REVENUE SHARING
Part 3: The Distribution Pattern

Two recent articles in *Business in Nebraska* have dealt with the revenue sharing program in the municipal governments of Nebraska. The April issue reported results of a survey of opinions of the chief executives; the May issue summarized the spending patterns of the early revenue sharing payments. This report examines a third aspect of revenue sharing: the way in which the money was distributed.

The revenue sharing law allows states to choose between two formulas to determine the distribution process. The first formula contains five factors and stresses urbanization. The more heavily populated states gain most from this formula. The second formula has only three factors and benefits the less populated states to a greater degree than does the first.

Nebraska uses the second, or the three-factor formula. Simply put, the allocation is determined by:

Population times Relative Income times Tax Effort.

Relative income is the per capita income of a municipality relative to that of the county in which it is located (per capita income of the county divided by that of the municipality). Tax effort is determined by dividing the adjusted taxes of the recipient government by the aggregate income of its inhabitants.[1]

In addition, maximum and minimum limits are established by the law so that every recipient government receives a minimum payment of 20 percent of the average per capita payment in the state and a maximum of 145 percent of the average per capita payment. In addition, municipal allocations are limited to 50 percent of that jurisdiction's adjusted taxes and intergovernmental transfers. If the total allocation for the recipient government is $200 or less, the amount goes instead to the next higher unit of government.

The three-factor formula is designed to meet two objectives: to benefit those communities with lower per capita incomes (that is, to provide some equalization) and at the same time to aid those governments which are burdened by heavy tax loads. At times, as we shall see, these two goals are in conflict, so that the actual distribution pattern may in fact differ markedly from the design.

The fundamental question asked in this study is: Who benefits from revenue sharing? To answer this, we must make a detailed study of the distribution pattern. It should be noted at the outset that only municipal governments in Nebraska were examined in this study, omitting counties and townships. The data used in the analysis were those provided by the Office of Revenue Sharing of the United States Department of the Treasury.

The following analysis compares the pattern of distribution in Entitlement Periods 2 and 3 with that in Entitlement Period 4. (The Period 1 Entitlement was considered by recipients to be a "one-shot" rather than a regular appropriation.) The second and third payments each covered one-half of a fiscal year and have been combined into one figure for this analysis. Because these two payments covered the period from July 1, 1972, to June 30, 1973, the combined payment period is referred to as Fiscal Year 1973 (FY73). Entitlement Period 4 covers the time from July 1, 1973, to June 30, 1974, and is referred to as Fiscal Year 1974 (FY74).

Revenue sharing allocations were refigured by the Office of Revenue Sharing for FY74, using updated adjusted taxes figures. All other data elements remained the same as those used in the FY73 allocations. The population figures used are taken from the 1970 census. A national sample of personal income was taken along with the census, and per capita personal income figures were determined. Those figures were used by the Office of Revenue Sharing in computing the allocations. Towns with a population of less than 500 persons were assigned the average per capita income figure for the county.

Several of the tables below summarize the findings on the basis of population of the municipality. The largest population size, 5,000-100,000, corresponds to the first class city size under Nebraska law; 800-4,999 is the size of second class cities; under 800 is the village classification. In several instances municipalities were legally in one class but by population in another, such as when a second class city declined in population to village size but still retained the city form of government. To overcome this problem all communities were compared on a population basis.

Let us begin by looking at the general information for the communities of Nebraska. A total of 503 municipalities was surveyed. Table 1 (page 2) summarizes the average figures for per capita personal income. It appears that the larger the town, the higher the average personal income.

While the population and income figures used were the same for both fiscal years, the tax effort figures were different. For FY73 the average tax effort was 1.604 percent; for FY74 the percentage was 1.610. (See Table 2, page 2.)

Putting all these figures together, we find that the average per capita revenue sharing payment in Nebraska municipalities was $11.21 in FY73 and $11.14 in FY74. In both years the middle-sized places received

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[1] Adjusted taxes are local taxes collected by the recipient for general government purposes, with all education taxes deducted. In Nebraska this adjustment does not occur, since school districts collect their own taxes rather than receive funds from the local government. All user fees and licenses are also deducted. Aggregate income is derived by multiplying population by the per capita personal income of the governmental unit.

the highest amount per capita, the largest towns the least. (See Table 3.)

Table 1

Average Per Capita Personal Income,
Nebraska Municipalities, by Population, 1970

	Population Size			
	5,000-100,000	800-4,999	Under 800	Total
No. of cities:	(27)	(112)	(364)	(503)
Average per capita income	$2,756	$2,567	$2,428	$2,477
Range	2,328-3,270	1,825-4,159	1,412-3,916	1,412-4,159

Table 2

Average Tax Effort and Range,
Nebraska Municipalities, by Population, FY73 and FY74
(Percentages)

	Population Size			
	5,000-100,000	800-4,999	Under 800	Total
No. of cities:	(27)	(112)	(364)	(503)
Average tax effort, FY73	1.687	1.743	1.555	1.604
Range of tax effort	0.913-2.622	0.370-3.276	0.015-9.117	0.015-9.117
Average tax effort, FY74	1.610	1.781	1.558	1.610
Range of tax effort	0.633-2.572	0.592-4.057	0.007-5.478	0.007-5.478

Table 3

Average Per Capita Revenue Sharing Payments,
Nebraska Municipalities, by Population, FY73 and FY74

	Population Size			
	5,000-100,000	800-4,999	Under 800	Total
No. of cities:	(27)	(112)	(364)	(503)
Average per capita payment, FY73	$10.78	$11.69	$11.09	$11.21
Range	5.09-18.94	3.69-23.32	1.76-26.78	10.20-26.78
Average per capita payment, FY74	10.03	11.64	11.07	11.14
Range	3.96-18.45	3.96-28.72	3.96-28.75	3.96-28.75

Applying the minimum and maximum limitations on amounts received, the least any town should have received per capita in FY73 was $3.69, the most $26.78. Twenty-eight towns were affected by the minimum-amount rule (20 percent of the average per capita payment) and eleven received the maximum amount allowable (145 percent of the average per capita payment). Two communities fell below the $3.69 minimum, apparently due to errors in calculations by the Federal government. The total actual payment to municipalities averaged $13,456. By size, first class cities received an average of $125,158, second class cities averaged $19,489, and villages averaged $3,317.

In determining the allocation for FY74, new tax figures were used, and there was a $1,182,000 increase in the overall state allocation. Adjusted taxes as a whole went up slightly over FY73, thus increasing tax effort, although the change is small. But while taxes went up, per capita revenue sharing went down, due to distribution shifts within each class. Thirty-six communities received the minimum payments of $3.96 per capita; twelve received the maximum amount of $28.75.

Average payments to communities were $13,093, a slight decrease over the first allocation. The two larger population sizes declined in average payments. First class cities averaged $118,458; second class cities, $19,311; villages, $3,368.

The geographic distribution is displayed in Figures 1 and 2. The highest per capita revenue sharing payments have gone mostly to the northeast Nebraska area and to a part of southeast Nebraska, while the lowest payments have gone to the Sandhills region and parts of the Panhandle.

While it appears that there is little overall change in the distribution pattern between FY73 and FY74, the Pearson correlation test reveals some of the internal changes.[2] The correlation coefficient between per capita revenue sharing payments for FY73 and those for FY74 is 0.6350, a moderate relationship but not as high as one might expect. Given the fact that the only data changes between the two allocations were in tax effort, one must assume that there was a wide fluctuation from one year to the next in local tax effort. Indeed, the correlation coefficient for tax effort FY73 and tax effort FY74 is 0.4760, bearing out the above assumption.

One tends to think that local taxes remain relatively stable, perhaps increasing slightly from one year to the next. This does not appear to be the case in Nebraska municipalities; rather, the correlation coefficient is lower than one might expect. This

[2]Correlation coefficients measure the way in which two factors vary, on a scale from +1.0 to −1.0. If the two factors vary together in the same direction, the correlation coefficient will approach +1.0. If they vary together in opposite directions, the correlation coefficient will approach −1.0. If the correlation coefficient approaches zero, there is no systematic relationship between the two factors. Correlation coefficients do not prove an actual relationship exists between two factors, only the degree to which they vary together.

Per Capita Revenue Sharing Payments, by Highest and Lowest Quartiles
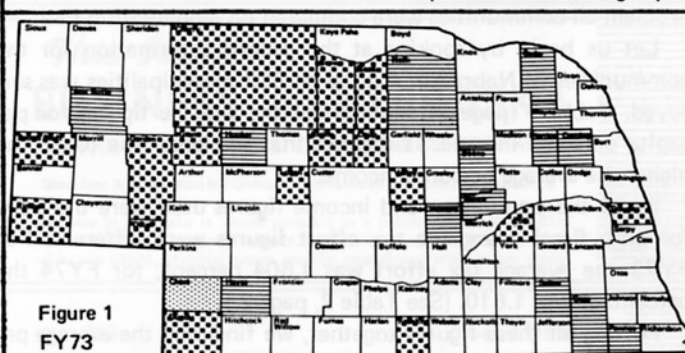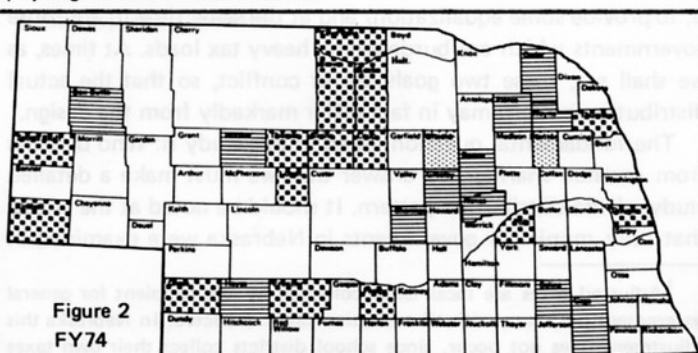

Figure 1
FY73

Figure 2
FY74

Half or More Municipalities in Highest Quartile

Half or More Municipalities in Lowest Quartile

Half Municipalities in Highest and Half in Lowest Quartile

fluctuation occurs mostly in the villages, which in some years collect more money than they need. Under Nebraska law they are required to reduce the next year's levy accordingly in order to use up the previous surplus. As a result, some small towns can go an entire year with a very small (or even no) tax collection, living on the excess of collections in previous years.

It should also be noted that the adjusted taxes figures supplied by local governments to the Office of Revenue Sharing were probably inaccurate in the first year. Many communities either overestimated or underestimated their taxes at that time but developed more accurate figures for the next year when they became aware of the importance of tax collections in determining revenue sharing payments.

In addition to examining generally the distribution pattern, the question should be asked: *Why* do some towns receive higher per capita amounts than others? In theory, the answer ought to be that those with low per capita incomes or high tax efforts, or both, should receive greater revenue sharing than those with higher incomes or lower taxes. Is this in fact true?

Let us examine in turn each of the three factors in the formula. First, population. It appears that population does not play a significant role in determining the *per capita* allocation of communities. That is, the size of the town has nothing to do with the payment on a per capita basis, although of course it is important in determining the total amount. (See Table 4.)

Table 4 Correlations between Per Capita Revenue Sharing and Population, FY73 and FY74*	
	Correlation Coefficient (r)
Population and per capita revenue sharing, FY73	0.0065
Population and per capita revenue sharing, FY74	−0.0102
*The same population figures were used for both fiscal years.	

The second factor, per capita income, produces a moderate negative value when correlated with per capita revenue sharing. It should, of course, be negative if those with lower incomes are to be rewarded with higher revenue sharing payments. But when the correlation figure is squared the amount of variance attributed to per capita income is only 12% in FY73 and less than 10% in FY74. (See Table 5.)

Table 5 Correlations between Per Capita Revenue Sharing and Per Capita Income, FY73 and FY74*	
	Correlation Coefficient (r)
Per capita revenue sharing and per capita income, FY73	−0.3514
Per capita revenue sharing and per capita income, FY74	−0.3128
*The same per capita income figures were used for both fiscal years.	

The third factor, tax effort, produces a much more striking correlation, as seen in Table 6. Tax effort plays a much stronger role in determining per capita revenue sharing than does per capita income, although both are given equal weight in the formula.

There is, of course, some relationship between per capita income and tax effort. In 1974 the poorest one-fourth of the towns had an average tax effort of 1.780, compared to the tax effort of the richest one-fourth of 1.473, with a state average of 1.604. But

Table 6 Correlations between Per Capita Revenue Sharing and Tax Effort, FY73 and FY74*	
	Correlation Coefficient (r)
Per capita revenue sharing and tax effort, FY73	0.7983
Per capita revenue sharing and tax effort, FY74	0.8937
*Different tax effort figures were used for each fiscal year.	

the pattern is mixed in the middle two quartiles: the correlation coefficients for per capita income and tax effort overall were −0.2370 for FY73 and −0.1108 for FY74.

We can also look more closely at the richest and poorest towns (in Table 7) and see that about two-thirds of the poorest towns fell into the top half of the towns in terms of per capita revenue sharing, while two-thirds of the richest towns fell into the bottom half.

Table 7 Nebraska Municipalities with Highest and Lowest Per Capita Incomes, Related to Per Capita Revenue Sharing, FY74					
	Per Capita Revenue Sharing Amounts				
Municipalities	$14.67-28.75	$10.06-14.66	$ 6.78-10.05	$3.96-6.77	Total
	(Percentages)				
Highest per capita income	10	21	36	33	100
Lowest per capita income	50	17	14	19	100

Looking further and controlling for per capita revenue sharing, we see that as tax effort goes up, so does per capita revenue sharing, but the income relationship is mixed. In Table 8 cities are compared on the basis of per capita revenue sharing by quartile. That is, all the communities were ranked from highest to lowest per capita revenue sharing payments and then divided into four groups of equal size. From the third to fourth quartiles income levels are the reverse of the expected.

Table 8 Relationship between Per Capita Revenue Sharing, Per Capita Income, and Tax Effort, Nebraska Municipalities, FY74							
Per Capita Revenue Sharing							
$14.67-28.75		$10.06-14.66		$6.78-10.05		$3.96-6.77	
Ave. Per Capita Income	Ave. Tax Effort	Ave. Per Capita Income	Ave. Tax Effort	Ave. Per Capita Income	Ave. Tax Effort	Ave. Per Capita Income	Ave. Tax Effort
(126 cities)		(126 cities)		(126 cities)		(125 cities)	
$2,257	2.592	$2,487	1.814	$2,601	1.302	$2,522	0.709

Overall, then, it appears that on a statewide basis tax effort is more important than per capita income in determining per capita revenue sharing.

The question is, Why? Doesn't the three-factor formula give equal weight to both income and taxes?

The key to the answer is found in a close examination of the distribution process, a complicated calculation involving many steps.[3] At one point in the process, the county area allocation is divided among the county government,

[3] A good source to consult for a detailed explanation of the formula is the *Revenue Sharing Handbook* (Washington, D.C.: Revenue Sharing Advisory Service, 1973).

Review and Outlook

Economic conditions in Nebraska and the United States in May are better, or worse, than they were in April, depending upon which comparisons we use. They were not as much above a year ago as in April (Table 1), but in comparison with 1967 they turned upward after a three-month slide downward (Table 2).

The dollar volume of agricultural products in the state was 7 percent below May of last year, although in April it had been 12 percent above last year. This drastic decline reflects the drop of 6.5 percent in agricultural prices in the state from last year and a slump in the physical volume of farm products sold. If we had a measure of livestock production as distinct from other farm products, we would probably find the greatest loss in that

segment of agriculture.

It should be noted that these figures apply to May, which was before the great drought began in the state. What will be the effect of this new development will be very interesting to watch; it may be devastating. So far the weather pattern is much like the disastrous summer of 1936. We have had minor dry spells but no real drought since the 1930s, and one is to be expected at least every forty years (the previous occurrence was in the 1890s), but that does not make the impact any easier to bear. The effect is likely to be worse now than in the past because of the much greater investment the farmer has in machinery, fertilizer, and the like.
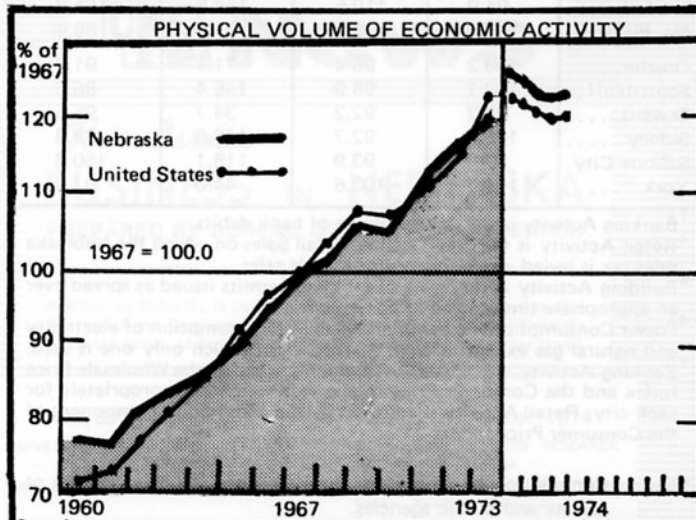
Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

May, 1974 Indicator	Current Month as Percent of Same Month Previous Year Nebraska	U.S.	1974 Year to Date as Percent of 1973 Year to Date Nebraska	U.S.
Dollar Volume	108.8	110.4	112.8	110.8
Agricultural	93.0	97.1	111.5	113.8
Nonagricultural	112.2	111.0	113.1	110.6
Construction	99.6	100.5	96.5	99.7
Manufacturing	124.9	117.4	124.4	118.3
Distributive	110.8	109.4	113.1	108.5
Government	107.0	108.0	105.7	108.0
Physical Volume	101.0	99.4	101.9	99.4
Agricultural	99.4	90.1	98.7	91.7
Nonagricultural	101.3	99.8	102.5	99.7
Construction	90.6	91.4	87.1	90.0
Manufacturing	107.5	101.2	106.5	101.8
Distributive	100.1	98.8	102.7	98.5
Government	102.2	103.7	101.7	103.4

2. CHANGE FROM 1967

Indicator	Percent of 1967 Average Nebraska	U.S.
Dollar Volume	187.1	180.9
Agricultural	173.5	188.6
Nonagricultural	189.9	180.6
Construction	195.2	172.8
Manufacturing	203.0	176.3
Distributive	184.8	182.4
Government	191.2	184.3
Physical Volume	124.1	122.1
Agricultural	109.9	108.3
Nonagricultural	126.9	122.5
Construction	118.3	104.7
Manufacturing	132.4	118.1
Distributive	126.9	125.3
Government	122.2	127.3

3. NET TAXABLE RETAIL SALES[1] OF NEBRASKA REGIONS
(Unadjusted for Price Changes)

Region[2] and Principal Retail Trade Center	May, 1974 as percent of May, 1973	1974 Year to Date as percent of 1973 Year to Date
The State	114.0	116.5
1 (Omaha)	106.4	110.5
2 (Lincoln)	127.3	117.9
3 (So. Sioux City)	109.4	111.3
4 (Nebraska City)	111.7	118.2
5 (Fremont)	102.9	115.5
6 (West Point)	104.2	115.7
7 (Falls City)	107.7	114.8
8 (Seward)	113.1	119.5
9 (York)	104.7	124.0
10 (Columbus)	109.9	118.5
11 (Norfolk)	132.3	122.7
12 (Grand Island)	123.4	121.1
13 (Hastings)	121.8	121.8
14 (Beatrice)	112.3	119.3
15 (Kearney)	119.9	120.7
16 (Lexington)	118.7	123.0
17 (Holdrege)	111.8	120.4
18 (North Platte)	113.1	117.0
19 (Ogallala)	136.0	133.5
20 (McCook)	113.8	128.2
21 (Sidney, Kimball)	118.6	127.7
22 (Scottsbluff)	111.7	119.7
23 (Alliance, Chadron)	116.7	121.0
24 (O'Neill)	123.1	121.0
25 (Hartington)	114.1	115.7
26 (Broken Bow)	113.9	116.5

[1] Sales on which sales taxes are collected by retailers located in the state, *including motor vehicle sales.*

[2] "Planning and development" regions as established by the Nebraska Office of Planning and Programming and shown in the map below.

Source: Compilations by Bureau of Business Research from data provided by the Nebraska Tax Commissioner.

PHYSICAL VOLUME OF ECONOMIC ACTIVITY

Nebraska
United States

1967 = 100.0

1974 YEAR TO DATE AS PERCENT OF 1973 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS

Sales Gain Above State Average
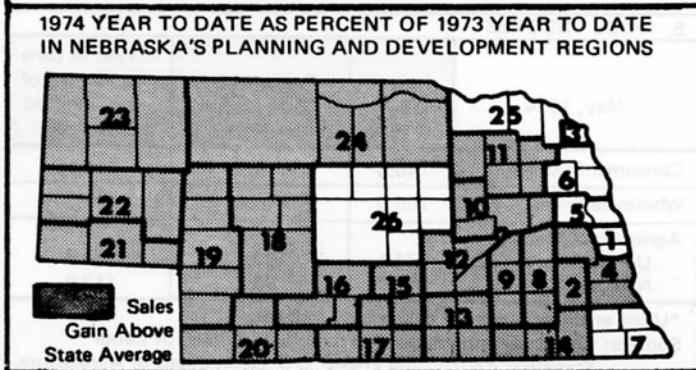
The retail sales increase of 14 percent for Nebraska (Table 3) loses most of its steam when adjusted for the inflationary price increase and subsides to only 3 percent in real terms (Table 4). The Grand Island region, as shown in Table 3, shows the effect of the new shopping centers there, but this time not at the expense of the nearby regions of Hastings, Kearney, or Lexington. The Fremont and York regions were low, possibly as a reaction from their exceptionally strong showings in March and April. The Lincoln region staged a strong comeback after lagging for some months, but the Omaha region still is in the lower brackets, both for the month of May and for the year to date, with retail sales increase less than the price rise.

In the city indicators shown in Table 4 and the chart above it, Norfolk continues to shine. Its banking activity slipped a bit, but its retail sales and particularly its power consumption and construction activity zoomed to new highs. Seven of the cities actually dropped in comparison with May of last year in three of the four indicators and two others in all four. Lincoln had a surprising jump in retail sales, centering in non-motor-vehicle sales, and led all the cities in this respect.

On the whole, the month was not a good one among the cities, and as many fell as gained in the general business index. Falls City has a very low figure for bank debits, in ratio to last year, but this is due to a very high (possibly erroneous) figure for May of 1973. South Sioux City is not included in the banking activity figures or in the general business index because we still do not have the corrected figures for last year's bank debits.

Automobile traffic in the state, according to figures of the State Department of Roads, shows a 5.5 percent drop from a year ago, illustrating the conservative approach to travel by the people of the state as a result of the recent fuel shortages. Gasoline manufactured and imported into the state was up by 15 percent in April, but down again by 17 percent in May, as compared with a year ago. The April surge was apparently to compensate for shortages in the previous months.

The continued rise in the cost of living must give us all great concern. Economists say that the cause is "too many dollars chasing too few goods." The dollars are largely fed by the surplus of government spending over government receipts. Exceptionally high interest rates are being imposed on the economy in an attempt to hold down borrowing, but the true remedy lies in less government spending and higher taxes. This is the most important issue before the country today.   E. Z. P.

CITY BUSINESS INDEXES
Percent Change May 1973 to May 1974
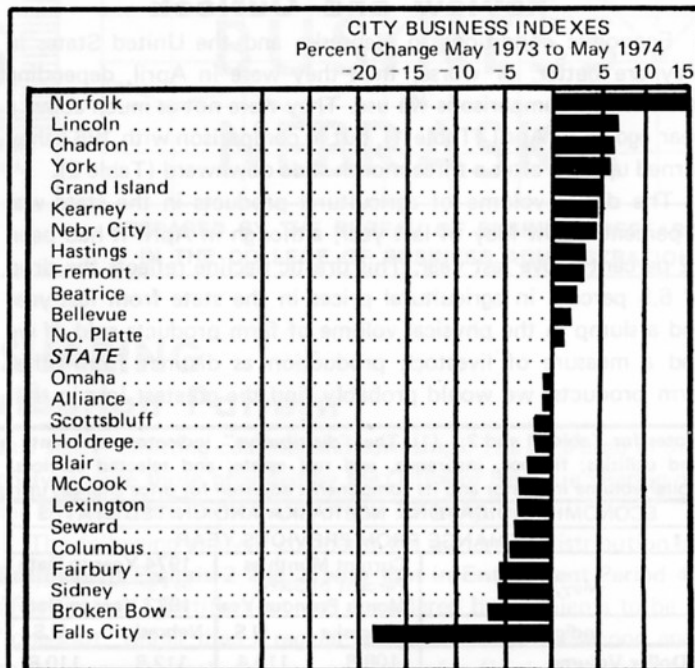
Source: Table 4 below.

4.	MAY CITY BUSINESS INDICATORS			
The State and Its Trading Centers	Percent of Same Month a Year Ago			
	Banking Activity[1]	Retail Activity[2]	Building Activity[3]	Power Consumption[4]
	(Adjusted for Price Change)[5]			
The State	100.2	103.0	85.7	93.8
Alliance	100.6	104.3	73.2	85.0
Beatrice	102.7	105.4	139.9	95.1
Bellevue	114.9	93.7	130.1	92.7*
Blair.......	99.7	97.4	178.5	94.0
Broken Bow.	101.8	91.8	74.5	77.5
Chadron....	114.5	107.7	101.7	86.5
Columbus...	91.3	101.8	117.0	89.4
Fairbury....	88.1	91.0	92.8	114.4*
Falls City ...	65.4	93.2	138.8	92.4
Fremont....	108.1	98.6	119.4	101.2*
Grand Island.	100.0	114.0	51.6	96.6
Hastings	104.3	110.8	85.1	85.9
Holdrege ...	107.0	94.3	289.6	87.2
Kearney	105.8	112.4	84.6	86.9
Lexington...	87.7	109.7	481.0	85.7
Lincoln	100.0	118.1	69.8	95.1
McCook....	103.3	95.5	49.7	84.6
Nebr. City ..	109.1	102.6	318.7	99.8
Norfolk	94.0	110.5	168.3	165.9
No. Platte...	109.8	99.0	81.0	88.4
Omaha	105.2	96.4	71.1	91.7
Scottsbluff..	103.1	99.0	145.4	86.3
Seward.....	99.3	92.2	34.7	95.5
Sidney	103.6	92.7	148.6	79.3
S.Sioux City.	NA	93.9	118.1	150.8
York.......	114.7	103.6	44.0	91.3

[1] Banking Activity is the dollar volume of bank debits.
[2] Retail Activity is the Net Taxable Retail Sales on which the Nebraska sales tax is levied, *excluding motor vehicle sales.*
[3] Building Activity is the value of building permits issued as spread over an appropriate time period of construction.
[4] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.
[5] Banking Activity is adjusted by a combination of the Wholesale Price Index and the Consumer Price Index, each weighted appropriately for each city; Retail Activity is adjusted by the commodity component of the Consumer Price Index.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

5. PRICE INDEXES			
May, 1974	Index. (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	145.6	110.7	110.1
Wholesale Prices	155.0	116.4	117.7
Agricultural Prices			
United States	174.1	107.7	123.7
Nebraska	157.8	93.5	112.6

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.

(Continued from page 3) the townships, and the municipalities on the basis of *adjusted taxes* of each, and not the three-factor formula. In the following steps, allocations on each level are once again made on the basis of all three factors. At one point in the distribution process, then, only taxes are considered.

Even more important, it becomes apparent that the distribution is made on a countywide basis, not statewide. That is, towns are considered in relation to all other towns in the county, and not in relation to the whole state. Thus the actual income figures used are relative to others in the same county. Within a county the towns with low per capita incomes generally are benefiting more than those with higher incomes, except where tax effort is low.[4] (See Table 9.)

Table 9
Comparisons between Municipalities in County with High Per Capita Income and County with Low Per Capita Income*

	Per Capita Income	FY73		FY74	
		Tax Effort	Per Capita Revenue Sharing	Tax Effort	Per Capita Revenue Sharing
Boyd County					
Anoka	$1,619	1.725	$17.80	0.366	$ 8.96
Bristow	1,619	0.730	3.69	0.622	3.96
Butte	2,333	0.351	3.69	0.540	4.75
Lynch	1,619	2.306	10.71	2.485	20.25
Monowi	1,619	5.134	23.81	3.664	28.75
Naper	1,619	2.271	10.55	2.125	12.98
Spencer	2,068	1.757	6.39	1.095	5.24
Perkins County					
Elsie	$3,070	1.065	$ 8.41	1.460	$10.55
Grant	3,972	1.815	11.08	1.419	7.92
Madrid	3,070	0.640	5.06	1.102	7.96
Venango	3,070	1.198	9.46	1.195	8.64

*The same per capita income figures were used for both fiscal years.

[4]It is difficult to explain some oddities in the Boyd County distribution for towns with the same per capita income. For example, in FY74 Bristow has much more tax effort than Anoka but gets much less. In Monowi and Naper tax effort went down in FY74, but revenue sharing went up. In Lynch a slight change in tax effort nearly doubled revenue sharing. It may be that data errors exist which will be corrected in the next allocation. The FY75 allocations were recently published by the Office of Revenue Sharing, but the revised data elements have not yet been released at the time of this writing.

On an intercounty basis, however, inequities are apparent. Spencer and Elsie may be used as an example. Spencer is a rich town in a poor county and so benefits less than most others in the county, but it is poorer than Elsie, one of the poorest towns in the richer county, which receives twice as much.

The table shows that there is little variation in per capita income within a county, although across Nebraska the range is quite wide. Because so many of the towns in Nebraska were too small to be covered by the U.S. Bureau of the Census sample of personal incomes, the county income averages were assigned to these towns. In fact, however, there probably is not a wide variation in income within a county, except where a large city exists.

Tax effort, on the other hand, shows a much wider variation within a county. The factor which varies most will influence the final distribution most. Therefore, tax effort is bound to influence the distribution more than will the slight intracounty variations in income.

We began by asking, Who benefits? The answer seems to be that those towns with higher tax efforts are benefiting more than those with low per capita incomes, although the two go together to some degree. Size of town has no relationship to the revenue sharing allocation on a per capita basis.

All this merely serves to point out the conflict of goals in the revenue sharing formula. The Brookings Institution has summarized the problem:

> The general revenue sharing program . . . reflects the conflict among the various rationales for revenue sharing . . . . To one degree or another all of the objectives . . . are pursued by the general revenue sharing program. The conflicting nature of these goals means that the program's effectiveness in achieving any of the objectives is partly offset by its attempt to achieve others.[5]

As the program now appears to be operating, the goal of rewarding tax effort supersedes the goal of aiding poorer governments. While this in itself may not be undesirable, revenue sharing does fall short of meeting the goal of equalization put forth by many of its proponents. Some suggestions for change and improvements will be considered in a subsequent article.

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[5]Edward R. Fried *et al., Setting National Priorities: The 1974 Budget* (Washington, D.C.: The Brookings Institution, 1973), pp. 279-280.

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