable to provide specific information about the dollar cost of the construction projects that they were forced to delay. Consequently, while a significant number of jurisdictions have consciously delayed or canceled capital projects, it is impossible to assess the magnitude of these adjustments.

SUMMARY AND CONCLUSIONS

State Governments

The survey of 48 States clearly indicates that the current economic situation has had a significant impact on the State government fiscal situation. In aggregate, the 48 State governments surveyed began fiscal year 1975 with a combined surplus of $6.5 billion, approximately 7 percent of their total expenditures. This surplus will be reduced to $3.9 billion at the end of fiscal year 1975, still 4 percent of total State expenditures.

Despite this significant aggregate surplus, 20 States will enact tax increases in 1975. Seventeen States will enact general fund tax increases and five will enact increases in fuel taxes, which will be dedicated to their highway funds (two States will enact both highway and general fund tax increases). The total value of these tax increases will be $2.1 billion, or approximately 2 percent of the aggregate State budget. The tax increases will be slightly offset by $50 million in tax reductions that will be undertaken by four States.

Significant budget adjustments will also be made in expenditures. Twenty-two States will be forced to reduce current levels of service in order to keep their budgets in balance. The total value of these expenditure reductions is $1.9 billion, again approximately 2 percent of the aggregate State budget. Only two States expect to expand upon current service levels, increasing expenditures above normal rates of growth by approximately $100 million.

The paradox of large surpluses accompanied by significant tax rate increases and service cuts is easily explained by more careful examination of the fiscal position of individual State governments. Specifically, the energy-producing and farm States possess a large percentage of the unencumbered surpluses, while the high unemployment States (unemployment rates above the national average) are responsible for the vast majority of tax increases and service cuts. Clearly, there is a significant mismatch of available resources and fiscal needs.

The 13 energy-producing States entered the current fiscal year with a combined surplus of $2.1 billion. This surplus is expected to be reduced by 14 percent to $1.8 billion by the end of the fiscal year. Despite this slight reduction, the unencumbered surplus will still be 8 percent of the total budget for the energy States. The existence of significant surpluses, combined with large increases in energy-related revenues, has left the energy States in a very strong financial position. Only four energy States will enact tax increases while two will enact tax reductions. The increase in revenues will be about $100 million, 80 percent from coal and oil levies, while the value of the tax reductions is about $45 million. The $55-million net tax increase is only 0.24 percent of total budget of the energy States. Similarly, only four energy States reduced services by a total of $100 million, while one increased services by $80 million, a net reduction of only $20 million, or only

0.09 percent of the energy States' budgets. The 13 energy States will undertake deflationary budget adjustments equal to only 0.33 percent of their total budgets.

The eight States heavily dependent on agricultural income are in almost as solid a financial condition. These eight States entered the fiscal year with an unencumbered surplus of $1.1 billion. This surplus will be reduced by 28 percent to $0.8 billion by the end of fiscal year 1975, but will still constitute 9 percent of the combined budget of the agricultural States. Unlike the energy States, however, the agricultural States will partially deplete their surpluses, since farm prices have declined and farm incomes are dropping. Four agricultural States will increase taxes by a total of $170 million (80 percent in fuel taxes) while two will marginally reduce taxes by $5 million. The $165-million net tax increase is 1.8 percent of the combined budget of the agricultural States. One agricultural State will reduce services by about $100 million, while another will increase current service levels by $20 million. The $80-million net decline in services is 0.9 percent of the agricultural State budgets. The combination of tax increases and service reductions is only 2.7 percent of the combined budget for all agricultural States.

By contrast, the 18 States with unemployment rates equal to or above the national average are experiencing severe financial problems. These States entered the fiscal year with a combined surplus of 2.3 billion, which will be reduced 83 percent to $0.4 billion by the end of the fiscal year. The $0.4 billion surplus is only 0.75 percent of the combined budget of all high unemployment States, hardly an adequate cushion in present economic circumstances. Ten of these States will enact $1.8 billion in tax increases, approximately 3.5 percent of their total budgets. In addition, 14 States will reduce services by $1.6 billion, a reduction equal to 3 percent of the combined budget of the high unemployment States. The combination of tax increases and expenditure cuts is equal to 6.5 percent of the combined budget for all high unemployment States.

Local Governments

Unencumbered surpluses are much less prevalent among local governments, since they have more stable revenue bases and tend to operate with their budgets closer to balance. Nevertheless, 122 of the 140 governments surveyed entered the fiscal year with a combined surplus of $340 million, slightly more than 1 percent of their total budgets. This surplus has been totally depleted and is expected to be a deficit of $40 million by the end of the fiscal year. Consequently, many local governments, without surpluses, will be forced to reduce services or to increase taxes in order to maintain a balanced budget. Local governments will enact an estimated $1.5 billion in new taxes and will reduce expenditures by approximately $1.4 billion. The $2.9 billion in deflationary budget adjustments is approximately 3.5 percent of the combined budget for all local governments.

Once again, the high unemployment governments are responsible for the vast majority of budget adjustments. Forty-seven percent of the high unemployment local governments that were surveyed will enact tax increases amounting to 3.5 percent of their combined budget. Sixty-one percent of the high unemployment jurisdictions will reduce current services by an amount equal to 3.6 percent of the combined budget for high unemployment jurisdictions. Thus the high unemployment local governments will make budget adjustments equal to 7.1 percent of their budgets.

By contrast, only 25 percent of the low unemployment jurisdictions will enact tax increases amounting to 0.7 percent of the combined budget for low unemployment jurisdictions. Similarly, only 38 percent of the low unemployment governments will make reductions in service equal to 0.7 percent of the combined budget for all low unemployment local governments. Thus the low unemployment local governments will make adjustments equal to 1.4 percent of their budgets. The low unemployment jurisdictions will make one-fifth of the budget adjustments that high unemployment jurisdictions make (measured as a percentage of their respective budgets).

The size of the jurisdiction is also an important consideration in evaluating local government budget adjustments, although size significantly affects only the manner of adjustment rather than the magnitude of adjustment. Specifically, smaller cities (population of 100,000 or less) were much more likely to enact tax increases than they were likely to reduce expenditures. Seventy-five percent of the budget adjustments by these governments were made through tax increases. Larger jurisdictions showed an equal propensity to affect both revenues and expenditures.

Combined State and Local Government Sector

The combined State and local government sector can be expected to enact $3.6 billion in tax increases and $3.3 billion in reductions in expenditures from current service levels. The resulting $6.9 billion in tax and expenditure adjustments represents an average 3.5 percent adjustment for the total State and local government sector. However, the vast majority of budget adjustments will occur in the high unemployment State and local governments. These governments will often be forced to make adjustments that amount to 7 or 8 percent of their total operating budgets.

Typically, significant expenditure reductions will be accompanied by layoffs, hiring freezes, reduced work hours and other methods designed to reduce the personnel costs of the affected government. These adjustments are already occurring in high unemployment State and local governments. Approximately half of the State governments have imposed some form of work force limitation, affecting, in aggregate, 35,000 to 45,000 positions. Almost 40 percent of the local governments have reduced or limited personnel, affecting a total of almost 100,000. The total number of positions eliminated or left vacant in the State and local government sector is thus between 135,000 and 145,000. However, the elimination of 140,000 positions understates the impact of the recession on State and local government employment. While this estimate does include positions that were eliminated or left vacant, it does not attempt to ascertain the impact of the recession on the normal expansion of employment in response to increased service demands. This growth has undoubtedly been eliminated in most high unemployment governments and is probably limited in the majority of jurisdictions.

In addition to adjustments in operating budgets, most State and local governments have made some adjustment in their capital budgets.

Typically, projects have been delayed, or even canceled in order to reduce borrowing costs or to facilitate the shift of capital funds to operating accounts. Smaller jurisdictions that fund capital projects out of operating accounts are probably the most severely affected. Unfortunately, only a limited number of jurisdictions were able to quantify the total value of capital projects affected by delays or cancellations. Conservative estimates based on those jurisdictions that could identify projects indicate that $600 million to $1 billion worth of projects will be delayed or canceled in the upcoming year.

These deflationary adjustments in State and local government operating and capital funds will combine to remove $7.5 to $8 billion from the economy. While a small percentage of these adjustments may well be regarded as much needed improvements in government efficiency, the magnitude of the adjustments and their concentration in the high unemployment jurisdictions indicates that considerable hardship will be imposed upon the affected jurisdictions.

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