

Russian Federation  
Fiscal Reform Project

**Final Report: Government  
Finance and  
Intergovernmental Fiscal  
Relations in the Tomsk  
Region**

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## EXECUTIVE SUMMARY

### FINAL REPORT:

## GOVERNMENT FINANCE AND INTERGOVERNMENTAL FISCAL RELATIONS

### IN THE TOMSK REGION

JULY 1999

This analysis describes the finances and intergovernmental fiscal relationships in Tomsk Oblast, identifies some important fiscal issues that the government of the oblast should confront in the near future, and suggests some options for reform of the relationship between the oblast and units of local self-government within the oblast. The report also develops one specific transfer relationship which may be considered by Tomsk Oblast Administration and the report includes a potential draft law which would legislate the simulated transfer formula.

1. **Oblast and Local Shares of Consolidated Spending.** Government spending in Tomsk oblast is somewhat more centralized than the median of all regions in the Russian Federation, at 37 percent of spending by the oblast and 63 percent of spending by local governments. The median division is 33 percent by the oblast and 67 percent by the localities. However, the range is wide: excluding the atypical situations in Moscow and St. Petersburg cities and the Chechen Republic, the range is from 15 percent oblast / 85 percent local in Perm oblast to 71 percent regional / 29 percent local in Nenets autonomous region.
2. **Shares of Consolidated Spending by Function.** The four largest expenditure categories for consolidated regional and local governments in the Russian Federation -- and in Tomsk oblast -- are education, housing and utilities, health care and physical culture, and social policies. The median and range of shares across the Federation follow: (i) education (22.9 percent median, ranging from 40.6 percent in Aginsk - Buriat autonomous area to 10.0 percent in Yamal - Nenets autonomous area); (ii) housing and utilities (20.9 percent median, ranging from 48.3 percent in Magadan oblast to 7.1 in Komi - Perm autonomous area); (iii) healthcare and physical culture (15.2 percent median, ranging from 20.8 percent in Orenburg oblast to 6.1 percent in Yamal - Nenets autonomous area); and (iv) social policies (7.2 percent median, ranging from 19.6 percent in the Ingush Republic to 1.6 percent in Chukotka autonomous area). The Federation median for no other individual category of expenditure amounts to more than 5 percent of the total. Expenditure patterns in Tomsk oblast are roughly the same as the median. One important difference -- Tomsk devotes only 10.7 percent of its total spending on health care and physical culture, far less than the median of 15.2 percent.
3. **Per Capita Spending Across the Regions of Russia.** In per capita terms, the range between high spending regions and low spending regions is huge: in education, per capita spending is 12 times higher in the highest region than in the lowest; in housing and utilities, 21 times as great; in health care, 11.7 times as great. Of course, some of the difference is associated with the considerable difference in input costs across the regions of the Federation. But even after per capita spending is adjusted to account for these differences, the range remains large: for education, a factor of 8.4; for housing and utilities, a factor of 4.8; for health care, a factor of 9.1. The regions do reach different spending outcomes, even within the constraints placed on them by Federation requirements, mandates, and revenue limits. Per capita spending in Tomsk is 54 percent higher than the median for Russian regions but 6.5 percent lower than the mean (the mean is heavily influenced by extremely high spending in most of the autonomous areas). Ideally, these differences would reflect the implications of demands for service, opportunities for efficient delivery of services, and choices made by oblast and local governing bodies.

4. **Consolidated Oblast and Local Government Expenditure by Function.** The largest spending function for 1997 is education (22.2 percent of consolidated total expenditures, with 81 percent of that spending done by localities), followed closely by spending on housing and utilities (21.9 percent of the total, with 97 percent of that spending done by localities). Those two categories were the most important in 1996 as well, but their ranking was reversed. Real spending growth from 1996 to 1997 was substantial -- far greater than the change in the population of the region -- for all functions but industry, energy, and construction (spending for this function declined) and will promise to put considerable pressure on the revenue capacity of the government.
5. **Expenditure by Local Governments in Tomsk Oblast by Function.** For local governments alone, housing and utility spending is the greatest (33.9 percent of total in 1997), followed by spending on education (28.4 percent). Healthcare is the third largest spending component for localities, but its total is less than half of that for education (11.8 percent of the total).
6. **Expenditure by Tomsk Oblast Government by Function.** For the oblast government, spending on agriculture and fishing is the largest (18.7 percent), followed by spending on education (11.7 percent). The importance of education spending to both oblast and local administrations combine to make it the most significant category for the consolidated totals.
7. **Government Expenditure in Tomsk Region by Type of Purchase.** Payment for employees (wages plus payroll charges required for their employment) constitute a relatively modest component of the total, only around 22 percent of total expenditures excluding transfers from oblast to localities. This is much smaller than is typical for western governments, and somewhat surprising in light of the labor intensity of education and healthcare services, two important functions of Tomsk subnational governments, but not unusual for Russian regions. Indirect subsidies (free transportation, housing benefits, etc.) that Russian government employees receive in addition to direct payment may explain some of the difference in the wage share of the budget. Transfers -- subsidies to enterprises (mostly for agriculture) and transfers to non-profit organizations and to the population -- constitute a significant percentage of combined spending, 45 percent of total expenditures excluding transfers from oblast to localities. Capital construction and rehabilitation constitutes only 8 percent of total spending. This share is low and will mean that costs of repair and replacement will almost certainly increase substantially in the future, an extra requirement from the revenue resources of the oblast. While interest payments are a relatively small component of consolidated spending (less than 0.2 percent of the total in 1997), the increase from 1996 was huge. The oblast administration (interest payments for 1997 are almost entirely at that level) must take great care -- through careful budget practices and prudent financial management -- to prevent this expenditure from becoming a considerable draw on regional resources.
8. **Consolidated Revenue Distribution Across Regions.** Four taxes -- personal income, enterprise profits, the property taxes, and the value added tax -- provide most of the tax revenue collected by regions in the Russian Federation, but the share of consolidated regional revenues (excluding subsidies, subventions, and mutual settlements) that regions collect from them is subject to considerable variation. The median share and the range for these taxes follows: (i) the personal income tax (21.5 percent, ranging from 53.1 percent in the Republic of Altai to 8.3 percent in the Republic of Tatarstan), (ii) the enterprise profits tax (15.5 percent, ranging from 31.9 percent in Koryak autonomous area to 2.9 percent in Evenk autonomous area), (iii) the property taxes (13.8 percent, ranging from 31.5 percent in Tajmyr autonomous area to 5.0 percent in Evenk autonomous area), and (iv) the value added tax (13.5 percent, ranging from 29.0 percent in the Republic of Kalmykia to 2.2 percent in Nenets autonomous area). Tomsk oblast collects considerably less than the typical oblast from the taxes on enterprise profit (11.1 percent), on personal income (15.3 percent), and value added (12.5 percent) and more from the tax on property (15.6 percent); these four taxes yield almost three-quarters of all tax revenue to the Tomsk oblast and local budgets and roughly 60 percent of tax plus non-tax current revenue from the Tomsk economy.

9. **Taxes to Tomsk Oblast and Local Governments.** The Tomsk oblast government is heavily reliant on the VAT, receiving 42.8 percent of its total non-earmarked tax revenue from that source in 1997. It received 25 percent from the enterprise property tax, 13 percent from natural resource taxes, 8 percent from personal income taxes, and 7.6 percent from enterprise profit taxes in that year. Local governments as a whole were far less reliant on any single tax. They received 29 percent of their tax revenue from the personal income tax, 20 percent from the enterprise profit tax, 19 percent from the property taxes, and 8.6 percent from the natural resource taxes.
10. **Non-tax Current Revenue from the Tomsk Economy.** The oblast collected almost ten times as much revenue from non-tax sources as the localities did. That amounted to almost one-third of total oblast revenue derived from regional sources (in other words, omitting the yield from transfers), but only about 3 percent for the localities. Non-tax sources include revenue from public property ownership, fees and road fines, sale of public services, and sales of state property. About 90 percent of the consolidated total is from the last source.
11. **Revenue Effort in Tomsk Oblast.** Per capita territorial revenue excluding grants from the federal budget raised in Tomsk oblast in 1997 was 20 percent above the mean (and 8 percent above the median) of all Russian regions. However, gross regional product per capita is 46 percent higher than the mean for the regions and average wage is more than one-quarter above the average. Therefore, Tomsk oblast per capita tax revenue could be expected to be above the average even with normal effort. Does the revenue performance indicate extraordinary revenue-raising effort? The ratio of revenue to gross regional product for Tomsk oblast is 9 percent above the average of all regions. In sum, the evidence is that the Tomsk region manages higher tax effort than the average for the Federation.
12. **Federation Transfers to Tomsk Oblast.** Federation transfers to Tomsk Oblast constituted 16.2 percent of total current revenue in 1996 and 15.9 percent in 1997. Mutual settlements are not as large in the total as are other transfers and the mutual settlement share of total grants has fallen from 42 percent to 36 percent. However, this mutual settlement percentage is considerably greater than the percentage for the Federation as a whole.
13. **Budget Deficits.** Budget accounts for the oblast have to be reformulated according to international standards to produce a meaningful statement of the budget deficit. When restated according to these rules, the consolidated budgetary position of the region was in overall deficit in both 1996 and 1997. However, in 1996, current expenditures were less than current revenues, so there was a current surplus; the overall deficit was caused by capital spending. In 1997, there was both a current and an overall deficit, meaning that a considerable amount of the cost of government services was not being financed within the current revenue base of the region. The budget of the oblast alone was in overall deficit in both 1996 and 1997, 25.7 percent of total expenditure in 1996 and 50.1 percent in 1997. Part of the huge deficit for 1997 represents capital expenditure, but an even larger amount is for new budget loans. The current deficit was 20.2 percent of current expenditure in 1996 and 35.6 percent of current expenditure in 1997. These deficit levels are not acceptable for sound financial management. Much of the 1997 deficit was financed by sales of state property and land, a revenue stream that cannot be sustained. Mutual settlements from the federal government also represents a considerable source of financing in both years and this source as well is not a sound foundation for the budgetary operations of the oblast.
14. **Debt.** Normal deficit financing in 1997 consists primarily of loans from banks. Securities repaid in 1997 are almost the same level as securities sold in 1996. Security issues constitute only about 10 percent of total liabilities. Much of the liability has been caused by production-oriented borrowing, not the finance of core functions of government or for financing the capital infrastructure of governments in the oblast.

15. **Intra-oblast Per Capita Spending Distribution.** Per capita expenditures vary considerably across the local governments in the oblast. This result is not surprising, because the localities have different fiscal resources available to them and likely will spend accordingly. The absolute range for the five largest individual spending categories and for the total is great, but a better gauge of the extent of disparity can come from the coefficient of variation (the standard deviation divided by the mean), an index of the relative difference throughout all the localities. Disparity was greatest for housing and utilities (not surprising, given the mixture of urban and rural areas in the oblast) and smallest for social spending policies (a variety of spending directed to categories of individual). At its most dramatic, total spending per capita in the City of Strezhevoy is more than triple that of per capita spending in Kozhevnikovskiy raion (the lowest). Spending is higher where average wage is higher, where the share of pensioners in the population is lower, where there is more land area in the locality and hence more geography for local services to be spread over, and in northern territories that produce oil.
16. **Intra-Oblast Tax Distribution.** Per capita revenue varies substantially across the localities in Tomsk oblast. In 1997, the highest per capita tax revenue (in the city of Strezhevoy) is more than sixteen times as great as that of the lowest (Asinovskiy raion). Much of the gap in the total is caused by enterprise property tax revenue in Strezhevoy, but there is great variation in personal income taxes, natural resource taxes, and housing and utility taxes -- and, while high collections in one tax do not always translate into high collections for other taxes, the differences do not cancel out. Seven localities had per capita tax revenues above 1,000 thousand roubles while ten had per capita tax revenues below 500 thousand. Some localities have considerable tax endowments from their local economies while other localities lack any meaningful tax revenue base. The substantial disparity shown here would be even greater if the city of Strezhevoy retained all enterprise profit and personal income taxes, as did the other localities in 1997.
17. **Intra-oblast Grants.** Tomsk oblast makes three sorts of transfers to its local governments. Subventions are paid to the localities in the form of earmarked grants -- only to the City of Tomsk in 1997 for its performance of functions as the oblast center. Subsidies, the basic formula transfer of general revenue made to municipalities, account for 50.0 percent of total transfers. As a share of total revenues to localities, they range from zero in four localities (Aleksandropvskiy, Karasokskiy, City of Tomsk and City of Strezhevoy) and to more than 35 percent of revenue in Baksharskiy, Verkhneketskiy, Zyrjanskiy, Kryvosheinskiy, Molchanovskiy, and Chainskiy raions and in the City of Kedrovyy. Mutual settlements or deficit grants allow localities to cover financial shortfalls amount to 49.7 percent of total transfers to localities in the oblast. As a share of total revenue to the locality, there is much variation in Tomsk oblast, from 6.0 percent of total revenue in Bakcharskiy raion to one-third of total revenue in Aleksandropovskiy and Karaganskiy raions and in the city of Strezhevoy. Three of these latter localities are among the four receiving no subsidy in the current basic transfer formula. Per capita grants to localities in 1997 were greatest in Krivosheinskiy raion. While Krivosheinskiy is fourth lowest of the localities in per capita tax revenues for 1997, it is only slightly below the middle in average wage. The four localities (Aleksandropvskiy, Kargasokskiy, Tomsk City, and Strezhevoy City) receiving no subsidy are the four highest localities in terms of tax revenue and are among the top six in terms of average wage. However, each but Strezhevoy receives about one-third of their total revenue from mutual settlements, placing them at the top of localities in terms of reliance on this source. While it is reasonable that localities with more prosperous individuals receive smaller transfers from the oblast, the relationship with tax collections is troubling. It would appear possible that localities can get more of their government financed by the oblast by making lower tax effort. The locality with highest per capita subsidies is low in terms of tax collections -- but its average wage is only slightly below the middle. This is worrisome: the transfer system ought not encourage localities to finance their operations with aid, instead of financing services first from good faith effort from its own tax base.
18. **Reforms for the Transfer Relationship.** Tomsk oblast provides a transparent approach for calculating its transfers to localities. But the relationship could be improved in several ways. Heavy use of mutual settlements dilutes the relevance of the transfer system and budgetary control

of local spending. The subsidy formula calculates minimum budgets for an unnecessarily high number of categories, the transfer program makes revenues to localities unnecessarily unstable, and does not base transfers on tax capacity. Revisions can simplify and stabilize the transfer process, while concentrating transfers where needs are greater and revenue prospects are less. A complete description of a possible new transfer mechanism is discussed in this report, and presented in detail in the Appendix.

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**1.0. Background on the Tomsk Region**

**1.1. Population and Economy**

The population of Tomsk Oblast is 1.1 million, making it the fifty-third largest region among Russia's 89 regions. The population of the region fell by 1.02 percent from 1990 to 1997, compared to a decrease of 0.95 percent for the Russian Federation in the same period. Tomsk city has a population of 475.1 thousand and surrounding Tomsk Raion has another 93.1 thousand; therefore, the Tomsk area constitutes slightly more than half of the total population of the oblast. Another 43.9 thousand people live in the city of Strezhevoy. The land area of the oblast is 316.9 thousand square miles, the eighteenth largest area in the Russian Federation. Obviously, the difference between rank in land area and in population size means that the oblast is far less densely populated than the typical Russian region.

According to Goskomstat national data, per capita gross regional product in 1997 was 19.8 million roubles, 46 percent above the mean for all regions and 72.5 percent above the median. When regional product is adjusted for differences in cost of living,<sup>1</sup> per capita regional product in the oblast is 46 percent above the mean and 60.9 percent above the median. The region is a relatively small portion of the Russian economy, about 0.97 percent of total Russian gross domestic product in 1997. The increase in per capita gross regional product from 1994 to 1997 in the oblast was somewhat more than for the median of the all regions of the Federation -- for the oblast, per capita gross regional product increased by a factor of 4.807, compared with 4.018 for the mean of regions and 3.849 for the median region. When both are deflated by the national domestic product deflator (there is no such index for the oblast alone), the national median fell by almost 20 percent and the national mean fell by 16 percent while the real per capita gross regional product in Tomsk rose by 0.35 percent.<sup>2</sup> Average wage in 1997 in the region was 1,156.1 thousand roubles. This wage is 26.3 percent above the average of regions (29.8 percent in real terms, calculated as above). Reliable and comparable data are unfortunately not yet available for more recent periods.

Geography complicates the finances of Tomsk Oblast. Twelve of the nineteen localities in the oblast are among the northern territories.<sup>3</sup> That provides official recognition of special climatological and economic concerns for these areas and changes the way those areas are viewed by the Federation and by the oblast. These localities and the people living there may merit extra attention from both governments. Distribution systems in oblast finances will need to consider the possibility that expenditure needs will be different in these areas and that indigenous financial resources may be somewhat more limited there. However, distribution systems must beware of perpetuating economically unlivable habitations. To do so will cripple the development prospects of the entire region. The oblast also includes a federal city (Seversk) that is legally

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<sup>1</sup> Throughout this report, adjustments for price differences between regions of the Russian Federation are made by use of the Goskomstat twenty-five good consumer basket data. There are many limitations to these data, but there is no other reasonable alternative gauge of price differences.

<sup>2</sup> Product data from Goskomstat; deflators from Bank of Russia.

<sup>3</sup> Northern territories: Alexandrovsky, Bakcharsky, Verhneketsky, Kargasoksky, Krivosheinsky, Molchanovsky, Parabelsky, Teguldetsky, Chainsky, City of Streshevoy, and City of Kedrovoy. Other: Asinovsky, Zyryansky, Kozhevnikovskiy, Pervomaisky, Tomskiy, Shegarsky, and City of Tomsk.

not part of the oblast. Taxes from that city are not in regional or local budgets, even though city residents use services provided by other budgets. Because data are not provided, these finances are not part of this report.

## 1.2. Governance

The oblast includes nineteen municipal settlements (excluding Seversk), each with local governing councils. The oblast itself is governed by the elected State Duma of Tomsk Oblast and a governor. The municipal settlements are also self-governed by their own elected officials. The Law on Budget Structure and Budget Processes (resolution no. 261 passed by the Tomsk Oblast Duma dated February 29, 1996) establishes the basis for financial relationships in the oblast. Several portions of that law are particularly important:

1. The law established that the budget system includes both the oblast and the localities (Article 2), but that the oblast and the localities have separate budgetary sovereignty, with bodies of local self-government and the Oblast State Duma acting on behalf of their constituencies.
2. Budgets are prepared by the administration for adoption by legislative bodies.
3. There is an automatic mechanism for execution of budgets in the new fiscal year before budgets are formally approved.
4. The law prescribes balanced budgets (Article 14) and limits debt to 20 percent of annual expenditure.

The law does require a clear distinction between current and capital expenditure and does not restrict debt issuance to the finance of the latter.

The budget law establishes the primary financial relationship between the oblast and its municipal settlements.

1. Article 13 provides that the relationship will include tax-sharing rates on regulating taxes, a formula distribution of oblast funds to the localities, and other financial assistance from oblast to localities.
2. The law establishes the following transfer system: the revenue potential of local budgets is estimated, a minimum local budget is established from Federation and oblast norms, and the oblast is expected to fill the difference between the minimum budget and revenue potential. A Fund for the Financial Support of Municipalities is established in the oblast budget for these transfers. The oblast is expected to support a locality when that locality's own source revenues covers less than 75 percent of the minimum local budget.
3. The law specifies that overfulfillment of revenue cannot be used as grounds for reducing sharing rates in future fiscal years.
4. The budget law recognizes mutual settlements as a mechanism for compensating for loss of revenues or increase of expenditures not foreseen when budgets are adopted.

The local governments approve their own budgets, but all must operate within oblast and federal laws and regulations. They work with taxes and tax shares adopted by higher levels of government and with distributions from the oblast budget. Localities have minimal fiscal autonomy and little opportunity to raise revenue on their own. Their political independence is not matched by the considerable control that higher levels of government have placed on their finances.

The law of Tomsk region "On Local Self-Government in the Tomsk Oblast," Resolution No. 301 of July 25, 1996, establishes critical features of local budgeting and financial management.

1. Article 45 establishes that local budgets will be drawn up by bodies of local self-government, without interference from the oblast government, except as specified by Federation or regional law.
2. Article 46 identifies local revenue and establishes that local revenue will not be captured by Federation or regional government if not spent by the locality.
3. Article 47 establishes that the Federation and Tomsk oblast will assign revenues to localities to cover minimum required expenditures, that minimum local budgets will be based on state social standards and norms of fiscal sufficiency, and that transfers to the local budget will compensate if assigned revenues do not cover minimum expenditure.
4. Article 48 gives localities the right to borrow. It does not establish limits, controls, or constraints on this power.

The financial relationship established between the oblast and the localities makes Tomsk oblast responsible for supporting important local functions, apparently without regard to the financial condition of the oblast or to the importance of governmental functions that are the responsibility of the oblast. It is, therefore, critical that transfers be carefully targeted in the distribution formula, that incentives for financial support and economy of operations be appropriately designed, and that care is taken to recognize financial constraints in estimating minimum expenditures.

### **1.3. Economic Structure**

The economic structure of Tomsk oblast shows several differences from that of the whole of the Russian Federation. These differences are reflected in Table 1, a display of shares of economic production in the oblast and in the nation. About forty percent of regional product originates in the industrial sector, a considerably higher share than for the Russian economy as a whole. In production values, fuel (oil and gas), chemicals including petrochemicals, and machine building / metalworking are the most important industrial operations. In employment terms, forestry must be added to the list. However, as Table 2 shows, the structure of employment is only slightly more concentrated in production in Tomsk than in the overall Russian economy. As noted earlier, per capita gross regional product and average wage in Tomsk oblast is much higher than the Russian Federation average. This results from the importance of oil extraction and oil refining in the region. Even within the oblast there is an impact: average wage in localities where oil extraction occurs is twice as high as in other localities.

Heavy concentration of economic activity in production, especially heavy production, is a mixed fiscal blessing. On the one hand, enterprises in these industries are likely to be in the formal sector and evasion of taxes may be more difficult. Profits, value added, and payrolls should be more easily measured and accounted for these enterprises than for smaller enterprises and enterprises in service sectors. On the other hand, these heavy enterprises are likely to be more sensitive to economic decline (especially when facilities are not modern), to the economic cycle, and to changes in international markets than elements of the service sector. Under current economic conditions, many of the customers of these production businesses pay in barter, not in cash, thereby making it difficult for the firms pay their taxes to national and subnational governments and, as a result, making it difficult for the governments to pay their bills in cash. And many of these firms are subject to environmental concerns and to regulations that limit profit potential, and hence the tax base coming from them. Concentration in heavy industry also requires capital investment and support of infrastructure necessary for economic viability of those enterprises. The value of oil and gas production is heavily influenced by international energy markets, causing great instability in the value of production, employment prospects, and government revenue flows. This instability can be an extremely difficult challenge for subnational governments -- collapse of these markets often brings heavy demands on these governments for

services (social protection, education, health care, etc.) at the same time as it causes declines in revenues to those governments.

Tomsk is blessed with long established and excellent centers of higher education, technology, and research. Some of these do not contribute directly to the tax base, but their results are of considerable importance to the development of human capital and to the endowment of modern technology in the infrastructure. Their contribution is therefore important but indirect.

#### 1.4. Intra-Regional Disparities

The municipal settlements in the region show considerable disparity in their revenue potential and demand for government services. Measures used to gauge disparity in traditional public finance analysis are not possible because there are no estimates of economic product or personal income by municipality. However, data in Table 3 do suggest a wider variation of social and economic characteristics. These data are based on 1997 statistics.

**Population.** The localities vary widely in population (January 1, 1999 estimates) -- from 5.3 thousand (City of Kedrovoy) to 481.1 thousand (City of Tomsk). Thirteen localities (nine in the northern region) have populations less than 25 thousand, but mean population is 50.2 thousand, showing the impact of the atypical localities of Tomsk City (478 thousand) and Tomsk Raion (84.7 thousand). Such size extremes make it almost certain that demands for local government services will differ among the localities, as will issues in the finance of those services.

**Area and Population Density.** There are major variations in the geographic size of the localities and the density of population within them. Ten localities, including the three cities, cover 10 thousand square kilometers or less, but the area of Kargasoksky raion is 86,857 square kilometers. The median for the northern localities (14,691.5) is almost triple that of the others (5,081). And there is a dramatic variation in the density of population in the localities, from 0.3 persons per square kilometer in Kargasoksky to 2,933.5 in Tomsk City. Thirteen localities have densities below 5 persons per square kilometer while all three cities have densities above 100 persons per square mile. Such differences in the geographic scope of the localities and the density of population within them means dramatic differences in the environment for providing services to the citizenry.

**Rural Population.** The population of fourteen localities (eight of these in the northern region) is entirely rural, but the population of the cities of Tomsk and Strezhevoy is entirely urban. Needs for government services, as well as the complications involved in providing them will differ according to whether the population of the locality is predominantly rural or urban.

**Average Wage.** The average wage -- total wages paid in the district divided by total paid employment -- provides a rough index of economic condition of the population. Median average wage across localities is 810.9, with a range from 577.1 (Zyryansky raion) to 2,129.1 (City of Strezhevoy). This variation, although large, is considerably less than for population. Eleven of the nineteen localities are within a range of twenty-five percent above or below the median of all units. The median average wages is 45 percent higher in localities in the northern territories than in the other group of localities, but there are great differences within that region: the average wage in the highest (Strezhevoy City) is more than triple that of the lowest (Chaninsky raion). In sum, there is considerable basic uniformity in the economic situation of the localities. The average wage dispersion is far less than for population, geographic size, or population density of the localities, although the difference in average wage by geography in the oblast is substantial.

**Gross regional product.** The finance committee of Tomsk oblast estimates gross product of each of the localities. Gross product per capita within the oblast varies widely, even more widely than does average wage. The highest value (the City of Strezhevoy) is more than ten times as great as the value in the lowest (Molchanovsky raion). Seven localities have per capita levels below 10,000 thousand Rb, but the per capita

level in one locality is almost 100,000 thousand Rb (Strezhevoy at 96, 075 thousand Rb). This means great economic and, ultimately, fiscal, disparity between the localities.

It would be difficult for an oblast government to design revenue and expenditure policies that will respond equally well to the needs of each of these localities that are so different from each other. Efficiency and responsiveness to the citizenry dictates considerable local flexibility in providing services when localities in the oblast are so different in their fundamental characteristics.

For analysis of disparity across localities, it is important to have an indicator of the level of economic development and economic condition (and possibly fiscal capacity) in each locality. Measures such as value added or personal income are unavailable, but average wage may be a useful proxy. The utility of this indicator may be tested by examining the extent to which it is correlated with other measures of development and economic well-being. In particular, evidence for Tomsk oblast shows that across localities in the region, those with higher average wage tend (simple correlation coefficient reported in parentheses) to have:

1. higher profits (or lower loss) per registered enterprise (0.82);
2. a higher index of industrial production (0.70);
3. a lower percentage of the labor force unemployed (-0.26);
4. more telephones per capita (0.80);
5. a higher share of urban population (0.61);
6. a higher per capita gross local product (0.84);
7. a higher consumer basket price (0.88);
8. a higher per capita volume of production of market goods (0.74); and
9. a higher per capita retail turnover (0.83).

The implication of this evidence is that average wage can be used as a proxy for the relative level of economic development in the locality. It will be used as such a gauge of economic condition throughout this report.

## **2.0. Budgetary Position in the Region**

Federal, regional, and local governments have separate responsibilities and each has its own degree of sovereignty and elected governments with budgetary powers. Each forms its own budget and has designated revenues and expenditure responsibilities. However, higher levels exercise considerable influence and control over the fiscal decisions of lower levels through both directions and constraints on expenditures and determinations on how much revenue lower levels will have to spend. The finances of regional and municipal governments in the Russian Federation and in Tomsk Oblast are narrowly constrained by higher level revenue determinations. The Federation establishes what revenue sources may be available to subject and local governments, defines the tax base and rate for most taxes yielding revenue to subnational governments, and determines sharing rates when taxes will be shared. Those decisions, along with those establishing the amounts to be transferred, establish the amount of total spending by subnational government.

While lower levels develop expenditure programs within those resources available to it, that spending is subject to higher level mandates and requirements for making payments for certain classes of individuals. These mandates and requirements diminish the extent to which regions and localities enjoy fiscal autonomy and the power to adjust their finances to meet the wishes, needs, and resources of their citizenry. National ministries also establish norms for production of certain government services (for instance, education and health care) that can influence critical elements of regional and local budgets. The Russian fiscal system is driven from the top and analysis of consolidated budgets is much more than an academic exercise.

The following sections examine revenues and expenditures in the Tomsk region. The analysis must always be kept within the basic context that many choices by the oblast and by localities within the oblast are being influenced by higher levels of government, the Federation for the oblast and both the Federation and the oblast for the

localities. Among the influences are norms recommended for services for subnational governments.

## 2.1. Tomsk Region Compared with the Subjects of the Russian Federation

The regions of the Russian Federation all operate in an expenditure and revenue system established by the Federation government. Within that structure, however, regional and local governments do exercise their budgetary options somewhat differently and those governments do face different economic and demographic environments. Therefore, it is not surprising that the regions do have different revenue and expenditure outcomes within this uniform Russian financial system. Before examining the finances of Tomsk oblast in detail, it is useful to provide a comparison of this oblast with the other subjects on some important criteria. These critical comparisons for 1997 are provided in Tables 4, 5, and 6.

Table 4 shows that the regions of the Russian Federation divide expenditure between the oblast and its localities in different ways. The median division is 33 percent by the oblast and 67 percent by the localities (of course, much of the spending by localities is financed by subsidies and other payments from the oblast government). However, there is a broad range of choices. Excluding the atypical situations in Moscow and St. Petersburg cities and the Chechen Republic, the range is from 15 percent oblast / 85 percent local in Perm oblast to 71 percent regional / 29 percent local in Nenets autonomous region. Tomsk oblast is somewhat more centralized than the median, at 37 percent oblast and 63 percent local. In all cases, the division is the product of division of service responsibilities between the levels and the distribution of demand for services by the population.

Table 5 exhibits the share of consolidated regional revenues (excluding subsidies, subventions, and mutual settlements) that regions collect from particular taxes. The most important, with the median and the range are (i) the personal income tax (21.5 percent, ranging from 53.1 percent in the Republic of Altai to 8.3 percent in the Republic of Tatarstan), (ii) the enterprise profits tax (15.5 percent, ranging from 31.9 percent in Koryak autonomous area to 2.9 percent in Evenk autonomous area), (iii) the property taxes (13.8 percent, ranging from 31.5 percent in Tajmyr autonomous area to 5.0 percent in Evenk autonomous area), and (iv) the value added tax (13.5 percent, ranging from 29.0 percent in the Republic of Kalmykia to 2.2 percent in Nenets autonomous area).<sup>4</sup> For these major taxes, Tomsk oblast collects considerably less than the typical oblast from the taxes on enterprise profit (11.1 percent), on personal income (15.3 percent), and value added (12.5 percent) and more from the tax on property (15.6 percent). However, the big difference is in the other category -- Tomsk collected far more in 1997 from sales of property than the typical region, as will be discussed in greater detail later.

Table 6 shows the distribution of consolidated expenditures across major expenditure categories for the Russian regions. The most important expenditure classes for subnational governments are (i) education (22.9 percent median, ranging from 40.6 percent in Aginsk - Buriat autonomous area to 10.0 percent in Yamal - Nenets autonomous area); (ii) housing and utilities (20.9 percent median, ranging from 48.3 percent in Magadan oblast to 7.1 in Komi - Perm autonomous area); (iii) healthcare and physical culture (15.2 percent median, ranging from 20.8 percent in Orenburg oblast to 6.1 percent in Yamal - Nenets autonomous area); and (iv) social policies (7.2 percent median, ranging from 19.6 percent in the Ingush Republic to 1.6 percent in Chukotka autonomous area). The Federation median for no other individual category of expenditure amounts to more than 5 percent of the total.<sup>5</sup> Expenditure patterns in Tomsk oblast are roughly the same as the median. One important difference -- Tomsk devotes only 10.7 percent of its total spending on health care and physical culture, far less than the median of 15.2 percent. Overall, territorial spending (that is, spending by regions and their localities) concentrates in spending for education (a median of 23.6 percent of total territorial spending across all regions), for housing and utilities (21.4 percent), and health care (15 percent); no other category amounts to as much as ten percent of total. In per capita terms, the range between high spending regions and low spending regions is huge: in education, per capita spending is 12 times higher in the highest region than in the lowest; in housing and utilities, 21 times as great; in health care, 11.7 times as great. Of course, some of the difference is associated with the considerable difference in input costs across the regions of the Federation. But even after per capita spending is adjusted to account for these differences, the range remains large: for education, a factor of 8.4; for housing and utilities, a factor of 4.8; for health care, a

<sup>4</sup> These ranges exclude the Chechen Republic.

<sup>5</sup> These ranges exclude the Chechen Republic.

factor of 9.1. The regions do reach different spending outcomes, even within the constraints placed on them by Federation requirements, mandates, and revenue limits.

Per capita total tax revenues and expenditures differ broadly across the regions, as Table 7 shows. Per capita territorial revenue without grants from the federal budget raised in Tomsk oblast in 1997 was 3,197 Rb thousand, or 20 percent above the mean (and 8 percent above the median) of all Russian regions.<sup>6</sup> However, as noted earlier, gross regional product per capita is 46 percent higher than the mean for the regions and average wage is more than one-quarter above the average. Therefore, Tomsk oblast per capita tax revenue could be expected to be above the average even with normal effort. Does the revenue performance indicate extraordinary revenue-raising effort? Evidence on this question can be produced by adjusting revenues for the size of the region's economy. The ratio of revenue to gross regional product for Tomsk oblast is 9 percent above the average of all regions.<sup>7</sup> In sum, the evidence is that the Tomsk region manages higher tax effort than the average for the Federation.

What forces might lie behind this level of tax effort? In western governments, differences emerge from decisions about what taxes to levy, how to define those tax bases, and on what tax rate will be levied. Subnational governments have few options in these regards. The sorts of influence that can appear here include:

1. The use of exemptions from certain taxes offered to business enterprises.
2. The extent to which local authorities influence the tax administrators to pursue collections with great vigor.
3. The extent to which the subnational governments use offsets and in-kind payments to satisfy liabilities of taxpayers.

Table 7 also puts Tomsk oblast into the context of spending by the regions of Russia through calculation of the ratio of per capita spending by the oblast and its localities to average per capita spending across all regions. In total, per capita spending in Tomsk is 54 percent higher than the median but 6.5 percent lower than the mean (the mean is heavily influenced by extremely high spending in most of the autonomous areas). Ideally, these differences would reflect the implications of demands for service, opportunities for efficient delivery of services, and choices made by oblast and local governing bodies.

## 2.2. Revenue Structure

Subnational governments in the Tomsk region finance most of their spending from taxes shared by the oblast with the Federation or by the locality with oblast or Federation. Payments from higher levels of government support other spending; these systems will be considered in a later section. Table 8 presents consolidated -- oblast plus local governments -- current revenue data as executed for 1996 and 1997 and as forecast in the 1998 budget. Four major taxes -- personal income, enterprise profit, value added, and property -- generate the bulk of revenue to the consolidated regional budget; these four taxes yielded almost three-quarters of tax revenue in 1997 (roughly the same for 1996) and 60 percent of tax plus non-tax current revenue from the Tomsk economy.

Regional and local governments have power to adopt only those taxes listed in Federal legislation, must choose a base for those taxes within constraints from Federation law, and have only limited ability to choose the rate to be levied on some particular taxes. The Federation established what taxes were to be used, what

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<sup>6</sup>This mean is calculated with autonomous regions included in their encompassing oblast; separate data are not available for these regions.

<sup>7</sup>The agricultural sector pays minimal tax and often receives net subsidies, so it contributes little to the tax base. If this sector is subtracted from gross regional product to obtain an adjusted measure of potential tax base, the ratio of tax revenue to adjusted gross regional product is 14 percent in Tomsk, compared with 16 percent for the average of the regions (these data are for 1996 because agriculture data are not available for 1997).

rates would apply, and what shares would be distributed to the subnational governments -- and defines limits for sharing between oblast and localities. Tomsk has not chosen to adopt one important optional tax -- the regional sales tax authorized by Federation law in 1998, although it has adopted the imputed tax.<sup>8</sup>

Revenues from Federation taxes are distributed to subnational governments on a derivation basis, i.e., the region retains revenues according to the point of collection. Every region in the Federation retains the same percentage of collections for its budget, as described below. The distribution arrangement causes around half of all tax revenue collected in Russia to be dedicated to subnational government. For Tomsk oblast, regional tax service data for 1997 show that the Federation budget received 42 percent of tax revenue and 2 percent of non-tax revenue collected in Tomsk oblast and that oblast and local budgets in Tomsk received 58 percent of tax revenue and 98 percent of non-tax revenue. The actual division between Federation and territorial budgets for individual taxes differs from rates intended in law because the oblasts and localities may collect in kind and may provide non-cash offsets, while the Federation collects only in cash and cash offsets.

This system of revenue distribution causes great disparity among the regions in terms of tax revenue -- those oblasts with high tax base will have significantly more revenue than will regions with a smaller tax base. Low capacity regions have little freedom to make up the difference; they cannot levy higher rates, although they can attempt to induce greater collection rigor from the federal tax inspectorate working in its territory. The principal taxes and their application in Tomsk oblast are described in the following paragraphs.

1. *The enterprise profits tax.* Most tax relationships in the Russian Federation are *tax sharing*, in which the lower level receives a set percentage of the amount of tax that is collected. The enterprise profits tax, however, represents *base sharing*, in which the Federation and oblast levy separate rates to a common base. Regional governments have been permitted to levy an enterprise profits tax rate up to a maximum of 22 percent added to the federal rate of 13 percent. As with most other oblasts in the

Russian Federation, Tomsk levied a rate of 22 percent.<sup>9</sup> In 1997, enterprise profit tax collections were 15 percent of tax revenues to oblast and local governments in Tomsk oblast. Nominal collections increased by 4 percent from 1996 to 1997; in real terms, collection fell by 12 percent, based on change in the national gross domestic product deflator. Tomsk regional tax service data show for 1997 an actual distribution of enterprise profit tax collections of 25 percent to the federal budget and 75 percent to territorial budgets (the regional rate is 63 percent of the combined 35 percent rate on enterprise profit).

2. *The personal income tax.* The personal income tax is levied by the Federation and the Federation determines how much of collections will be shared with the regions; subnational governments may alter neither the base nor the rate of the tax. In 1995 and 1996, the Federation received 10 percent of revenue. For 1997 and 1998, all revenues were subnational. The 1999 Federation budget directs the first 3 percentage points of the personal income tax rate to the Federation. In other words, the first bracket of the personal income tax for subnational government falls from 12 to 9 percent, the Federation budget receiving the difference, and all

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<sup>8</sup> The oblast government was concerned about the burden the tax would place on the population, the loss of local revenues from the seventeen familiar local taxes that would have to be rescinded if the oblast were to adopt the sales tax, and the danger that the tax would drive cash businesses into the shadow economy. The oblast may introduce the tax in July if the VAT rate is reduced at that time.

<sup>9</sup> Exception to the 22 percent rate include St. Petersburg city and Koryak autonomous area (20 percent), Leningrad oblast (18 percent), Komi Republic (21 percent), and Kalmykia Republic (0 percent). A number of regions tax banks and insurance companies at higher rates than standard, usually 30 percent. A Federation law passed in April 1999 changes the Federation tax rate to 11 percent and limits regional rates to 19 percent for most activities and to 27 percent on middlemen, insurers, exchanges, brokerages, banks, and other credit organizations.

graduated rates from there continuing to go to subnational budgets. In 1997, personal income tax collections were 21 percent of tax revenues to oblast and local governments in Tomsk oblast. Nominal collections increased by 51 percent from 1996 to 1997 (the subnational sharing percentage increased); using the national gross domestic product deflator, the real increase was 28 percent. Regional tax service data for 1997 report two percent of actual collections going to the Federal budget and 98 percent to territorial budgets, presumably reflecting collections from prior year liabilities received in 1997.

3. *Payroll taxes.* There are three kinds of payroll taxes reflected in 1997 regional finance data. First, from 1994 through 1997 there was a transport tax at a rate of 1 percent of the wage fund dedicated to the regional budget, but adopted by the Federation, not the oblast, with all proceeds to the regional budget (a Federation tax with a 100 percent sharing rate to the region). The tax has been abolished. Second, the oblast governments may levy an education tax, limited by the Federation to 1 percent of enterprise wages paid. Regions normally share the tax with localities. Third, localities are permitted earmarked duties for support of militia, landscaping, street cleaning, support of education and other purposes. The rate is fixed by the local government with Federation limitations of 3 percent of 12 minimum wages for natural persons and 3 percent of the minimum wage multiplied by the number of employees for enterprises. In Tomsk oblast, the government provides 100 percent of transport and education taxes to local budgets. All municipalities have introduced at least one of the earmarked duties and other local payroll taxes within their jurisdiction. Payroll taxes contributed 2.4 percent of consolidated budget (oblast plus local) tax revenue, 4.0 percent of oblast tax revenue in 1997. Nominal collections rose by 10 percent from 1996 to 1997; in real terms, there was a 7 percent decline.
4. *The value added tax.* The national general rate is 20 percent and oblasts receive 25 percent of total collections.<sup>10</sup> Tomsk oblast has chosen to dedicate one percentage point of this rate to its road fund. Regional tax service collections data for 1997 show 66 percent of collections to the Federation budget and 34 percent of collections to the territorial budgets.
5. *Excises.* Excises are levied, again by the Federation government, on certain domestically produced goods and on products imported from outside the CIS. The tax is collected at production (or import) so revenues are far more concentrated than are the points at which the product is eventually consumed (where the burden of the tax is almost certainly borne). The excise list includes tobacco products, alcohol beverages, petroleum products, automobiles, and jewelry. Federation / subnational shares are 50 / 50 for alcohol, 100 / 0 on energy products, and 0 / 100 for excises on domestic production. In Tomsk oblast, the excise on vodka yields more revenue than any other excise -- 70.5 percent of excise revenue in the consolidated budget, with all vodka excise revenue to the oblast budget. The tax on beer is the most significant excise for localities in Tomsk and 53.7 percent of total local excise revenue comes from beer tax revenue collected in the City of Tomsk. However, the contribution of all excises to the consolidated Tomsk budget is only 1.3 percent of tax revenue. Regional tax service data for 1997 show 94 percent of excise collections to the Federal budget and 6 percent of collections to the territorial budgets.
6. *Property (enterprise and individual) taxes.* The *enterprise property tax* applies to the balance sheet value of assets of the firm. The oblast may levy a rate not exceeding two percent on that value. Tomsk oblast, in common with most other subjects of the Federation, levies that

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<sup>10</sup> The VAT on imports, precious metals and stones, hydrocarbons, and excise goods is also received by the Federation budget. All refunds on zero-rated goods come from the Federation budget. One proposal under consideration in the Federation Duma would reduce the oblast share to 15 percent, concurrent with a reduction of the rate to 15 percent. Changes would be effective on July 1, 1999.

maximum rate.<sup>11</sup> Revenue from the tax is divided equally between the oblast and the localities. The *individual property tax* applies to structures owned by private individuals (houses, flats, cottages, garages, etc.) as well as motor boats, aircraft, and other vehicles except automobiles, motorcycles, and other self-propelled vehicles. For structures, the tax applies at a rate chosen by the oblast up to 0.1 percent of inventory value or, if that value has not been estimated, then the compulsory insurance value. The tax on vehicles is levied according to engine power. Local government at the location point (or registration) of the property receives all revenue. In 1997 taxes on property (primarily the enterprise property tax) constituted 21 percent of oblast and local government tax revenue in 1997. Nominal collections increased by 34 percent from 1996 to 1997; in real terms, the increase was 14 percent. Regional tax service collections data for 1997 show all individual and enterprise property tax collections are received by territorial budgets.

7. *Natural resource taxes.* Natural resource taxes and charges-- taxes on subsoil use, prospecting charges, and land taxes and lease -- constituted 10 percent of total tax revenue to oblast and local governments. Nominal collections increased by 5 percent from 1996 to 1997; in real terms, the decrease was 11 percent. Regional tax service collection data for 1997 show subsoil fees to be equally split between Federation budget and territorial budgets, prospecting fees to be divided 69 percent to Federal and 31 percent to territorial, and land taxes and leases to be divided 13 percent to Federal budget and 87 percent to territorial budgets in Tomsk oblast.
8. *Turnover (housing and utility and road fund) taxes.* Localities may levy a tax of up to 1.5 percent on gross sales of enterprises for the support of housing and utilities. The housing and utility tax contributed 11.1 percent of total tax revenue to localities in 1997. Nominal collections increased by 24 percent from 1996 to 1997; in real terms, the decrease was 5 percent. The road fund is extrabudgetary. The road fee, levied by the Federation, was 2.5 percent of turnover in production and 25 percent of the markup in trade in 1997. Half the proceeds were for the Federation and half were for the region. In 1998, the Federation received proceeds from 0.5 percent of the rate and the region received proceeds from 2.0 percent. The region may increase its portion of the rate, but by no more than half of the total tax rate.

### 2.3. Revenue Performance and Revenue Disparity

Table 8 reports consolidated revenues, excluding transfers, to Tomsk for 1996, 1997, and 1998, distinguishing between taxes, non-tax revenue, and earmarked funds (the road and ecology funds). (In this table, shared taxes are allocated to the tier of government designated to receive the collections, not to the government that controls adoption, rates, and shares of the tax.)

1. Oblast government. The Tomsk oblast government is heavily reliant on the VAT, receiving 42.8 percent of its total non-earmarked tax revenue from that source in 1997. It received 25 percent from the enterprise property tax, 13 percent from natural resource taxes, 8 percent from personal income taxes, and 7.6 percent from enterprise profit taxes in that year.
2. Localities. Local governments as a whole were far less reliant on any single tax. They received 29 percent of their tax revenue from the personal income tax, 20 percent from the enterprise profit tax, 19 percent from the property taxes, and 8.6 percent from the natural resource taxes.

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<sup>11</sup> A review of 1998 budgets of seventy-seven regions of the Federation showed fifty-five with the 2 percent rate. Three levied a 1 percent rate, two levied a 1.5 percent rate, one levied a rate of 1.2 percent, and one levied a 1.8 percent rate. Fourteen levied rates that were differentiated by type of enterprise (in the various regions, the rates ranged from 0.05 to 2 percent).

The oblast collected almost ten times as much revenue from non-tax sources as the localities did. That amounted to almost one-third of total oblast revenue derived from regional sources (in other words, omitting the yield from transfers), but only about 3 percent for the localities. Non-tax sources include revenue from public property ownership, fees and road fines, sale of public services, and sales of state property. About 90 percent of the consolidated total is from the last source.

Per capita revenue varies substantially across the localities in the oblast. Table 9 clearly shows these differences within the oblast in 1997. In that year, the highest per capita tax revenue (in the city of Strezhevoy) is more than sixteen times as great as that of the lowest (Asinovsky raion). Much of the gap in the total is caused by enterprise property tax revenue in Strezhevoy, but there is great variation in personal income taxes, natural resource taxes, and housing and utility taxes -- and, while high collections in one tax do not always translate into high collections for other taxes, the differences do not cancel out. The disparity in favor of Strezhevoy would be even greater if the city retained the share of profit and personal income tax common to the other localities. Seven localities had per capita tax revenues above 1,000 thousand roubles while ten had per capita tax revenues below 500 thousand. Some localities have considerable tax endowments from their local economies while other localities lack any meaningful tax revenue base. The substantial disparity shown here would be even greater if the city of Strezhevoy retained all enterprise profit and personal income taxes, as did the other localities in 1997.<sup>12</sup>

## 2.4. Expenditure Structure and Autonomy

Regional and local governments develop their expenditure plans within resources available to them. However, the total depends on higher level choices about tax structures, tax-sharing rates, and amounts transferred to them. Regional governments have few alternatives to determine *the total amount* available for them to spend, and local governments are even more constrained.

Their choices are greater in terms of how the total will be allocated among functions. Their choices are not subjected to higher-level review or approval, but regional and local governments are subject to stringent requirements from higher governments, some of them supported by financial assistance and some of them not. These requirements constrain budgetary choices by prescribing specific subsidies for various population groups or prescribe exact payments to workers or enterprises. Some of them mandate expenditure amounts in areas which are considered to be subjects of local government autonomous responsibility (particularly wages for teachers and doctors), as defined by the Law On the Federal Principles of the Organization of Local Self-Government in the Russian Federation. Others take the form of entitlements to individuals. In other words, payment is required for each individual who falls into the eligible class and, should payment not be made, the individual may sue the responsible government to receive the entitled benefit. Among the Federal requirements placed on local authorities are included:

1. Wage norms for teachers, doctors, and certain other categories of budget employees.
2. Distribution of free medicine among certain demographic groups.
3. Payment of monthly child benefits.
4. Compensation to teachers for the cost of book purchases.
5. Payment of benefits to persons having custody over children.
6. Free meals in schools and hospitals.
7. Free milk products for children under 2 years of age.
8. Free prosthesis for disabled persons.
9. Burial subsidies.
10. Subsidies for gasoline purchases by disabled persons.
11. Subsidies relating to payment for housing, utilities, electricity, and fuel.
12. Subsidies for payment of telecommunication, municipal transport, and certain other services for WWII veterans, old-age pensioners, families of soldiers who died in WWII and of WWII

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<sup>12</sup> The city retained profit tax only from municipal enterprises and no more than 30 percent of personal income taxes in 1997. For 1998, both this city and Tomsk city retained lower shares, as discussed later.

invalids, disabled persons, victims of the Chernobyl disaster, families with many children, Heroes of the Soviet Union and Heroes of the Socialist Labor Movement, blood donors, servicemen, police officers, customs officers, prosecutor's office workers, court officers, tax police officers, and traffic police officers.

Many of these provisions cover functions that are particularly important in the range of spending done by oblast and local government, notably education, health care, housing and utilities, and social protection. Rather than having autonomy in spending choices within the revenue allowed them, subnational governments find themselves considerably controlled by requirements placed on them by higher governments.

These entitlements and mandates are prescribed in Federation laws. Funds to support them are supposed to be provided in federal and regional revenue assignments, either in sharing rates or by transfers. In the case of free medicines and subsidized telecommunication costs for certain segments of the population, the costs are sometimes covered through earmarked grants. The mandates are funded as prescribed in the budget laws. In most other cases, the regional government "takes into consideration" the expenditure needs of the localities. That means that the costs are taken into account in establishing transfer amounts, but it is difficult to establish the exact extent to which this is done and whether amounts are fully adequate. Most believe that the funding is not complete.

In short, the federal government plays a significant role in determining both the size and the composition of regional government budgets and the Federation and the region play a major role in determining the size and composition of local budgets. The fiscal system is heavily established from the top, with expenditure discretion reduced at each lower level.

Table 10 presents consolidated oblast expenditures in Tomsk oblast by function for 1996 and 1997. The data may be examined in terms of oblast spending, local spending, and consolidated (oblast plus local) spending.

1. Consolidated. The largest spending function for 1997 is education (22.2 percent of consolidated total expenditures, with 81 percent of that spending done by localities), followed closely by spending on housing and utilities (21.9 percent of the total, with 97 percent of that spending done by localities). Those two categories were the most important in 1996 as well, but their ranking was reversed.
2. Localities. For local governments alone, housing and utility spending is the greatest (33.9 percent of total in 1997), followed by spending on education (28.4 percent). Healthcare is the third largest spending component for localities, but its total is less than half of that for education (11.8 percent of the total).
3. Oblast government. For the oblast government, spending on agriculture and fishing is the largest (18.7 percent), followed by spending on education (11.7 percent).

The importance of education spending to both oblast and local administrations combine to make it the most significant category for the consolidated totals. It should also be noted that real spending growth from 1996 to 1997 was substantial -- far greater than the change in the population of the region -- for all functions but industry, energy, and construction (spending for this function declined) and will promise to put considerable pressure on the revenue capacity of the government.

Table 11 presents consolidated oblast spending for 1996 and 1997, but classified according to object of spending or the nature of purchase made (i.e., whether payment is for services of employees, for interest owed, etc.). Four points are particularly interesting:

1. Payment for employees (wages plus payroll charges required for their employment) constitute a relatively modest component of the total, only around 22 percent of total expenditures

excluding transfers from oblast to localities. This is much smaller than is typical for western governments and somewhat surprising in light of the labor intensity of education and healthcare services two important functions of Tomsk subnational governments. Indirect subsidies (free transportation, housing benefits, etc.) that Russian government employees receive in addition to direct payment may explain some of the difference in the wage share of the budget.

2. Transfers -- subsidies to enterprises and transfers to non-profit organizations and to the population -- constitute a significant percentage of combined spending, 45 percent of total expenditures excluding transfers from oblast to localities. That means that the actual use of resources available to the governments in the oblast has been surrendered to non-government entities. Most of the total is subsidies to agriculture.
3. Capital construction and rehabilitation constitutes only 8 percent of total spending. This share is low and will mean that costs of repair and replacement will almost certainly increase substantially in the future, an extra requirement from the revenue resources of the oblast.
4. While interest payments are a relatively small component of consolidated spending (less than 0.2 percent of the total in 1997), the increase from 1996 was huge. The oblast administration (interest payments for 1997 are almost entirely at that level) must take great care -- through careful budget practices and prudent financial management -- to prevent this expenditure from becoming a considerable draw on regional resources.

Table 12 divides consolidated spending in the oblast between regional and local budgets, classified by expenditure object for 1997. Some points about those shares are particularly significant:<sup>13</sup>

1. Localities spend a considerably higher share of their total expenditure on employees – wages and payroll charges – than does the oblast government, 27.2 percent against 12.8 percent. Both percentages are, in the international context, low.
2. Capital expenditure takes a larger share of total spending of localities (10.1 percent) than for the oblast (7.9 percent).
3. Subsidies to enterprises are the largest single element in total spending for both the oblast and the localities. The share is somewhat smaller for localities (31.9 percent) than for the oblast (43.0 percent).
4. Transfers to the population are an important part of total spending for both the oblast and the localities, but more so for localities (9.5 percent) than for the oblast (7.5 percent).
5. A surprisingly high portion of total spending for oblast and localities is for transfers, including subsidies to enterprises, operating transfers, and transfers to the population, 51.0 percent for the oblast and 41.6 percent for the localities.

## 2.5. Expenditure Disparities and Determinants

Per capita expenditures vary considerably across the local governments in the oblast, as shown in Table 13 for 1997. There are considerable differences in total and by expenditure group. This result is not surprising, because the localities have different fiscal resources available to them and likely will spend accordingly. The absolute range for the five largest individual spending categories and for the total is great, but a better gauge of the extent of disparity can come from the coefficient of variation (the standard deviation divided by the

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<sup>13</sup> These percentages are based on total expenditure excluding transfer payments between governments.

mean), an index of the relative difference throughout all the localities. Disparity was greatest for housing and utilities (not surprising, given the mixture of urban and rural areas in the oblast) and smallest for social spending policies (a variety of spending directed to categories of individual). At its most dramatic, total spending per capita in the City of Strezhevoy is more than triple that of per capita spending in Kozhevnikovskiy raion (the lowest).

A review of simple correlation for 1997 shows per capita spending to be higher a) where average wage is higher (correlation = 0.84), b) where the share of pensioners in the population is lower (correlation = -0.54), c) where there is more land area in the locality and hence more geography for local services to be spread over (correlation = 0.45), d) in the northern territories (correlation with a dummy variable = 1 for northern location and 0 for other location = 0.49), and e) in northern territories that produce oil (correlation with a dummy variable = 1 for northern oil and 0 for other location = 0.83). However, it is more useful to consider the concurrent effects of several different influences on spending. Therefore, we have estimated a regression equation to show factors associated with variation in per capita expenditures across all the localities. The independent variables in the equation are population density of the locality (D), the average wage in the locality (W), and the northern territory dummy variable (N).

1. Population density is a general indicator of the cost of providing government services to the citizenry. Where the density is low, service cost per person is likely to be high -- delivering services throughout a sparsely populated territory is likely to be considerable, particularly in comparison to the delivery costs when the population is denser.
2. Average wage provides an index of demand for services (higher income residents often expect more from subnational government) and of greater capacity to pay for services. A positive relationship is expected.
3. The northern territory dummy variable provides an indication of whether spending is greater in the northern localities, as one might expect from the higher costs of service provision there.

The results of this regression are the following:<sup>14</sup>

$$E = 122.693 - 0.588 D + 3.284 W - 79.051 N$$

(423.8)    (0.264)    (0.556)    (378.314)    Adjusted R-squared = 0.745

The variables in the regression equation are associated with 75 percent of the variation of per capita expenditure. Both population density and average wage are significant determinants of spending, but location in the northern territories is not. More densely populated localities spend less on a per capita basis, all other things held equal, presumably because they find it less expensive to get government services to a closer-together client base. Localities with higher average wage spend more, presumably because they can afford it and because the residents want more local government services. Spending in the northern territories is not higher on average, after taking account of the effect of these other influences. This result is somewhat surprising, in light of the probable higher cost of providing services in such regions and the distinction made in the minimum budget structure of Tomsk oblast for localities in the first (northern) group. However, other influences appear to be of greater consequence for the actual spending patterns.

The analysis across localities indicates that, even after equalization efforts at the oblast level, there remains wide disparity among the localities in per capita spending. The differences are related to population and to average wage in the locality.

## 2.6. Federal Grants to the Region

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<sup>14</sup> Standard error appears below each coefficient in the regression equation.

The present system of grants in the Russian Federation has three major components:<sup>15</sup>

1. Transfers from the Federal Fund of Support of Regions (FFSR);
2. Earmarked grants through Federal projects; and
3. Grants transferred under the category of "mutual settlements."

FFSR Grants. The total grant pool for FFSR distribution throughout Russia was equivalent to approximately 15 percent of tax collections from internal transactions. These block grants, about 65 percent of all federal grants in 1997, originally were designed as a formula-based system. Before 1997, the formula aimed (i) to equalize per capita budget revenues of regions and (ii) to compensate for the deficit if the equalization amount did not allow a region to cover the estimated expenditures. Revenue "needs" for the first stage were estimated as the amount necessary to cover *basic* expenditures, defined as 1991 expenditures for designated purposes, inflated to current levels. Revenue projections were based on previous levels adjusted to the current year.

Before the Duma adopted the payments, regions could influence the calculations by claiming actual revenue collections that were lower and minimum expenditures that were higher, than those used by the formula. That made FFSR transfers heavily dependent on negotiations, almost on an *ad hoc* basis rather than the formula. Therefore, most regions would receive more money than the formula would justify and, in fact, the number of regions receiving deficit grants increased each year.

In 1998, the Federal government developed a new approach to equalization grants that, among other things, was designed to limit negotiations. The formula estimates an index of the fiscal capacity of a region, using an adjusted GRP indicator. This indicator of fiscal capacity is then weighted by an expenditure needs coefficient based on the regional subsistence level and other objective characteristics of regional differences in expenditure need. The weighted per capita indicators for each region are then ranked. The FFSR is distributed through an iterative procedure of compensating the poorest region with transfers sufficient to bring it up to the level of the next in the range, proceeding until there is no money left in the FFSR pool. Unfortunately the 1999 budget did not fully implement the formula but it is expected to make positive changes in the year 2000 budget.

Earmarked Grants. Earmarked financial assistance to regions is determined in negotiation between regions and the Federation government. These grants may be used for capital and current expenditure. For 1998, these grants are shown in the budget as a separate item and account for about 15 percent of total grants to regional governments. However, earmarked grants appear in various expenditure headings in the Federation budget and the actual total may actually be higher.

Mutual Settlements. By Ministry of Finance definition, mutual settlements include "funds transferred to and from the particular budget due to changes in planned revenues and expenditures introduced by decisions of upper level of government after the budget law was adopted." This category, accounting for about 20 percent of all Federation grants, is carried over from the pre-reform period, as was necessary when finances were a passive element in execution of the central plan. These funds balance the budgets of lower levels of government when deficits are created by changes in tax law or by adoption of new federal expenditure mandates (e.g., if a law is enforced or enacted in the middle of a financial year). These "settlements" mostly flow from higher to lower governments.

"Mutual settlements" include emergency grants, block grants, payments to cover mandates (for instance, mandated local assumption of enterprise housing), and settlements in lieu of financing regional investment programs. Some are budgeted and some are not. There is no formal method for distributing "other" mutual

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<sup>15</sup> There also are block grants to closed cities and to Moscow that account for less than 5 percent of total grants.

settlements among the regions.

### Transfer Totals to Tomsk Oblast.

The distribution of Federation transfers to Tomsk Oblast for 1996 and 1997, divided between mutual settlements and all other transfers, is detailed in Table 14. Total transfers constituted 16.2 percent of total current revenue in 1996 and 15.9 percent in 1997. Mutual settlements are not as large in the total as are other transfers and the mutual settlement share of total grants has fallen from 42 percent to 36 percent. However, this mutual settlement percentage is considerably greater than the percentage for the Federation as a whole.

## **2.7. Budgetary Position**

Budget accounts for the oblast have to be reformulated to produce a meaningful statement of the budget deficit. The deficit or surplus, according to IMF concepts, represents the total of revenues and grants minus the total of expenditure and lending minus loan repayment. But there are other complications that need to be considered in the accounts of Russian regions. The definitions and necessary adjustments are these:

1. Current revenues equal tax revenue, non-tax revenue, and grant revenues. It excludes "mutual settlement" transfers because they are not recurrent revenue and they are negotiated, partly as a function of the estimated size of the deficit. Therefore, mutual settlements are properly regarded as a "below the line" financing item, in effect a sort of deficit grant. Property sales revenue are also excluded; this revenue is a non-repeatable conversion of a capital asset owned by the government, not new revenue available to the government.
2. Current and capital expenditures have been separated because the latter may be appropriately financed by "below the line" items (borrowing or targeted grants) and ought not to be included as part of the current deficit.
3. Current deficit equals the difference between current expenditure and current revenue. Under soundest fiscal practices ("the Golden Rule of Government Finance"), this deficit should equal zero: current expenditures should be fully financed by current revenues.
4. Consolidated deficit combines current and capital expenditures against recurrent revenues to show the total amount of "below the line" financing that is required. Below the line financing includes borrowing, deficit grants, capital grants, sale of assets, and drawdown of accumulated balances.

Consolidated Budget Position. By this accounting, reported in Table 15, the consolidated budgetary position of the region was in overall deficit in both 1996 and 1997. However, in 1996, current expenditures were less than current revenues, so there was a current surplus; the overall deficit was caused by capital spending. In 1997, there was both a current and an overall deficit. A considerable amount of the cost of government services, therefore, is not being financed within the current revenue base of the region.

Oblast Budget Position. Table 16 provides a similar summary accounting of the budget position of the oblast government. The oblast was in overall deficit in both 1996 and 1997, 25.7 percent of total expenditure in 1996 and 50.1 percent in 1997. Part of the huge deficit for 1997 represents capital expenditure, but an even larger amount is for new budget loans. The current deficit was 20.2 percent of current expenditure in 1996 and 35.6 percent of current expenditure in 1997. These deficit levels are obviously beyond those acceptable for sound financial management and should be of considerable concern to the government. Much of the deficit in 1997 is financed by sales of state property and land, a revenue stream that cannot be sustained. Mutual settlements from the federal government also represents a considerable source of financing in both years and this source as well is not a sound foundation for the budgetary operations of the oblast.

Debt. Normal deficit financing in 1997 consists primarily of loans from banks. Securities repaid in 1997 are almost the same level as securities sold in 1996. Outstanding liabilities for Tomsk oblast at the start of 1999 include the following:

1. General credits from the Ministry of Finance (49,212.1 thousand RB) and from banks (117,682.5 thousand RB);
2. Credit guarantees of loans received by enterprises (218,608.0 thousand RB);<sup>16</sup>
3. Internal borrowing, loans from special oblast funds to the oblast finance department (23,062 thousand RB);
4. Loans from the Ministry of Finance earmarked for agricultural companies and for special purposes (for instance, purchase of goods for the northern regions) (739,191.9 thousand RB);
5. Oblast debt issues (120,595.1 thousand RB).

Security issues constitute only about 10 percent of total liabilities. Much of the liability has been caused by production-oriented borrowing, not the finance of core functions of government or for financing the capital infrastructure of governments in the oblast.

### **3.0. Oblast - Local Fiscal Relations**

The oblast government is responsible for designing intergovernmental fiscal relations within its boundaries. The Federation determines the tax structure, but sets few other direct guidelines for oblasts to follow in distributing resources among its localities. The oblast need not receive approval of its sharing and distribution arrangements with the Federation, although regions do report to the federal Ministry of Finance the actual distribution of finances between regional and local levels. There are some restrictions on sharing arrangements and certain Federation tax revenues are specifically designated for local governments, but these are a relatively minor part of the overall revenue sharing arrangement.

The oblast government is the primary authority in determining the allocation of fiscal resources within the region. Explicitly or implicitly, the oblast decides:

1. The degree of fiscal equalization between the localities that will take place within the region.
2. The extent to which the maintenance of infrastructure in more developed local areas will be supported.
3. The degree to which tax sharing and transfers will stimulate or dampen local incentives for revenue mobilization.
4. The relative stability, predictability, and adequacy of revenues received by localities.
5. The extent to which localities can meet their financial commitments.

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<sup>16</sup> For these guarantees, the enterprise receives credits. If the credit is not repaid, the oblast government will pay the creditors. These represent contingent liabilities of the oblast, not obligations from oblast borrowing.

The localities have little autonomy to determine the amount of revenue available to them and to the extent that they do exercise some of the limited revenue options open to them, the oblast can negate the impact by adjusting sharing rates or transfers for the next year. Therefore, the total amount of spending by a locality is largely in the hands of the oblast. They may exercise some autonomy in how the money is spent, but mandates and entitlements can leave little room for any real alternatives.

The principal fiscal tools for allocation of resources to localities, within the basic distribution of responsibilities between oblast and the localities are three:

1. The determination of "minimum" budgets for municipal governments.
2. The determination of tax sharing rates.
3. The distribution of grants.

Each of these topics requires some attention in regard to how it is done in Tomsk oblast.

### **3.1. Division of Resources and Responsibilities**

Spending in Tomsk oblast is somewhat more centralized than in other regions of the Russian Federation. The division in 1997 was 37 percent of spending by the oblast and 63 percent by the localities, compared with a median for the Russian Federation of 33 percent oblast and 67 percent by localities. Nevertheless, more than 60 percent of spending is by local governments, so they are crucially responsible for the delivery of government services to the people of the region.

Because so much of revenue to localities here (and in the rest of Russia) flows as a result of national and oblast decisions about tax shares and financial transfers, it is important to consider these choices with great care. Until localities are provided meaningful revenue options that they might adopt on their own, inadequate revenue flows from higher governments will cripple local service provision. And, because local governments do not levy the taxes producing the revenue they spend, their political and financial accountability is reduced. The localities are not likely to be able to compensate through their own individual fiscal effort. In view of the significance of local spending in the Tomsk region, transfers and shares are especially critical.

### **3.2. Minimum Budgets: The Approach Used**

The Tomsk oblast administration calculates minimum budget expenditure needs for each locality for detailed expenditure categories. The procedures are described in the document *Intergovernmental Relations in the Tomsk Oblast*, Policy Statement, November 1997, so the process is remarkably transparent and a model for practice in all subjects of the Russian Federation. For the 1998 budget, the calculation usually equals average spending per capita in the oblast in 1996; adjusted to 1998 (done by multiplying by 1.3), then multiplied by 1997 population. Sometimes the population multiplier is driven by the number of "customers" (for education, numbers are classified by preschool, day school, boarding school, orphan homes, and after school center populations), but sometimes it is simply the population of the locality. And sometimes the driver is physical (square meters of housing) or norm (required number of municipal employees, norm-based number of libraries, club seats, or museums).

Minimum local budgets for the transfer formula have been derived in different ways for the several categories of spending, although virtually all are per-unit based. They differ in the units used. The approaches for particular categories of local government spending may be summarized in the following fashion (these approaches are specified in *Intergovernmental Relations in the Tomsk Oblast*, Policy Statement, November 1997).

1. Norm-Driven: Public administration, Fuel transfer, Libraries, Museums, Public clubs, Social security offices, and Expenditures to implement RF laws (disabled, veterans, Far North).

2. Client-Driven: Education, Transportation.
3. Facility -Driven: Housing and utilities (square meter of housing), Social Security (a portion is driven by the number of beds in institutions).
4. General Population-Driven: Mass media, Health care, Physical culture and sports, Social security (part), Youth policies, Other culture.
5. Forecast collections of earmarked revenue sources: Land and land use improvements, Forest protection and forest rehabilitation.
6. Unclear: Culture institutions, "Drafting Offices"

The number of categories certainly goes beyond the number for which there is a clear oblast interest in assuring a minimum standard of local service. These calculations do not establish the amounts that localities are expected to spend, but rather are used for the distribution formula.

### **3.3. Local Revenues**

Local governments in Russia have no significant taxing powers. The oblast government determines the resources that will be allocated to each of its local governments. Some taxes legislated at the Federation level are labeled "local taxes." The criteria to classify a tax as belonging to a particular level of government are a) the territory covered by a tax and b) the level of the government that introduces the tax. (Exhibit 1 provides a summary of local taxes and fees available in the Federation.) They do not include the level which receives the revenue or the level defining a tax base or rate. In some instances, neither the localities nor the oblast have any control over whether to adopt the tax or what its rate or base will be. This is the case with the land tax. Being classified as a local tax, it is split between all three levels of budgets in proportions set by the federal government; its tax rate is set by the local government within very thin margins established by the federal and regional governments.

For the taxes shared by the federal government with regions, the oblast decides what shares will be distributed between the oblast and particular localities, with the distribution made on the origin of the collections. Finally, the oblast establishes the transfer to its localities -- the distribution of revenues collected for the oblast budget that are distributed to the localities. All these flows establish the current revenue budget constraint for each locality.

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EXHIBIT 1. LOCAL TAXES AND FEES

Tax	Tax is imposed by:	Tax Base is set by:	Tax Rate is set by:	Payments go to:
a) Personal property tax*	Federal Government simultaneously for the entire RF	Federal Government	Regional and local authorities	Local budget
b) Land tax*	Federal Government simultaneously for the entire RF	Federal Government	Regional and local authorities	Shared among Federal, regional and local levels at the ratio of 30 : 20 : 50
c) Registration fee on individuals engaged in entrepreneurial activities	Federal Law simultaneously for the entire RF	Regional and local authorities	Regional and local authorities	Local budget
d) Tax on construction of manufacturing facilities in health resort areas****	Local authorities	Local authorities	Local authorities	Local budget
e) Health resort fee	Local authorities	Local authorities	Local authorities	Local budget
f) Fee for the right to engage in trade**	Local authorities	Local authorities	Local authorities	Local budget
g) Earmarked duties. on individuals and businesses for the purposes of support of militia, landscaping and street cleaning, support of education and other purposes	Local authorities	Federal Government: for individuals - 12 minimum monthly wages; for businesses - minimum wage multiplied by number of employees	Local authorities within federal limits 0 - 3%	Local budget
h) Advertisement tax	Local authorities	Federal Government: cost of services	Local authorities within federal limits 0 - 5%	Local budget

\* According to the General Part of the Tax Code, as soon as representative branches of regional governments put into effect Immovable Property Tax in their jurisdictions, taxes referred to in a) and b) will cease to be levied.

\*\* Pursuant to the Federal Law No. 150-FX of July 31, 1998 as soon as representative branches of regional governments put into effect Sales Tax in their jurisdictions, taxes referred to in d), f), i), j), k), l), m), n), o), p), q), r), s), t), u), v) will cease to be levied

Tax	Tax is imposed by:	Tax Base is set by:	Tax Rate is set by:	Payments go to:
i) Tax on resale of motor vehicles, hardware and personal computers**	Local authorities	Federal Government: transaction amount	Local authorities within federal limits 0 - 10%	Local budget
j) Charge on dog owners**	Local authorities	Federal Government: minimum monthly wages	Local authorities within federal limits (0 - 14% per annum)	Local budget
k) License fee for the right to trade in wine and vodka products**	Local authorities	Federal Government: minimum monthly wages	Federal Government 2500 - 5000% per day of trade	Local budget
l) License fee for the right to hold local auctions and lotteries**	Local authorities	Federal Government value of goods put up for an auction or an issue amount of lottery tickets	Local authorities within federal limits 0 - 10%	Local budget
m) Fee for issuance of an authorization to a municipal apartment**	Local authorities	Federal Government minimum monthly wages	Federal Government 0 - 75%	Local budget
n) Fee for parking of motor vehicles**	Local authorities	Local authorities	Local authorities	Local budget
o) Fee for the right to use local symbols**	Local authorities	Federal Government value of sold products	Local authorities within federal limits 0 - 0.5%	Local budget
p) Racecourse participation fee**	Local authorities	Local authorities	Local authorities	Local budget
q) Racecourse prize fee**	Local authorities	Federal Government prize amount	Local authorities within federal limits 0 - 5%	Local budget
r) Charge on individuals participating in racecourse totalizators**	Local authorities	Federal Government payment for participation in the game	Local authorities within federal limits 0 - 5%	Local budget
s) Fee on exchange transactions **	Local authorities	Federal Government transaction amount	Local authorities within federal limits 0 - 1%	Local budget

Tax	Tax is imposed by:	Tax Base is set by:	Tax Rate is set by:	Payments go to:
t) Fee for the right to shoot movies and telefilms **	Local authorities	Local authorities	Local authorities	Local budget
u) Fee for territory cleaning in populated areas**	Local authorities	Local authorities	Local authorities	Local budget
v) Fee for setting up gambling business**	Local authorities	Local authorities	Local authorities	Local budget
w) Housing and social infrastructure maintenance fee**	Local authorities	Federal Government volume of sales	Local authorities within federal limits 0 - 1.5%	Local budget

\* According to the General Part of the Tax Code, as soon as representative branches of regional governments put into effect Real Estate Tax in their jurisdictions, taxes referred to in a) and b) will cease to be levied.

\*\* Pursuant to the Federal Law No. 150-FX of July 31, 1998 as soon as representative branches of regional governments put into effect Sales Tax in their jurisdictions, taxes referred to in d), f), i), j), k), l), m), n), o), p), q), r), s), t), u), v) will cease to be levied

In 1998 in Tomsk oblast all 19 raions collected a housing (turnover) tax and a license fee for the right to trade in wine and vodka products; 18 municipalities collected at least one of the earmarked duties; 15 municipalities collected tax on resale of motor vehicles, hardware and personal computers; 15 municipalities collected fee for issuance of an authorization to a municipal apartment; 10 municipalities collected an advertisement tax; 7 municipalities collected fee for territory cleaning in populated areas; and one municipality collected a parking fee and a fee for the right to use local symbols. There is no information on particular other local taxes, duties and fees collected in Tomsk Oblast.

Shared Taxes. Several taxes levied by Federation action are shared between the oblast government and the locality in which they are collected. While the Federation sets a uniform rate for all regions, retention rates for municipalities in Tomsk Oblast vary by tax and by locality. The specifics of this sharing in Tomsk for 1995 through 1998 are described in Tables 17-1 through 17 - 4. Retained amounts are available for support of local government services while the amounts received by the oblast budget are available for oblast purposes or for transfer to localities by formula.

Sharing rates are uniform across all localities except the cities of Strezhevoy and Tomsk. For all four years, localities except the cities of Strezhevoy and Tomsk retained all enterprise profits tax collections. The former city retained no enterprise profit tax collections in any of those years.<sup>17</sup> The City of Tomsk retained only 80 percent of profit tax collections in 1998, having received all collections in the prior years. For all four years, localities except Strezhevoy retained all personal income tax collections; that city retained only a small share of personal income tax collections in 1997 and 1998. The City of Tomsk retained a larger share of excise tax on alcohol than the other localities. The oblast generally has not shared the value-added tax (other than devoting one percentage point of the VAT available to the oblast to the road fund), but has provided 21 percent of collections to the City of Tomsk in 1998. Other sharing rates are uniform across all localities and usually leave all collections with the locality. The average wage is considerably higher in Strezhevoy than anywhere else in the oblast, while the average wage in Tomsk City is higher than any other locality in the second (non-northern) group of localities, although there are several northern localities with higher average wages. For most taxes, sharing rates are uniform across all localities and have been unchanged across the 1995 - 1998 period.

Some oblasts have tried, through substantial variation in sharing rates across localities, to equalize fiscal capacity among local governments. This appears not to be the intention in Tomsk oblast, except for lower rates in Tomsk and Strezhevoy cities. The approach used here provides all localities except the two cities the same rate of reward for increasing their tax base and is more consistent with encouraging economic development than would be the varying shares strategy. The problem with the variable shares is that localities can believe that a growing tax base will mean a lower share retained locally and that will dull the incentive for further development.

Grants Tomsk oblasts make three sorts of transfers to its local governments:

1. Subventions are paid to the localities in the form of earmarked grants. In Tomsk, only the City of Tomsk received a subvention in 1997. This payment was for its performance of functions as the oblast center. The funds usually are used for restoration of historical buildings. In terms of process, the city mayor requests these funds from the oblast governor.
2. Subsidies are the basic formula transfer of general revenue made to municipalities. They account for 50.0 percent of total transfers. As a share of total revenues to localities, they range from zero in four localities (Aleksandropovsky, Karasoksky, City of Tomsk and City of Strezhevoy) and to more than 35 percent of revenue in Baksharsky, Verkhneketsky, Zyryansky, Kryvosheinsky, Molchanovsky, and Chainsky raions and in the City of Kedrovoy.

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<sup>17</sup> However, municipal enterprises of Streshevoy pay taxes directly to the local budget. Other enterprises there pay taxes to the oblast budget.

3. Mutual settlements or deficit grants allow localities to cover financial shortfalls. They amount to 49.7 percent of total transfers to localities in the oblast. As a share of total revenue to the locality, there is much variation in Tomsk oblast, from 6.0 percent of total revenue in Baksharsky raion to one-third of total revenue in Aleksandropovskiy and Karaganskii raions and in the city of Strezhevoy. Three of these latter localities are among the four receiving no subsidy in the current basic transfer formula.

At present, the transfer formula to the localities computes minimum expenditure requirements (by explicit norm and by historic average) and subtracts calculated revenue for each locality. The sum of accumulated deficits equals the amount that will be the oblast transfer fund. A sufficient percentage of oblast tax revenue is dedicated to the fund for distribution to the localities.

Table 18 shows the distribution of per capita grants to localities in 1997. The table shows per capita subsidies to be greatest in Kryvosheinskii raion. While Kryvosheinskii is fourth lowest of the localities in per capita tax revenues for 1997, it is only slightly below the middle in average wage. Four localities (Aleksandropovskiy, Kargasokskiy, Tomsk City, and Strezhevoy City) receive no subsidy. The four receiving no subsidy are the four highest localities in terms of tax revenue and are among the top six in terms of average wage. However, each but Strezhevoy receives about one-third of their total revenue from mutual settlements, placing them at the top of localities in terms of reliance on this source. While it is reasonable that localities with more prosperous individuals receive smaller transfers from the oblast, the relationship with tax collections is troubling. It would appear possible that localities can get more of their government financed by the oblast by making lower tax effort. The locality with highest per capita subsidies is low in terms of tax collections -- but its average wage is only slightly below the middle. This is worrisome: the transfer system ought not encourage localities to finance their operations with aid, instead of financing services first from good faith effort from its own tax base.

Table 19 provides more insights into the pattern of grant distribution within Tomsk oblast. In particular, per capita grant assistance is greater in municipalities that have the following characteristics (simple correlation coefficients reported in parentheses):

1. A lower population density (-0.63);
2. A lower gross local product (-0.69);
3. A higher share of pensioners in the population (0.68);
4. A higher share of population younger or older than working age (0.80); and
5. A lower average wage (-0.74).

This pattern suggests that assistance is indeed directed to those localities with lower economic capacity and greater expenditure need. The grants have an equalization effect -- they are greater for localities with a smaller economic base -- and they do respond to the numbers of the population more likely to need local services (pensioners and those younger than working age). There is no strong bias toward supporting public infrastructure -- the locations of housing, clubs, libraries, and museums are not strong influences on the amount of grant assistance received, although there is a relationship with schools (more schools per capita means more grant assistance).

The fact previously noted that most localities receiving no formula subsidy still receive much of their total revenue from mutual settlements provides further evidence of the weakness of the overall transfer program in Tomsk oblast. In most localities, per capita subsidies -- the result of the transfer formula -- exceed the amount from mutual settlements. However, that is not always the case, meaning that the unplanned (or gap-filling) shortfall is greater than the amount of the planned transfer.

#### 4.0. Strategies for Improving Oblast - Local Financial Relationships

The financial relationship between the oblast and its localities should (i) provide revenues to the two levels of government that are consistent with the division of responsibility for provision of government services between the oblast and its localities; (ii) should have a degree of permanence so that oblast and localities can develop meaningful plans, (iii) should be transparent so that funds are distributed according to logic rather than political negotiation, (iv) should provide a minimum standard of the most crucial government services to localities with little independent fiscal capacity, (v) should allow localities flexibility to respond to the needs of their own citizenry within their revenue resources, (vi) ought not discourage localities from full utilization of their own revenue resources, and (vii) ought to encourage fiscal discipline by all parties.<sup>18</sup>

The present policy in Tomsk is consistent with many of these objectives, especially in regards to transparency and the desire to provide a minimum standard for government services. However, there are some ways in which the relationship could be improved:

1. The transfer formula should distribute a fixed pool of subsidy revenues to local governments. Determining this pool for distribution should be an open part of the oblast budget process. Localities and the oblast administration should not make their budgets as if there is a nearly unlimited amount to be spent. Budget totals should be forecast and spending plans built within them, taking account of consolidated oblast resources, oblast expenditure plans, and entitlement subsidy requirements.
2. The distribution formula should be based on tax capacity of the locality, rather than historic revenues. A formula that uses actual revenue collections has the unfortunate effect of dampening tax effort because of the likelihood that more local revenue will reduce transfers.
3. The minimum expenditure calculation should be simplified. The minimum budget calculations should involve fewer expenditure categories and should simplify as much as possible. Only categories of considerable oblast-wide importance (education, health care, social protection, and possibly housing and utilities) should be included in the calculations. The localities in Tomsk oblast are extremely diverse in terms of geography, economics, and demographics. For these localities to be able to respond to the needs of their citizens, they need as much flexibility in the use of budget resources as possible. The calculation of minimum budgets in so many categories complicates this necessary flexibility.
4. Minimum expenditure calculations should be based upon the number of clients for local government services, not the number of physical facilities within the locality. The customer counts could assign extra weight on customers who have special needs for particular services. For example, the formula might give double-weight for the young and the elderly in estimating demand for health care.
5. The oblast might consider a two-part transfer system, one to handle entitlements to individuals that must be paid and the second to cover formula transfers for general support of local services. The first part of the system subventions would be earmarked grants to accommodate Federation entitlement programs that must be provided by localities to individuals qualifying for the assistance. The second part of the system subsidies would be formula transfers distributed to localities to provide financing for their program operations and would provide fiscal equalization as deemed appropriate by the oblast.

The appendix to this report contains a proposed methodology for determining a new transfer system in Tomsk oblast. This system addresses the issues outlined above and provides an analysis of the impacts of such a change on the finances of the region and the raions.

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<sup>18</sup>These objectives are consistent with the requirements of the Federal law on the Financial Foundations of Local Self-Government (Article 10, Federal Law No. 126 - FZ of September 25, 1997) that prescribes a Fund for the Financial Support of Municipal Entities for each subject of the Federation.

TABLE 1  
PERCENT DISTRIBUTION OF GDP: 1996

	Tomsk Oblast	Russian Federation <sup>a</sup>
Industry	40.3	28.9 <sup>b</sup>
Construction	9.8	8.7
Agriculture	7.8	7.1
Services	41.6	50.8
Market Services	32.4	38.2
Transport and Communication	15.0	13.6
Trade Distribution and Catering	7.1	15.2
Other including Financial	10.3	9.6
Public Services	9.1	12.6
Net Taxes	3.9	13.3

N.A. = not available

<sup>a</sup> 1995

<sup>b</sup> Manufacturing

Source: Based on Goskomstat data

TABLE 2.

## STRUCTURE OF EMPLOYMENT IN TOMSK OBLAST AND RUSSIA: 1997

Sector	Percent Distribution in Tomsk	Percent Distribution in Russia
Production	27.2	24.7
Agriculture and Forestry	8.9	14.9
Construction	8.5	9.5
Transportation and Communications	7.8	7.9
Trade, Public Eating Places, Personnel and Facilities Services, and sales and purchases (stock)	7.4	10.4
Housing Maintenance and Non-production Services	7.8	5
Other Sectors	32.6	27.6

Source: Based on Goskomstat data

TABLE 3.

## DISPARITIES WITHIN THE TOMSK REGION: 1997.

	Rayon or City	Land Area km <sup>2</sup>	Population (end of year) thou	Population density pers/km <sup>2</sup>	Per Cap GRP* thou Rb	Average Wage thou Rb
1	Aleksandropvsky Raion	30,160	12.1	0.4	18,107	1,378
2	Asinovsky Raion	5,923	46.9	7.9	7,721	639
3	Bakcharsky raion	24,687	17.2	0.7	9,834	744
4	Verkhneketsky Raion	43,349	21.9	0.5	7,899	913
5	Zyrjansky Raion	3,966	17.5	4.4	10,979	577
6	Kargasoksky Raion	86,857	27.1	0.3	26,286	1,234
7	Kozhevnikovsky Raion	3,908	24.6	6.3	11,327	632
8	Kolpashevsky Raion	17,112	51.0	3.0	12,617	1,242
9	Kryvosheinsky Raion	4,380	17.9	4.1	11,450	773
10	Molchanovsky Raion	6,351	18.3	2.9	7,142	828
11	Parabelsky Raion	36,711	15.1	0.4	11,471	1,058
12	Pervomajsky Raion	15,554	23.4	1.5	9,322	677
13	Teguldetsky Raion	12,271	8.9	0.7	8,107	798
14	Tomsky Raion	10,607	85.6	8.1	15,416	811
15	Chainsky Raion	7,242	16.2	2.2	9,118	687
16	Shegarsky Raion	5,081	23.6	4.6	10,284	720
17	Tomsk	164	477.7	2,912.8	20,551	1,177
18	City of Strezhevoy	32	44.6	1,393.8	96,075	2,129
19	City of Kedrovoy	37	5.4	145.9	12,797	1,195
	Mean	16,547	50.3	236.9	16,658	959
	Median	7,242	21.9	3.0	11,327	811
	Minimum	32	5.4	0.3	7 142	577
	Maximum	86,857	477.7	2,912.8	96,075	2,129
	Coefficient of Variation	1.28	2.09	3.05	1.19	0.39

\* Per Capita GRP estimation made by Tomsk Oblast Economics Department

Source: Based on Goskomstat data

Table 5.

Percent of Total Consolidated Revenue (without Non-compensatory Contributions\* from other Level of Power) from Important Taxes, 1997.

Oblast code	Subject of RF	Enterprise Profit tax	PIT	Payroll taxes	VAT	Excise taxes	Property taxes	Nature user fees	Housing and Utilities tax	Other Revenues
1	Republic of Bashkortostan	13.5%	11.2%	1.3%	19.4%	12.6%	8.4%	3.8%	1.9%	28.0%
2	Republic of Buriatia	16.9%	33.8%	3.8%	15.4%	2.4%	14.9%	6.1%	6.7%	0.0%
3	Republic of Dagestan	15.3%	20.9%	1.7%	22.5%	12.5%	8.1%	4.9%	6.1%	7.9%
4	Kabarda-Balkar Republic	9.6%	14.6%	2.1%	9.3%	25.5%	8.8%	1.5%	5.1%	23.6%
5	Republic of Kalmykia	5.3%	26.5%	3.3%	29.0%	4.6%	5.7%	7.1%	6.0%	12.6%
6	Republic of Karelia	7.5%	22.6%	3.5%	11.3%	2.1%	17.2%	7.5%	5.3%	22.9%
7	Republic of Komi	13.1%	18.8%	3.5%	13.1%	0.3%	16.0%	9.4%	4.7%	21.1%
8	Republic of Mari El	14.4%	20.2%	2.3%	13.0%	9.6%	15.0%	3.6%	5.2%	16.9%
9	Republic of Mordovia	11.7%	17.2%	3.0%	13.8%	16.6%	11.6%	3.0%	3.7%	19.5%
10	Republic of North Osetia	9.1%	16.7%	1.9%	11.5%	12.2%	7.0%	2.7%	3.8%	35.0%
11	Republic of Tatarstan	12.2%	8.3%	1.7%	17.3%	6.1%	8.0%	4.6%	3.0%	38.8%
12	Republic of Tyva	4.4%	47.6%	3.4%	9.0%	1.3%	15.0%	5.2%	3.9%	10.3%
13	Udmurt Republic	21.5%	18.9%	1.6%	15.6%	4.4%	12.0%	16.1%	3.8%	6.1%
14	Ingush Republic	7.0%	34.3%	3.4%	12.3%	1.1%	10.4%	2.9%	5.0%	23.6%
15	Chuvash Republic	18.5%	15.8%	3.2%	18.0%	6.4%	12.9%	2.8%	2.4%	19.8%
16	Republic of Sakha	18.5%	25.4%	3.4%	9.0%	1.2%	13.8%	16.0%	3.9%	8.8%
17	Altai Krai	9.0%	27.0%	2.4%	16.0%	7.1%	14.6%	5.1%	6.2%	12.6%
18	Krasnodar Krai	17.2%	25.8%	3.5%	16.3%	4.4%	11.8%	5.1%	7.7%	8.1%
19	Krasnoyarsk Krai	19.4%	23.1%	3.5%	12.8%	2.1%	20.1%	6.8%	3.7%	8.5%
20	Primorski Krai	15.1%	26.1%	4.0%	12.7%	2.4%	16.9%	3.9%	7.3%	11.7%
21	Stavropol Krai	18.6%	23.9%	3.5%	15.9%	1.9%	15.0%	4.5%	7.7%	9.0%
22	Khabarovsk Krai	15.9%	26.4%	3.5%	16.2%	3.5%	8.9%	5.3%	4.9%	15.3%
23	Amur Oblast	12.2%	27.9%	2.6%	10.5%	3.1%	21.7%	4.5%	5.9%	11.7%
24	Arkhangelsk Oblast	14.5%	29.3%	3.8%	13.3%	2.1%	10.2%	6.6%	5.6%	14.8%
25	Astrakhan Oblast	14.4%	27.0%	3.5%	15.5%	3.3%	12.1%	8.9%	6.7%	8.6%
26	Belgorod Oblast	13.9%	22.4%	3.7%	11.1%	3.9%	17.9%	4.9%	6.9%	15.4%
27	Bryansk Oblast	14.4%	20.3%	2.2%	16.5%	5.2%	15.8%	4.7%	8.6%	12.2%
28	Vladimir Oblast	21.7%	21.0%	3.2%	15.4%	3.9%	15.5%	3.9%	7.1%	8.4%

Table 4.

Share of Oblast (Krai, Republic, A/O) and Local Budget in Consolidated Expenditure, 1997.

Oblast code	Subject of RF	Share of Oblast budget expenditure	Share of Local budget expenditure
1	Republic of Bashkortostan	50%	50%
2	Republic of Buriatia	23%	77%
3	Republic of Dagestan	39%	61%
4	Kabarda-Balkar Republic	62%	38%
5	Republic of Kalmykia	52%	48%
6	Republic of Karelia	42%	58%
7	Republic of Komi	37%	63%
8	Republic of Mari El	35%	65%
9	Republic of Mordovia	52%	48%
10	Republic of North Osetia	59%	41%
11	Republic of Tatarstan	58%	42%
12	Republic of Tyva	41%	59%
13	Udmurt Republic	30%	70%
14	Ingush Republic	63%	37%
15	Chuvash Republic	26%	74%
16	Republic of Sakha	44%	56%
17	Altai Krai	26%	74%
18	Krasnodar Krai	23%	77%
19	Krasnoyarsk Krai	26%	74%
20	Primorski Krai	26%	74%
21	Stavropol Krai	25%	75%
22	Khabarovsk Krai	31%	69%
23	Amur Oblast	34%	66%
24	Arkhangelsk Oblast	29%	71%
25	Astrakhan Oblast	40%	60%
26	Belgorod Oblast	37%	63%
27	Bryansk Oblast	27%	73%
28	Vladimir Oblast	18%	82%
29	Volgograd Oblast	26%	74%
30	Vologda Oblast	25%	75%
31	Voronezh Oblast	26%	74%
32	Nizhny Novgorod Oblast	27%	73%
33	Ivanovo Oblast	33%	67%
34	Irkutsk Oblast	16%	84%
35	Kaliningrad Oblast	32%	68%
36	Tver Oblast	34%	66%
37	Kaluga Oblast	38%	62%
38	Kamchatka Oblast	37%	63%
39	Kemerovo Oblast	25%	75%
40	Kirov Oblast	29%	71%
41	Kostroma Oblast	44%	56%
42	Samara Oblast	30%	70%
43	Kurgan Oblast	26%	74%
44	Kursk Oblast	42%	58%
45	Leningrad Oblast	31%	69%
46	Lipetsk Oblast	46%	54%

Source: Based on Ministry of Finance data

Table 4 (Continued)

Oblast code	Subject of RF	Share of Oblast budget expenditure	Share of Local budget expenditure
47	Magadan Oblast	17%	83%
48	Moscow Oblast	36%	64%
49	Murmansk Oblast	24%	76%
50	Novgorod Oblast	30%	70%
51	Novosibirsk Oblast	31%	69%
52	Omsk Oblast	35%	65%
53	Orenburg Oblast	22%	78%
54	Oryol Oblast	45%	55%
55	Penza Oblast	35%	65%
56	Perm Oblast	15%	85%
57	Pskov Oblast	29%	71%
58	Rostov Oblast	16%	84%
59	Ryazan Oblast	30%	70%
60	Saratov Oblast	41%	59%
61	Sakhalin Oblast	27%	73%
62	Sverdlovsk Oblast	36%	64%
63	Smolensk Oblast	27%	73%
64	Tambov Oblast	33%	67%
<b>65</b>	<b>Tomsk Oblast</b>	<b>37%</b>	<b>63%</b>
66	Tula Oblast	31%	69%
67	Tumen Oblast	41%	59%
68	Ulianovsk Oblast	54%	46%
69	Chelyabinsk Oblast	18%	82%
70	Chita Oblast	24%	76%
71	Yaroslavl Oblast	43%	57%
72	City of St.-Petersburg	100%	0%
73	City of Moscow	100%	0%
76	Republic of Adygeya	41%	59%
77	Republic of Altai	35%	65%
78	Jewish AO	37%	63%
79	Karachayevo-Circassian Republic	36%	64%
80	Republic of Khakasia	23%	77%
81	Aginsk-Buriat AO	19%	81%
82	Komi-Perm AO	22%	78%
83	Koryak AO	29%	71%
84	Nenets AO	71%	29%
85	Tajmyr AO	51%	49%
86	Ust-Orda Buriat AO	20%	80%
87	Khanty-Mansi AO	29%	71%
88	Chukotka AO	57%	43%
89	Evenk AO	69%	31%
90	Yamal-Nenets AO	46%	54%
94	Chechen Republic	100%	0%
999	All regions	43%	57%
	Median	33%	67%

Table 5 (continued).

Oblast code	Subject of RF	Enterprise Profit tax	PIT	Payroll taxes	VAT	Excise taxes	Property taxes	Nature user fees	H&U tax	Other Revenues
29	Volgograd Oblast	16.9%	22.6%	2.8%	11.9%	2.6%	12.6%	7.8%	7.6%	15.2%
30	Vologda Oblast	29.8%	26.0%	2.5%	7.5%	3.0%	15.2%	4.1%	5.0%	7.0%
31	Voronezh Oblast	17.9%	19.3%	2.7%	18.8%	3.9%	15.7%	2.9%	6.6%	12.3%
32	Nizhny Novgorod Oblast	19.6%	18.2%	2.7%	16.9%	4.3%	11.7%	2.3%	6.7%	17.6%
33	Ivanovo Oblast	14.3%	21.4%	2.7%	16.4%	6.0%	14.7%	4.1%	5.7%	14.7%
34	Irkutsk Oblast	14.9%	25.3%	3.3%	13.5%	2.8%	18.4%	6.4%	5.6%	10.0%
35	Kaliningrad Oblast	11.9%	22.5%	2.5%	12.4%	2.9%	10.3%	7.0%	7.3%	23.3%
36	Tver Oblast	20.8%	19.1%	2.7%	18.6%	4.6%	16.2%	4.7%	5.6%	7.9%
37	Kaluga Oblast	16.1%	24.4%	3.9%	16.9%	6.1%	15.5%	3.5%	6.6%	6.9%
38	Kamchatka Oblast	17.4%	38.2%	3.0%	8.5%	0.9%	11.3%	2.1%	9.5%	9.0%
39	Kemerovo Oblast	15.0%	21.2%	3.0%	16.7%	2.2%	16.6%	9.1%	6.7%	9.6%
40	Kirov Oblast	16.2%	20.9%	3.2%	14.9%	9.5%	14.8%	7.3%	6.1%	7.2%
41	Kostroma Oblast	13.5%	11.6%	1.1%	10.9%	5.5%	8.8%	2.7%	3.1%	42.8%
42	Samara Oblast	16.7%	23.5%	1.3%	18.8%	3.0%	13.7%	6.3%	9.0%	7.7%
43	Kurgan Oblast	20.6%	27.5%	2.5%	14.2%	1.2%	13.7%	3.5%	7.2%	9.6%
44	Kursk Oblast	17.9%	15.9%	3.3%	15.6%	7.6%	14.8%	3.7%	5.2%	16.0%
45	Leningrad Oblast	21.4%	20.6%	3.1%	13.7%	3.1%	17.1%	6.5%	8.0%	6.5%
46	Lipetsk Oblast	13.2%	16.1%	3.0%	9.8%	5.1%	14.3%	4.2%	4.5%	29.8%
47	Magadan Oblast	9.2%	16.1%	2.1%	6.7%	0.2%	10.0%	5.9%	3.0%	46.7%
48	Moscow Oblast	19.0%	19.5%	2.6%	15.8%	2.1%	10.4%	4.7%	7.3%	18.7%
49	Murmansk Oblast	15.4%	27.2%	3.8%	13.2%	0.4%	19.3%	4.3%	5.5%	10.9%
50	Novgorod Oblast	15.8%	24.0%	2.9%	14.4%	6.5%	12.6%	6.1%	7.0%	10.7%
51	Novosibirsk Oblast	20.8%	22.3%	1.9%	18.1%	5.8%	11.7%	3.9%	6.6%	9.0%
52	Omsk Oblast	14.9%	16.3%	2.5%	12.9%	2.2%	10.0%	3.8%	8.9%	28.5%
53	Orenburg Oblast	23.1%	20.8%	2.7%	13.7%	1.1%	14.8%	9.3%	4.4%	10.2%
54	Oryol Oblast	13.3%	19.6%	2.8%	14.9%	9.2%	10.7%	2.7%	4.7%	22.2%
55	Penza Oblast	17.6%	20.6%	3.2%	15.7%	11.6%	12.0%	3.3%	4.4%	11.5%
56	Perm Oblast	23.2%	21.5%	2.9%	16.4%	1.6%	14.8%	7.8%	7.2%	4.6%
57	Pskov Oblast	15.2%	24.7%	4.0%	16.5%	2.5%	11.1%	6.1%	7.5%	12.4%
58	Rostov Oblast	15.2%	21.3%	4.0%	15.1%	3.4%	18.1%	5.4%	7.1%	10.4%
59	Ryazan Oblast	18.1%	15.8%	3.2%	15.9%	8.9%	14.4%	5.0%	8.5%	10.3%

Table 5 (continued).

Oblast code	Subject of RF	Enterprise Profit tax	PIT	Payroll taxes	VAT	Excise taxes	Property taxes	Nature user fees	H&U tax	Other Revenues
60	Saratov Oblast	17.0%	17.4%	3.4%	14.2%	4.1%	17.6%	4.3%	8.0%	14.0%
61	Sakhalin Oblast	17.8%	28.7%	4.3%	10.5%	3.4%	13.4%	7.4%	9.4%	5.2%
62	Sverdlovsk Oblast	21.9%	20.7%	2.4%	18.6%	3.7%	17.8%	2.3%	5.5%	7.2%
63	Smolensk Oblast	16.8%	22.4%	3.5%	11.4%	5.2%	24.4%	5.3%	4.2%	6.7%
64	Tambov Oblast	13.1%	17.8%	3.9%	11.4%	9.2%	13.1%	3.9%	5.4%	22.2%
65	<b>Tomsk Oblast</b>	11.1%	15.3%	1.8%	12.5%	0.9%	15.6%	7.6%	4.9%	30.4%
66	Tula Oblast	19.7%	25.6%	2.4%	12.4%	9.0%	10.4%	5.7%	5.8%	9.0%
67	Tumen Oblast	11.9%	18.3%	2.0%	11.6%	1.7%	7.8%	37.8%	4.5%	4.4%
68	Ulianovsk Oblast	19.5%	18.4%	3.6%	15.9%	8.1%	16.0%	4.8%	5.3%	8.5%
69	Chelyabinsk Oblast	18.9%	25.4%	3.5%	12.1%	1.3%	20.4%	5.0%	7.9%	5.6%
70	Chita Oblast	14.5%	29.9%	2.7%	10.8%	0.8%	20.7%	7.3%	5.1%	8.2%
71	Yaroslavl Oblast	16.2%	14.5%	2.6%	20.3%	4.4%	12.5%	2.3%	5.6%	21.7%
72	City of St.-Petersburg	18.0%	22.6%	2.9%	14.8%	6.2%	14.1%	3.0%	7.9%	10.4%
73	City of Moscow	31.7%	21.9%	2.0%	13.6%	1.6%	8.2%	1.4%	11.5%	8.2%
76	Republic of Adygeya	19.6%	23.3%	2.9%	12.6%	14.2%	11.3%	4.4%	5.9%	5.8%
77	Republic of Altai	6.2%	53.1%	1.6%	7.5%	0.5%	9.7%	4.3%	5.2%	11.9%
78	Jewish AO	14.8%	37.1%	3.9%	11.1%	0.0%	13.4%	3.2%	4.3%	12.2%
79	Karachayevo-Circassian Republic	16.8%	20.2%	2.6%	16.9%	11.0%	16.5%	3.0%	7.1%	5.9%
80	Republic of Khakasia	17.6%	24.9%	1.9%	14.9%	1.4%	18.0%	5.4%	6.5%	9.3%
81	Aginsk-Buriat AO	8.3%	36.7%	2.7%	5.6%	0.0%	13.0%	6.4%	2.9%	24.2%
82	Komi-Perm AO	10.4%	24.1%	2.0%	8.0%	0.0%	9.4%	7.8%	3.8%	34.6%
83	Koryak AO	31.9%	35.4%	2.1%	9.4%	0.0%	5.4%	9.2%	1.6%	5.0%
84	Nenets AO	13.9%	12.6%	1.6%	2.2%	0.1%	14.1%	48.7%	1.1%	5.6%
85	Tajmyr AO	16.7%	22.3%	3.1%	4.3%	0.1%	31.5%	18.1%	0.8%	3.2%
86	Ust-Orda Buriat AO	5.0%	33.4%	4.5%	8.6%	0.0%	6.2%	17.2%	5.8%	19.3%
87	Khanty-Mansi AO	15.5%	15.8%	1.9%	13.1%	0.0%	11.1%	32.9%	5.0%	4.8%
88	Chukotka AO	14.9%	18.8%	2.8%	5.8%	0.2%	14.7%	5.4%	2.3%	35.3%
89	Evenk AO	2.9%	16.0%	1.1%	8.0%	0.0%	5.0%	3.2%	0.4%	63.4%
90	Yamal-Nenets AO	12.2%	14.8%	2.0%	12.1%	0.0%	15.8%	29.9%	2.0%	11.2%
999	All w/o ZATO	18.6%	20.0%	2.5%	14.5%	3.4%	12.8%	8.2%	6.5%	13.4%
	Median	15.5%	21.7%	2.8%	13.5%	3.1%	13.8%	4.9%	5.6%	11.1%

\* Non-compensatory Contributions from other Level of Power includes Subsidies, Subventions, Transfers, Mutual Settlements

Source: Based on Ministry of Finance data

Table 6.

Percent of Total Consolidated Expenditures (without Subsidies, Subventions and Mutual Settlements) for Important Expenditure Categories, 1997.

Oblast code	Subject of RF	Public adm.	Law & order, national security	Industry, energy, construction	Ag. And fishing	Transport, roads, telecomm.	Housing and utilities	Education	Culture and art	Health-care and physical culture	Social policies	Other exps
1	Republic of Bashkortostan	3.3%	2.6%	3.5%	10.0%	2.7%	10.8%	22.8%	2.4%	12.8%	7.3%	21.2%
2	Republic of Buriatia	5.0%	1.8%	1.7%	3.3%	1.8%	32.1%	26.7%	2.7%	14.7%	5.1%	5.1%
3	Republic of Dagestan	3.4%	2.4%	4.3%	1.8%	0.7%	27.2%	25.2%	2.2%	10.5%	12.5%	9.6%
4	Kabarda-Balkar Republic	2.0%	2.6%	4.2%	4.3%	2.1%	19.0%	19.2%	2.0%	12.5%	13.1%	18.6%
5	Republic of Kalmykia	6.3%	3.1%	0.6%	6.3%	0.4%	10.7%	21.3%	2.7%	15.5%	4.7%	28.3%
6	Republic of Karelia	4.8%	3.5%	1.8%	3.5%	1.7%	16.4%	24.4%	2.7%	13.8%	7.2%	19.5%
7	Republic of Komi	2.4%	2.0%	2.7%	3.3%	1.2%	21.9%	20.2%	1.9%	13.7%	5.1%	25.3%
8	Republic of Mari El	2.8%	2.6%	1.1%	5.9%	2.4%	17.8%	27.6%	3.2%	13.6%	11.1%	11.9%
9	Republic of Mordovia	4.7%	2.9%	0.8%	7.1%	1.9%	11.9%	20.1%	2.1%	15.3%	7.1%	26.1%
10	Republic of North Osetia	2.5%	6.3%	3.0%	7.8%	2.6%	19.2%	16.8%	2.2%	16.4%	3.5%	19.4%
11	Republic of Tatarstan	2.3%	3.6%	4.3%	11.1%	2.5%	9.9%	15.5%	2.3%	13.6%	3.2%	31.0%
12	Republic of Tyva	4.2%	2.1%	2.4%	1.5%	0.8%	7.6%	30.3%	3.3%	18.0%	7.0%	22.7%
13	Udmurt Republic	3.4%	1.9%	4.4%	4.8%	3.8%	25.0%	24.2%	2.4%	15.3%	8.2%	6.7%
14	Ingush Republic	8.9%	8.7%	0.0%	0.7%	0.0%	14.0%	26.0%	3.1%	15.4%	19.6%	3.6%
15	Chuvash Republic	2.5%	1.9%	1.6%	4.8%	5.2%	22.1%	23.5%	2.6%	13.5%	10.1%	12.1%
16	Republic of Sakha	7.0%	2.9%	8.9%	5.1%	1.0%	11.4%	28.8%	2.8%	11.9%	6.9%	12.7%
17	Altai Krai	6.5%	2.9%	2.6%	7.1%	2.8%	19.7%	25.4%	2.2%	15.5%	7.2%	8.1%
18	Krasnodar Krai	7.0%	4.9%	2.4%	6.9%	2.9%	16.3%	26.5%	3.3%	19.8%	8.1%	1.9%
19	Krasnoyarsk Krai	4.3%	3.7%	1.5%	3.2%	2.7%	20.9%	24.0%	2.6%	17.8%	5.1%	13.8%
20	Primorski Krai	5.5%	3.5%	6.7%	2.1%	3.2%	28.5%	20.8%	1.9%	11.3%	3.2%	13.2%
21	Stavropol Krai	7.4%	2.6%	1.1%	6.0%	2.3%	20.8%	24.6%	1.8%	14.8%	8.9%	9.7%
22	Khabarovsk Krai	4.7%	4.2%	10.1%	2.9%	4.4%	20.9%	28.4%	2.3%	16.2%	6.6%	0.0%
23	Amur Oblast	6.1%	3.9%	3.0%	5.7%	1.3%	26.0%	22.9%	2.4%	15.8%	6.0%	6.8%
24	Arkhangelsk Oblast	4.5%	2.7%	0.3%	3.1%	2.8%	20.9%	26.4%	2.1%	17.4%	6.6%	13.1%
25	Astrakhan Oblast	5.5%	2.1%	1.2%	4.7%	1.2%	23.2%	22.1%	1.8%	15.3%	6.6%	16.1%

Table 6 (Continued).

Oblast code	Subject of RF	Public adm.	Law & order, national security	Industry, energy, construction	Ag. And Fishing	Transport, roads, telecom	Housing and utilities	Education	Culture and art	Health-care and physical culture	Social policies	Other exps.
26	Belgorod Oblast	3.4%	2.5%	0.2%	11.8%	1.5%	16.2%	28.6%	3.3%	16.5%	11.6%	4.3%
27	Bryansk Oblast	5.3%	4.6%	2.3%	8.5%	3.8%	17.7%	29.2%	2.4%	14.5%	8.3%	3.4%
28	Vladimir Oblast	5.4%	3.8%	1.2%	2.5%	4.0%	26.9%	23.9%	2.4%	14.6%	7.0%	8.4%
29	Volgograd Oblast	5.5%	3.9%	1.1%	7.0%	4.3%	16.7%	25.0%	2.3%	15.1%	9.5%	9.6%
30	Vologda Oblast	4.2%	3.0%	0.5%	5.1%	1.1%	28.7%	25.9%	2.7%	14.5%	6.6%	7.7%
31	Voronezh Oblast	4.6%	3.0%	1.0%	9.5%	6.3%	15.4%	25.1%	2.1%	19.9%	8.2%	4.8%
32	Nizhny Novgorod Oblast	2.9%	3.2%	0.8%	4.3%	5.8%	21.5%	19.7%	2.1%	17.0%	7.6%	14.9%
33	Ivanovo Oblast	3.3%	2.4%	0.9%	10.3%	1.7%	33.5%	19.1%	1.9%	15.5%	7.4%	3.9%
34	Irkutsk Oblast	5.3%	3.4%	0.7%	3.1%	2.7%	22.4%	28.1%	2.0%	15.8%	7.2%	8.9%
35	Kaliningrad Oblast	5.4%	2.0%	0.9%	4.7%	2.2%	22.3%	19.8%	2.1%	14.3%	8.7%	17.4%
36	Tver Oblast	5.2%	2.4%	1.3%	6.2%	4.6%	29.2%	19.8%	2.5%	12.5%	7.2%	8.9%
37	Kaluga Oblast	8.2%	3.0%	0.5%	7.3%	3.2%	25.5%	21.1%	2.2%	12.9%	9.4%	6.7%
38	Kamchatka Oblast	4.3%	1.9%	5.8%	2.1%	3.3%	28.6%	24.8%	2.7%	9.5%	5.3%	11.7%
39	Kemerovo Oblast	2.0%	0.7%	3.7%	2.4%	5.7%	31.8%	20.7%	1.7%	11.0%	6.9%	13.4%
40	Kirov Oblast	4.4%	3.7%	1.2%	4.7%	3.3%	17.3%	28.1%	3.1%	19.7%	9.0%	5.4%
41	Kostroma Oblast	4.0%	2.9%	3.0%	3.8%	2.4%	31.0%	17.5%	2.0%	11.5%	5.3%	16.4%
42	Samara Oblast	4.8%	2.8%	0.7%	3.1%	6.4%	24.6%	22.5%	1.9%	15.3%	11.1%	6.0%
43	Kurgan Oblast	7.7%	3.4%	1.4%	3.3%	3.0%	18.2%	28.5%	2.6%	16.1%	7.3%	8.5%
44	Kursk Oblast	5.2%	3.0%	2.6%	16.2%	3.8%	18.6%	18.4%	2.0%	14.4%	6.5%	9.2%
45	Leningrad Oblast	5.9%	3.2%	1.1%	3.7%	3.2%	32.4%	20.7%	2.4%	13.1%	5.3%	8.6%
46	Lipetsk Oblast	3.3%	2.5%	0.4%	11.9%	4.8%	16.0%	17.6%	1.8%	16.0%	6.8%	18.7%
47	Magadan Oblast	3.6%	2.2%	2.7%	1.7%	1.2%	48.3%	19.4%	2.5%	12.6%	1.7%	4.2%
48	Moscow Oblast	4.9%	2.8%	1.8%	2.6%	4.9%	30.5%	17.7%	1.6%	14.0%	6.3%	13.0%
49	Murmansk Oblast	4.6%	2.3%	1.1%	1.5%	2.2%	41.7%	21.9%	1.6%	13.1%	4.2%	5.8%
50	Novgorod Oblast	5.0%	3.5%	1.1%	5.3%	4.3%	31.4%	22.4%	2.6%	9.4%	7.8%	7.2%
51	Novosibirsk Oblast	3.4%	3.3%	3.6%	5.4%	4.8%	25.9%	22.4%	2.8%	16.4%	8.1%	3.9%
52	Omsk Oblast	6.8%	5.3%	1.5%	7.3%	4.9%	22.7%	21.5%	3.2%	15.2%	6.6%	5.0%

Table 6 (Continued).

Oblast code	Subject of RF	Public adm	Law & order, national security	Industry, energy, construction	Ag. And fishing	Transport, roads, telecom	Housing and utilities	Education	Culture and art	Health-care and physical culture	Social policies	Other exps.
53	Orenburg Oblast	5.1%	3.0%	1.1%	6.3%	7.1%	17.3%	23.5%	2.2%	20.8%	6.9%	6.5%
54	Oryol Oblast	5.2%	1.6%	3.5%	18.1%	3.9%	11.6%	22.4%	2.0%	13.5%	11.3%	6.7%
55	Penza Oblast	4.4%	3.6%	3.1%	5.7%	3.8%	18.4%	25.2%	2.4%	18.9%	10.4%	3.8%
56	Perm Oblast	4.4%	3.6%	1.1%	6.6%	3.6%	23.4%	26.0%	2.0%	16.8%	9.3%	3.2%
57	Pskov Oblast	5.1%	2.1%	0.3%	7.8%	1.9%	31.3%	22.7%	2.8%	15.1%	7.9%	3.0%
58	Rostov Oblast	4.5%	2.8%	3.9%	2.0%	3.2%	24.0%	23.6%	2.2%	16.7%	7.4%	9.8%
59	Ryazan Oblast	4.4%	3.2%	1.8%	6.9%	3.2%	25.0%	21.5%	2.9%	16.1%	6.2%	8.8%
60	Saratov Oblast	5.4%	2.3%	0.9%	16.7%	5.2%	20.1%	20.1%	2.7%	15.3%	5.6%	5.6%
61	Sakhalin Oblast	7.2%	2.2%	7.8%	1.5%	2.5%	28.0%	22.7%	2.4%	16.7%	3.9%	5.0%
62	Sverdlovsk Oblast	3.2%	2.7%	3.4%	3.5%	3.9%	23.8%	26.0%	2.5%	16.2%	8.9%	5.3%
63	Smolensk Oblast	5.3%	3.4%	0.7%	8.2%	2.9%	16.8%	26.6%	3.3%	16.7%	11.0%	5.0%
64	Tambov Oblast	5.6%	4.4%	2.3%	5.9%	2.6%	16.6%	25.7%	2.7%	18.3%	6.3%	9.5%
<b>65</b>	<b>Tomsk Oblast</b>	<b>4.7%</b>	<b>2.1%</b>	<b>1.4%</b>	<b>7.6%</b>	<b>2.0%</b>	<b>21.9%</b>	<b>22.2%</b>	<b>2.0%</b>	<b>10.7%</b>	<b>8.3%</b>	<b>16.9%</b>
66	Tula Oblast	5.3%	2.8%	1.4%	7.3%	4.9%	26.7%	16.9%	1.6%	14.3%	5.1%	13.7%
67	Tumen Oblast	8.1%	3.1%	4.2%	9.4%	2.5%	16.9%	17.6%	2.5%	14.0%	7.4%	14.2%
68	Ulianovsk Oblast	3.3%	2.1%	2.5%	8.5%	3.5%	14.4%	17.8%	1.7%	19.8%	11.8%	14.6%
69	Chelyabinsk Oblast	3.3%	4.3%	1.2%	2.2%	6.1%	32.4%	23.3%	2.4%	16.7%	5.1%	2.8%
70	Chita Oblast	5.7%	3.4%	2.4%	3.0%	2.7%	17.4%	32.0%	2.8%	19.4%	6.3%	4.9%
71	Yaroslavl Oblast	3.8%	2.1%	2.3%	4.2%	6.2%	30.2%	16.5%	2.0%	11.1%	4.6%	16.8%
72	City of St.-Petersburg	2.9%	3.0%	0.7%	0.1%	11.8%	26.8%	17.3%	2.3%	11.6%	9.5%	13.7%
73	City of Moscow	1.8%	2.6%	1.2%	1.4%	7.2%	36.5%	14.0%	3.5%	15.3%	7.2%	8.0%
76	Republic of Adygeya	5.2%	4.1%	2.1%	11.3%	2.5%	15.3%	20.2%	2.8%	19.3%	11.7%	5.5%
77	Republic of Altai	7.4%	2.4%	0.7%	3.5%	0.5%	13.7%	36.8%	3.7%	18.5%	10.6%	2.1%
78	Jewish AO	6.7%	2.9%	1.8%	1.5%	1.9%	21.2%	23.9%	2.8%	13.7%	8.6%	14.9%
79	Karachayevo-Circassian Republic	8.3%	3.0%	1.7%	6.6%	1.3%	16.4%	26.8%	2.4%	16.7%	8.8%	7.9%
80	Republic of Khakasia	7.8%	2.8%	2.2%	5.2%	2.0%	24.0%	26.0%	2.3%	14.6%	9.2%	3.7%

Table 6 (Continued).

Oblast code	Subject of RF	Public Adm.	Law & order, national security	Industry, energy, construction	Ag. And Fishing	Transport, roads, telecom.	Housing and utilities	Education	Culture and art	Health-care and physical culture	Social policies	Other exps.
81	Aginsk-Buriat AO	5.6%	2.0%	2.2%	3.3%	0.1%	10.4%	40.6%	2.8%	16.6%	14.3%	2.1%
82	Komi-Perm AO	8.1%	3.3%	3.0%	3.6%	0.4%	7.1%	36.9%	3.7%	20.4%	6.8%	6.5%
83	Koryak AO	6.8%	1.9%	0.1%	2.0%	4.1%	29.2%	26.2%	3.9%	14.1%	4.3%	7.3%
84	Nenets AO	4.0%	1.6%	8.4%	6.5%	1.6%	18.0%	28.1%	2.5%	13.4%	5.7%	10.1%
85	Tajmyr AO	6.0%	1.9%	1.6%	1.2%	0.0%	15.0%	30.0%	3.1%	19.9%	6.2%	15.0%
86	Ust-Orda Buriat AO	8.1%	4.6%	1.9%	6.3%	0.4%	7.3%	40.3%	4.1%	17.2%	6.5%	3.2%
87	Khanty-Mansi AO	3.6%	3.7%	18.8%	0.8%	4.0%	24.8%	14.8%	1.8%	12.5%	4.0%	11.0%
88	Chukotka AO	4.8%	1.0%	6.8%	0.6%	1.3%	14.1%	16.9%	1.7%	8.6%	1.6%	42.4%
89	Evenk AO	5.1%	2.3%	3.7%	3.6%	0.2%	43.9%	15.5%	1.7%	10.5%	3.1%	10.2%
90	Yamal-Nenets AO	2.0%	2.5%	30.8%	1.8%	3.0%	14.3%	10.0%	0.8%	6.1%	9.8%	19.0%
94	Chechen Republic	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
999	All w/o ZATO	4.1%	3.0%	4.2%	4.6%	4.2%	23.9%	20.6%	2.4%	14.4%	7.0%	11.4%
	Median	4.8%	2.9%	1.8%	4.7%	2.7%	20.9%	22.9%	2.4%	15.2%	7.2%	8.9%

Source: Based on Ministry of Finance data

Table 7.

Total Per Capita Revenues without Grants from Federal Budget and Total Per Capita Expenditures in 1997.

Oblast code	Subject of RF	Total Per Capita Revenues (w/o grants from federal budget), thou rub	Total Per Capita Expenditures, thou rub
1	Republic of Bashkortostan	3,042	3,070
2	Republic of Buriatia	1,218	2,697
3	Republic of Dagestan	362	1,635
4	Kabarda-Balkar Republic	1,019	2,506
5	Republic of Kalmykia	1,177	3,063
6	Republic of Karelia	2,129	3,258
7	Republic of Komi	4,031	5,474
8	Republic of Mari El	985	1,878
9	Republic of Mordovia	1,418	2,538
10	Republic of North Osetia	1,059	2,237
11	Republic of Tatarstan	5,166	5,390
12	Republic of Tyva	616	4,284
13	Udmurt Republic	2,062	3,072
14	Ingush Republic	171	1,346
15	Chuvash Republic	1,527	2,128
16	Republic of Sakha	4,582	9,693
17	Altai Krai	1,056	2,200
18	Krasnodar Krai	1,264	1,684
19	Krasnoyarsk Krai	3,105	3,560
20	Primorski Krai	1,902	3,216
21	Stavropol Krai	1,020	1,526
22	Khabarovsk Krai	2,308	3,524
23	Amur Oblast	1,545	3,217
24	Arkhangelsk Oblast	1,799	2,471
25	Astrakhan Oblast	1,332	2,294
26	Belgorod Oblast	1,513	1,665
27	Bryansk Oblast	969	1,351
28	Vladimir Oblast	1,414	1,913
29	Volgograd Oblast	1,537	1,787
30	Vologda Oblast	2,279	2,932
31	Voronezh Oblast	1,229	1,466
32	Nizhny Novgorod Oblast	2,050	2,504
33	Ivanovo Oblast	1,062	2,004
34	Irkutsk Oblast	2,359	2,888
35	Kaliningrad Oblast	1,630	2,231
36	Tver Oblast	1,331	2,101
37	Kaluga Oblast	1,319	2,124
38	Kamchatka Oblast	2,510	6,300
39	Kemerovo Oblast	2,639	4,076
40	Kirov Oblast	1,317	1,939
41	Kostroma Oblast	2,421	3,692
42	Samara Oblast	2,914	2,999
43	Kurgan Oblast	1,103	1,825
44	Kursk Oblast	1,491	2,092

Table 7.

Oblast code	Subject of RF	Total Per Capita Revenues (w/o grants from federal budget), thou rub	Total Per Capita Expenditures, thou rub
45	Leningrad Oblast	1,744	2,267
46	Lipetsk Oblast	2,446	2,715
47	Magadan Oblast	6,678	10,616
48	Moscow Oblast	2,220	2,629
49	Murmansk Oblast	2,923	4,687
50	Novgorod Oblast	1,507	2,501
51	Novosibirsk Oblast	1,827	2,583
52	Omsk Oblast	2,384	2,989
53	Orenburg Oblast	1,928	2,450
54	Oryol Oblast	1,476	2,486
55	Penza Oblast	1,005	1,471
56	Perm Oblast	2,506	2,836
57	Pskov Oblast	963	1,981
58	Rostov Oblast	1,046	1,474
59	Ryazan Oblast	1,467	2,019
60	Saratov Oblast	1,480	2,279
61	Sakhalin Oblast	2,944	4,802
62	Sverdlovsk Oblast	2,402	2,602
63	Smolensk Oblast	1,217	1,639
64	Tambov Oblast	1,159	1,635
<b>65</b>	<b>Tomsk Oblast</b>	<b>3,197</b>	<b>3,858</b>
66	Tula Oblast	1,212	2,097
67	Tumen Oblast	3,719	4,539
68	Ulianovsk Oblast	1,446	2,032
69	Chelyabinsk Oblast	1,904	2,330
70	Chita Oblast	1,419	2,340
71	Yaroslavl Oblast	2,259	3,033
72	City of St.-Petersburg	2,704	2,968
73	City of Moscow	6,161	6,231
76	Republic of Adygeya	876	2,025
77	Republic of Altai	663	2,360
78	Jewish AO	976	3,013
79	Karachayevo-Circassian Republic	802	1,816
80	Republic of Khakasia	1,904	2,454
81	Aginsk-Buriat AO	405	2,126
82	Komi-Perm AO	809	1,994
83	Koryak AO	4,312	19,956
84	Nenets AO	8,131	10,439
85	Tajmyr AO	7,672	10,165
86	Ust-Orda Buriat AO	636	2,038
87	Khanty-Mansi AO	18,801	19,312
88	Chukotka AO	8,332	21,728
89	Evenk AO	7,458	20,566
90	Yamal-Nenets AO	28,241	29,350
	Median	1,541	2,502
	Mean	2,663	4,128

Oblast code	Subject of RF	Total Per Capita Revenues (w/o grants from federal budget), thou rub	Total Per Capita Expenditures, thou rub
	Max	28,241	29,350
	Min	171	1,346

Source: Based on Ministry of Finance data

Table 8.

Consolidated Revenues by Source, Tomsk Oblast (Excluding Transfers).

Th Rb 1998 (Mln Rb 1997)	1996		1997		Percentage Change 1996-1997	1998	
	Actual	Oblast Share	Actual	Oblast Share		Forecast	Oblast Share
Enterprise Profit Tax	365,368	39%	379,926	20%	104%	474,040	37%
Personal Income Tax	348,220	0%	525,821	16%	151%	562,830	23%
Payroll Tax	55,005	0%	60,365	0%	110%	NA	NA
VAT	291,467	100%	429,664	100%	147%	575,400	90%
Excise Taxes	23,777	46%	31,625	59%	133%	25,390	56%
Property Taxes	400,290	45%	535,569	47%	134%	648,000	42%
Enterprise Property Tax	398,562	45%	532,542	47%	134%	NA	NA
Individual Property Tax	1,560	0%	2,769	0%	178%	NA	NA
Natural Resource Taxes	248,172	59%	261,636	50%	105%	231,900	40%
Subsoil Use	142,189	50%	151,679	47%	107%	174,240	50%
Prospecting Charges	76,543	95%	59,966	91%	78%	NA	NA
Land Tax and Lease*	20,215	14%	35,477	13%	175%	48,560	12%
Housing and Utility Tax	136,381	0%	168,702	0%	124%	NA	NA
Other Tax Revenues**	101,195	16%	131,791	10%	130%	423,020	4%
Non-Tax Revenues	41,488	40%	524,870	91%	1265%	61,130	18%
Total Tax and Non-Tax Revenues	2,011,363	40%	3,049,969	49%	152%	3,001,710	41%
Earmarked Funds***	373,417	100%	386,540	99%	104%	473,430	100%
Total Revenues****	2,383,891	49%	3,435,192	54%	144%	3,475,140	49%

\* In Budget LAW for oblast budget for 1998 there is unit "Land Tax" only (no "Land Lease")

\*\* Unit "Other Tax Revenues" for 1998 includes "Housing and Utility Tax"

\*\*\* Road fund and Ecology fund

\*\*\*\* Without "Total non-compensatory contributions" (subsidies, transfers and mutual settlements)

Source: Based on Tomsk oblast Finance department data

Table 9.

TOMSK OBLAST: Local Per Capita Tax and Non-Tax Revenue by Type (1997).  
(Mln Rb 1997)

MUNICIPALITY	EPT	PIT	Payroll taxes	Excise taxes	Individual property tax	Enterprise property tax	Natural Resource Taxes	H&U tax	Total tax revenues	Total non-tax revenues	Total tax + non-tax revenues
Aleksandropvsky Rayon	143.01	736.18	97.32	0.00	3.58	175.93	2,256.91	43.66	3,510.65	5.45	3,516.10
Asinovsky Rayon	30.59	174.02	35.01	6.91	3.91	23.40	25.01	42.05	378.77	15.50	394.27
Bakcharsky Rayon	22.22	300.70	46.14	0.00	3.63	34.44	42.34	18.36	491.46	111.99	603.45
Verkhneketsky Rayon	16.70	198.84	28.04	0.04	2.28	47.68	72.59	46.79	450.27	5.80	456.07
Zyrjansky Rayon	26.72	232.54	19.49	0.34	2.43	29.27	50.96	47.23	445.14	52.43	497.57
Kargasoksky Rayon	92.38	530.29	67.84	0.00	3.37	80.40	1,940.88	141.76	2,935.90	12.64	2,948.53
Kozhevnikovsky Rayon	42.75	190.89	51.62	0.32	1.90	16.64	62.19	44.25	462.15	65.43	527.57
Kolpashevsky Rayon	71.52	579.58	83.33	0.00	3.10	115.93	34.51	69.27	997.67	9.46	1,007.13
Kryvosheinsky Rayon	22.80	263.79	29.84	0.00	3.35	25.22	28.02	20.00	445.88	75.05	520.93
Molchanovsky Rayon	22.50	293.59	28.48	0.05	1.47	18.97	36.74	22.72	459.62	40.92	500.54
Parabelsky Rayon	44.90	476.65	54.32	0.00	1.10	47.03	914.19	109.87	1,682.71	16.90	1,699.61
Pervomajsky Rayon	10.77	229.06	34.96	0.04	2.86	44.32	150.17	34.83	538.59	11.11	549.70
Teguldetsky Rayon	34.22	253.22	25.00	0.00	2.89	38.78	44.33	27.89	461.89	49.33	511.22
Tomsky Rayon	78.98	277.60	40.60	19.95	3.50	156.86	41.03	40.68	725.21	40.73	765.94
Chainsky Rayon	16.24	270.85	27.58	0.00	2.24	20.97	83.70	33.94	488.73	30.67	519.39
Shegarsky Rayon	48.83	220.13	32.01	3.47	2.26	28.91	40.25	30.84	437.53	6.11	443.64
City of Tomsk	586.89	564.09	64.57	21.85	2.59	189.57	26.30	232.76	1,816.11	63.15	1,879.25
City of Strezhevoy	36.22	679.45	210.18	6.24	5.24	3,617.86	56.86	813.44	6,277.02	99.00	6,376.01
City of Kedrovyy	50.94	879.62	83.21	0.00	1.70	-131.89	357.36	92.45	1,407.36	37.36	1,444.72
Mean	73.64	386.90	55.76	3.12	2.81	241.07	329.70	100.67	1,284.88	39.42	1,324.30
Median	36.22	277.60	40.60	0.04	2.86	38.78	50.96	43.66	491.46	37.36	549.70
Minimum	10.77	174.02	19.49	0.00	1.10	-131.89	25.01	18.36	378.77	5.45	394.27
Maximum	586.89	879.62	210.18	21.85	5.24	3,617.86	2,256.91	813.44	6,277.02	111.99	6,376.01
Coefficient of Variation	1.74	0.55	0.78	2.12	0.35	3.40	2.00	1.79	1.17	0.81	1.14

Source: Based on Tomsk Oblast Finance Department data

Table 10.

## TOMSK OBLAST: Consolidated Expenditures by Function.

Th Rb 1998 (Mln Rb 1997)	1996		1997		1997 to 1996
Expenditure Item	Actual	Oblas t Share	Actual	Oblast Share	Nominal Growth
Public Administration	129,341	24%	195,200	23%	151%
Law, Order and National security	73,745	57%	88,921	79%	121%
Industry, Energy and Construction	68,223	88%	58,381	83%	86%
Agriculture and Fishing	200,651	94%	314,686	91%	157%
Protection of Nature and Nature Resources, Hydrometeorology, Cartography and Geodesy	1,725	42%	2,290	44%	133%
Transport, Roads and Telecommunications	62,704	13%	82,937	13%	132%
Housing and Utilities	700,757	3%	909,825	3%	130%
Education	636,881	19%	921,231	19%	145%
Culture and Art	61,727	31%	83,935	32%	136%
Healthcare and Physical Culture	310,338	28%	443,331	31%	143%
Social Policies	205,664	34%	345,214	37%	168%
Other Expenditures	83,430	35%	314,042	67%	376%
Expenditures of Earmarked Funds*	372,799	100%	387,081	99%	104%
Total Expenditures	2,907,985	36%	4,147,074	37%	143%

\* Road fund, Ecology fund and Mineral Resource Prospecting Fund

Source: Based on Tomsk Oblast Finance Department data

Table 11

Tomsk Oblast: Consolidated Expenditures by Object.

Th Rb 1998 (Mln Rb 1997)	1996		1997		1997 to 1996
	Actual	Oblast Share	Actual	Oblast Share	Nominal Growth
Wages of state employees and Payroll charges	597 122	22%	904 ,571	22%	151%
Wages of state employees	447 301	22%	658 ,691	22%	147%
Payroll charges	149 821	22%	245 ,880	21%	164%
Other Current Expenditures	1, 972 294	43%	2 ,704 ,218	40%	137%
Interest Payments	161	0%	12 ,227	99%	7594%
Subsidies*	1 ,149, 205	48%	1 ,496 ,712	44%	130%
Transfers to non-profit organizations	4, 721	53%	9 ,413	83%	199%
Transfers to Population	214, 926	28%	364 ,217	32%	169%
Purchases of equipment and durable goods	79, 958	45%	62 ,189	49%	78%
Capital construction	127, 679	28%	204 ,670	35%	160%
Capital rehabilitation	142, 287	15%	119 ,516	17%	84%
Credits Extended less Repayment	-11, 355	140%	151 ,910	91%	-1338%
Internal Turnover	868 ,950	70%	951 ,886	99%	110%
TOTAL EXPENDITURES	3 ,776, 935	44%	5, 098 ,960	49%	135%
TOTAL EXPENDITURES without Internal Turnover	2 ,907, 985	36%	4 ,147 ,074	37%	143%

\* Subsidies to enterprises

Source: Based on Tomsk Oblast Finance Department data

Table 12.

## Tomsk Oblast: Distribution of Expenditure Between the Oblast and Local Budgets, 1997 (Mln Rb 1997)

Expenditure Item	Oblast Budget Expenditures, Mln rub	Line Item Expenditure Structure of Oblast Budget	Local Budgets Expenditures, Mln rub	Line Item Expenditure Structure of Local Budgets	Share of Oblast Budget Expenditure in Consolidated Budget	Share of Local Budgets Expenditure in Consolidated Budget
<b>CURRENT EXPENDITURES</b>	<b>1,288,523</b>	<b>83.2%</b>	<b>2,320,266</b>	<b>89.3%</b>	<b>35.7%</b>	<b>64.3%</b>
PURCHASES OF GOODS AND SERVICES	485,735	31.4%	1,240,485	47.7%	28.1%	71.9%
Wages of state employees	146,524	9.5%	512,167	19.7%	22.2%	77.8%
Payroll charges	51,767	3.3%	194,113	7.5%	21.1%	78.9%
Purchases of supplies and expendables	81,466	5.3%	73,965	2.8%	52.4%	47.6%
Business trips	2,281	0.1%	5,200	0.2%	30.5%	69.5%
Transportation services	17,290	1.1%	17,216	0.7%	50.1%	49.9%
Telecommunication services	5,197	0.3%	11,867	0.5%	30.5%	69.5%
Bill for public utilities	50,857	3.3%	188,821	7.3%	21.2%	78.8%
Payment for geological survey services	43,047	2.8%	4,276	0.2%	91.0%	9.0%
Payment for drafting standard designs	209	0.0%	1,873	0.1%	10.0%	90.0%
Compensations for other services and other operating costs for purchasing goods and services	87,097	5.6%	230,987	8.9%	27.4%	72.6%
INTEREST PAYMENTS	12,132	0.8%	95	0.0%	99.2%	0.8%
SUBSIDIES AND CURRENT TRANSFERS	790,656	51.0%	1,079,686	41.6%	42.3%	57.7%
Subsidies	666,008	43.0%	830,704	32.0%	44.5%	55.5%
Current Transfers	7,790	0.5%	1,623	0.1%	82.8%	17.2%
Transfers to Population	116,858	7.5%	247,359	9.5%	32.1%	67.9%
<b>CAPITAL EXPENDITURES</b>	<b>122,941</b>	<b>7.9%</b>	<b>263,434</b>	<b>10.1%</b>	<b>31.8%</b>	<b>68.2%</b>
CAPITAL INVESTMENTS TO FIXED CAPITAL FUNDS	122,941	7.9%	263,434	10.1%	31.8%	68.2%
Purchases of equipment and durable goods	30,583	2.0%	31,606	1.2%	49.2%	50.8%
Capital construction	71,919	4.6%	132,751	5.1%	35.1%	64.9%
Capital Rehabilitation	20,439	1.3%	99,077	3.8%	17.1%	82.9%
CREDITS EXTENDED LESS REPAYMENT	137,642	8.9%	14,268	0.5%	90.6%	9.4%
<b>TOTAL EXPENDITURES WITHOUT INTERNAL TURNOVER</b>	<b>1,549,106</b>	<b>100.0%</b>	<b>2,597,968</b>	<b>100.0%</b>	<b>37.4%</b>	<b>62.6%</b>

Source: Based on Tomsk Oblast Finance Department data

Table 13

TOMSK OBLAST: Per Capita Localities Expenditures by Function, 1997 (Mln Rb 1997)

Localities	Public Administration	Housing and Utilities	Education	Health care and physical culture	Social policies	Total Expenditures
Aleksandropvsky Raion	400.50	1, 161.40	2, 114.71	464.13	325.29	5, 030.00
Asinovsky Raion	133.22	1, 178.40	556.78	294.63	201.73	2, 584.56
Bakcharsky raion	326.63	224.01	1, 095.35	362.09	302.33	2, 651.10
Verkhneketsky Raion	339.95	257.17	1, 079.59	459.68	246.21	2, 636.30
Zyrjansky Raion	254.11	251.31	867.77	156.63	204.63	2, 088.63
Kargasoksky Raion	532.29	1, 152.10	2, 019.52	637.60	337.42	5, 449.34
Kozhevnikovsky Raion	226.63	274.80	830.49	229.07	215.24	2, 080.37
Kolpashevsky Raion	230.37	789.31	866.69	320.84	295.96	2, 816.41
Kryvosheinsky Raion	318.94	459.22	1, 212.91	363.18	278.77	2, 960.61
Molchanovsky Raion	243.55	435.14	962.84	467.81	175.08	2, 587.16
Parabelsky Raion	273.97	832.85	1, 389.54	505.56	321.19	3, 730.66
Pervomajsky Raion	269.06	319.49	915.00	302.52	253.25	2, 492.18
Teguldetsky Raion	314.94	268.99	874.61	347.08	198.88	2, 331.12
Tomsky Raion	144.93	667.66	964.82	265.14	301.18	2, 687.32
Chainsky Raion	357.78	99.38	1, 114.14	396.98	338.77	2, 706.48
Shegarsky Raion	204.41	567.80	731.86	160.85	207.42	2, 127.37
Tomsk	70.23	1, 065.93	492.47	258.60	178.02	2, 247.71
City of Strezhevoy	173.74	2, 234.37	1, 496.93	882.13	399.82	6, 366.39
City of Kedrovyy	420.56	857.22	775.74	281.48	222.04	2, 966.11
Mean	275.57	689.29	1, 071.67	376.63	263.33	3, 081.04
Median	269.06	567.80	962.84	347.08	253.25	2, 651.10
Coefficient of Variation	0.41	0.76	0.40	0.47	0.25	0.40

Source: Based on Tomsk Oblast Finance Department data

Table 14.

## Federation Payments to Tomsk Oblast and Percent of Total Current Revenues

Th Rb 1998 (Mln Rb 1997)	1996		1997	
Revenue	Mln Rb	Share in Total Current Revenue	Mln Rb	Share in Total Current Revenue
Mutual Settlements	163,270	7%	201,921	6%
Transfers	226,049	9%	373,898	10%
Total Grants	389,319	16%	575,819	16%
Total Current Revenue (Tax, Non-Tax and Grants)	2,400,682	100%	3,625,788	100%

Source: Based on Tomsk Oblast Finance Department data

Table 15

## CONSOLIDATED BUDGETARY POSITION OF THE REGION: 1996 AND 1997 (Mln Rb).

Th Rb 1998 (Mln Rb 1997)	1996	1997
<b>Current Revenues</b>	<b>2, 586, 053</b>	<b>3, 340, 959</b>
Tax Revenues	1, 969, 875	2, 525, 099
Non-Tax Revenues w/o Sales of Property	28, 632	56, 729
Grants w/o Mutual Settlements	233, 448	373, 966
From Earmarked Budgetary Funds	373, 417	386, 540
Minus: Payments to Federal Funds	19, 319	1, 375
 <b>Minus: Current Expenditures</b>	 <b>2, 569, 416</b>	 <b>3, 608, 789</b>
<b><u>Equals: Current Deficit</u></b>	<b><u>16, 637</u></b>	<b><u>-267, 830</u></b>
<b>Minus: Capital Expenditures</b>	<b>349, 924</b>	<b>386, 375</b>
<b>Minus: Budget Loans Extended</b>	<b>-11, 355</b>	<b>151, 910</b>
 <b><u>Equals: Overall Deficit</u></b>	 <b><u>-321, 932</u></b>	 <b><u>-806, 115</u></b>
 <b>Required Financing:</b>	 <b>321, 932</b>	 <b>806, 115</b>
Mutual Settlements with Federal Government	163, 270	201, 921
Sales of State Property and Land	12, 856	468, 141
Change of Current Account in Bank	-8, 691	-21, 135
Net Budget Loans Received (interest free)	-15, 279	63, 673
Net Budget Loans Received (with bearing)	75, 564	87, 878
Regional Securities	61, 002	-57, 903
Loans from Banks	33, 210	63, 540

Source: Based on Tomsk Oblast Finance Department data

Table 16

## TOMSK OBLAST GOVERNMENT: BUDGETARY POSITION (Mln Rb).

	(Mln Rb 1997)	1996	1997
<b>Current Revenues</b>		<b>1,384,145</b>	<b>1,770,723</b>
Tax Revenues		787,636	1,002,984
Non-Tax Revenues		16,565	476,571
Sales of Property		8,180	462,821
Non-Tax Revenues w/o Sales of Property		8,385	13,750
Grants		389,319	575,819
Mutual Settlements		163,270	201,921
Grants w/o Mutual Settlements		226,049	373,898
From Earmarked Budgetary Funds		373,205	383,596
Change of Current Account in Bank		-2,795	-3,505
Minus: Payments to Federal Funds		8,335	0
<b>Minus: Current Expenditures</b>		<b>969,769</b>	<b>1,288,523</b>
<b>Minus: Transfers to Local Governments</b>		<b>610,558</b>	<b>940,952</b>
Subsidies		320,466	470,333
Subventions		0	3,261
Mutual Settlements		290,092	467,358
<b><u>Equals: Current Deficit</u></b>		<b><u>-196,182</u></b>	<b><u>-458,752</u></b>
<b>Minus: Capital Expenditures</b>		<b>92,724</b>	<b>122,941</b>
<b>Minus: Budget Loans Extended</b>		<b>-15,866</b>	<b>137,642</b>
<b><u>Equals: Overall Deficit</u></b>		<b><u>-273,040</u></b>	<b><u>-719,335</u></b>
<b>Required Financing:</b>		<b>273,040</b>	<b>719,335</b>
Mutual Settlements with Federal Government		163,270	201,921
Mutual Settlements with Local Government		0	10,934
Sales of State Property and Land		8,180	462,821
Budget Loans Received (% free)		0	0
Budget Loans Received (with %)		23,422	24,778
Regional Securities		61,002	-59,503
Loans from Banks		17,166	78,384

Source: Based on Tomsk Oblast Finance Department data

Table 17-1

Shared Taxes in Tomsk oblast: Shares Retained by Municipal Settlements, 1995.

Localities	Profit Tax <sup>a</sup>	PIT	Transport Tax	VAT	Excise Taxes on Alcohol	Other Excise Taxes (except Taxes on Oil, Gas, Gasoline and Cars)	Enterprise Property tax	Land Tax and Land Lease (for Agricultural land)
Alexadrovsky	100	100	100	0	0	100	50	100
Asinovsky	100	100	100	0	0	100	50	100
Bakcharsky	100	100	100	0	0	100	50	100
Verhneketsky	100	100	100	0	0	100	50	100
Zyryansky	100	100	100	0	0	100	50	100
Kargasoksky	100	100	100	0	0	100	50	100
Kozhevnikovsky	100	100	100	0	0	100	50	100
Kolpashevsky	100	100	100	0	0	100	50	100
Krivosheinsky	100	100	100	0	0	100	50	100
Molchanovsky	100	100	100	0	0	100	50	100
Parabelsky	100	100	100	0	0	100	50	100
Pervomaisky	100	100	100	0	0	100	50	100
Teguldetsky	100	100	100	0	0	100	50	100
Tomsky	100	100	100	0	0	100	50	100
Chainsky	100	100	100	0	0	100	50	100
Shegarsky	100	100	100	0	0	100	50	100
City of Tomsk	100	100	100	0	0	100	50	100
City of Strezhevoy	0 <sup>b</sup>	100	100	0	0	100	50	100
City of Kedrovoy	100	100	100	0	0	100	50	100

<sup>a</sup> Except list of enterprises who pays directly to the oblast budget.

<sup>b</sup> Municipal Enterprises of Streshevoy pay taxes to the local budget, all other Enterprises pay taxes directly to the oblast budget.

Source: 1995 Budget Law

Table 17-2

Shared Taxes in Tomsk oblast: Shares Retained by Municipal Settlements, 1996.

Localities	Profit Tax <sup>a</sup>	PIT	Transport Tax	VAT	Excise Taxes on Alcohol	Other Excise Taxes (except Taxes on Oil, Gas, Gasoline and Cars)	Enterprise Property tax	Land Tax and Land Lease (for Agricultural land)
Aleksandropvsky Raion	100	100	100	0	50	100	50	100
Asinovsky Raion	100	100	100	0	50	100	50	100
Bakcharsky raion	100	100	100	0	50	100	50	100
Verkhneketsky Raion	100	100	100	0	50	100	50	100
Zyrjansky Raion	100	100	100	0	50	100	50	100
Kargasoksky Raion	100	100	100	0	50	100	50	100
Kozhevnikovsky Raion	100	100	100	0	50	100	50	100
Kolpashevsky Raion	100	100	100	0	50	100	50	100
Kryvosheinsky Raion	100	100	100	0	50	100	50	100
Molchanovsky Raion	100	100	100	0	50	100	50	100
Parabelsky Raion	100	100	100	0	50	100	50	100
Pervomajsky Raion	100	100	100	0	50	100	50	100
Teguldetsky Raion	100	100	100	0	50	100	50	100
Tomsky Raion	100	100	100	0	50	100	50	100
Chainsky Raion	100	100	100	0	50	100	50	100
Shegarsky Raion	100	100	100	0	50	100	50	100
City of Tomsk	100	100	100	0	50 <sup>c</sup>	100	50	100
City of Streshevoy	0 <sup>b</sup>	100	100	0	50	100	50	100
City of Kedrovyy	100	100	100	0	50	100	50	100

<sup>a</sup> Except list of enterprises who pays directly to the oblast budget.

<sup>b</sup> Municipal Enterprises of Streshevoy pay taxes to the local budget, all other Enterprises pay taxes directly to the oblast budget.

<sup>c</sup> Except "Food goodsplant "Tomskiy" "

Source: 1996 Budget Law

Table 17-3

## Shared Taxes in Tomsk oblast: Shares Retained by Municipal Settlements. 1997.

MUNICIPALITY	Profit Tax	PIT (before 01.07.97)	PIT (after 01.07.97)	Transport Tax	VAT	Excise Taxes on Alcohol	Other Excise Taxes (except Taxes on Oil, Gas, Gasoline and Cars)	Enterprise Property tax	Land Tax and Land Lease (for Agricultural land)
Aleksandropvsky Raion	100	100	100	100	0	50	100	50	100
Asinovsky Raion	100	100	100	100	0	50	100	50	100
Bakcharsky raion	100	100	100	100	0	50	100	50	100
Verkhneketsky Raion	100	100	100	100	0	50	100	50	100
Zyrjansky Raion	100	100	100	100	0	50	100	50	100
Kargasoksky Raion	100	100	100	100	0	50	100	50	100
Kozhevnikovsky Raion	100	100	100	100	0	50	100	50	100
Kolpashevsky Raion	100	100	100	100	0	50	100	50	100
Kryvosheinsky Raion	100	100	100	100	0	50	100	50	100
Molchanovsky Raion	100	100	100	100	0	50	100	50	100
Parabelsky Raion	100	100	100	100	0	50	100	50	100
Pervomajsky Raion	100	100	100	100	0	50	100	50	100
Teguldetsky Raion	100	100	100	100	0	50	100	50	100
Tomsky Raion	100	100	100	100	0	50	100	50	100
Chainsky Raion	100	100	100	100	0	50	100	50	100
Shegarsky Raion	100	100	100	100	0	50	100	50	100
City of Tomsk	100	100	100	100	0	50 <sup>c</sup>	100	50	100
City of Streshevoy	0 <sup>b</sup>	20 <sup>d</sup>	30	100	0	50	100	50	100
City of Kedrovyy	100	100	100	100	0	50	100	50	100

<sup>b</sup> *Municipal Enterprises of Streshevoy pay taxes to the local budget, all other Enterprises pay taxes directly to the oblast budget.*

<sup>c</sup> *Except "Food goods plant "Tomskiy" "*

<sup>d</sup> *20% from contingent (before 01.07.97 90% from contingent retained on territorial level, after 01.07.97 - 100%)*

Source: 1997 Budget Law

Table 17-4

Shared Taxes in Tomsk oblast: Shares Retained by Municipal Settlements, 1998.

MUNICIPALITY	Profit Tax	PIT	Transport Tax	VAT	Excise Taxes on Alcohol	Other Excise Taxes (except Taxes on Oil, Gas, Gasoline and Cars)	Enterprise Property tax	Land Tax and Land Lease (for Agricultural land)
Aleksandropvsky Raion	100	100	100	0	0	100	50	100
Asinovsky Raion	100	100	100	0	0	100	50	100
Bakcharsky raion	100	100	100	0	0	100	50	100
Verkhneketsky Raion	100	100	100	0	0	100	50	100
Zyrjansky Raion	100	100	100	0	0	100	50	100
Kargasoksky Raion	100	100	100	0	0	100	50	100
Kozhevnikovsky Raion	100	100	100	0	0	100	50	100
Kolpashevsky Raion	100	100	100	0	0	100	50	100
Kryvosheinsky Raion	100	100	100	0	0	100	50	100
Molchanovsky Raion	100	100	100	0	0	100	50	100
Parabelsky Raion	100	100	100	0	0	100	50	100
Pervomajsky Raion	100	100	100	0	0	100	50	100
Teguldetsky Raion	100	100	100	0	0	100	50	100
Tomsky Raion	100	100	100	0	0	100	50	100
Chainsky Raion	100	100	100	0	0	100	50	100
Shegarsky Raion	100	100	100	0	0	100	50	100
City of Tomsk	80	100	100	21	7	100	50	100
City of Streshevoy	0 <sup>b</sup>	10	100	0	0	100	50	100
City of Kedrovyy	100	100	100	0	0	100	50	100

<sup>b</sup> Municipal Enterprises of Streshevoy pay taxes to the local budget, all other Enterprises pay taxes directly to the oblast budget.

<sup>d</sup> 20% from contingent (before 01.07.97 90% from contingent retained on territorial level, after 01.07.97 - 100%)

Source: 1998 Budget Law

Table 18

Grants To Each Raion: By Type of Grant for 1997 (Th Rb 1998 (Mln Rb 1997)).

Localities	Subsidies	Subventions	Mutual Settlements	Total Grants
Aleksandropvsky Raion	0.00	0.00	419.34	419.34
Asinovsky Raion	1,280.28	0.00	870.72	2,151.00
Bakcharsky raion	1,784.13	0.00	258.72	2,042.85
Verkhneketsky Raion	1,654.61	0.00	380.87	2,035.48
Zyrjansky Raion	1,073.26	0.00	230.63	1,303.89
Kargasoksky Raion	0.00	0.00	1,035.17	1,035.17
Kozhevnikovsky Raion	859.88	0.00	503.50	1,363.37
Kolpashevsky Raion	1,370.57	0.00	414.18	1,784.75
Kryvosheinsky Raion	1,974.97	0.00	415.20	2,390.17
Molchanovsky Raion	1,661.31	0.00	340.98	2,002.30
Parabelsky Raion	662.78	0.00	532.52	1,195.30
Pervomajsky Raion	1,001.28	0.00	822.99	1,824.27
Teguldetsky Raion	1,385.62	0.00	402.70	1,788.31
Tomsky Raion	748.00	0.00	1,027.68	1,775.68
Chainsky Raion	1,668.83	0.00	476.23	2,145.06
Shegarsky Raion	980.72	0.00	661.06	1,641.78
Tomsk	0.00	6.83	387.92	394.74
City of Strezhevoy	0.00	0.00	0.13	0.13
City of Kedrovyy	1,444.07	0.00	352.59	1,796.67

Mean	1,028.96	0.36	501.74	1,531.07
Median	1,073.26	0.00	415.20	1,784.75
Minimum	0.00	0.00	0.13	0.13
Maximum	1,974.97	6.83	1,035.17	2,390.17
Coefficient of Variation	0.63	4.36	0.54	0.43

Source: Based on Tomsk Oblast Finance Department data

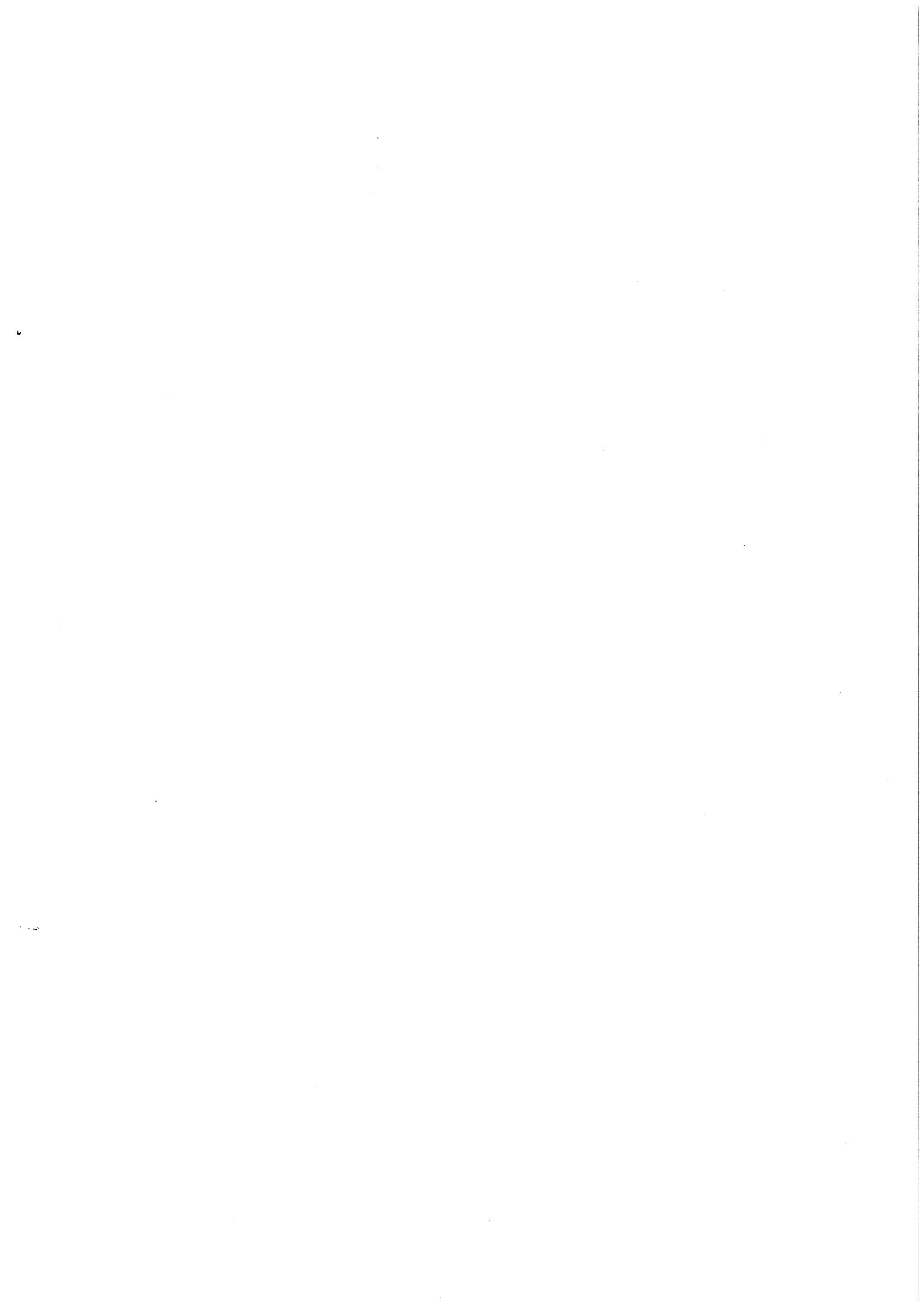
Table 19.

TOMSK OBLAST: SIMPLE CORRELATION COEFFICIENTS BETWEEN PER CAPITA GRANTS WITH SELECTED INDICATORS OF ECONOMIC DEVELOPMENT AND EXPENDITURE NEEDS.

	<i>Per Capita Subsidies from region</i>	<i>Per Capita Mutual settlement s with regions</i>	<i>Per Capita Total grants from regions</i>
<b>Indexes of Expenditure Needs</b>			
Population density	<b>-0.52</b>	-0.30	<b>-0.63</b>
Share of Urban Population	-0.29	-0.22	-0.37
Per Capita GRP	<b>-0.55</b>	-0.36	<b>-0.69</b>
Share of Population before and after active age	<b>0.64</b>	0.42	<b>0.80</b>
Pensioners Per capita	<b>0.58</b>	0.26	<b>0.68</b>
Per capita Number of Families on the Waiting List for Improvement of Living Conditions	<b>0.47</b>	-0.26	0.35
<b>Indexes of Economic Base</b>			
Average Wage	<b>-0.60</b>	-0.36	<b>-0.74</b>
Per Capita Profit of Enterprises	-0.16	<b>-0.54</b>	-0.37
Per Capita Volume of Production of market goods	-0.26	<b>-0.46</b>	-0.44
Per Capita Retail Turnover	0.10	-0.28	-0.02
Number of enterprises	-0.41	-0.05	-0.42
<b>Indexes of Infrastructure Quality</b>			
Per Capita Finished Constructing of new housing	<b>-0.71</b>	0.26	<b>-0.59</b>
Average Per Capita Housing Stock	0.06	0.15	0.12
Per Capita Clubs Capacity	0.42	-0.20	0.33
Per Capita Public Libraries	0.31	-0.22	0.21
Per Capita Museums	0.07	0.05	0.09
<b>Indexes of Education Quality</b>			
Per Capita Number of kindergartens	0.16	0.00	0.16
Average Capacity of kindergartens	-0.42	-0.34	<b>-0.55</b>
Per Capita Number of kids in kindergartens	-0.37	-0.25	<b>-0.47</b>
Per Capita Number of students in regular schools	0.29	-0.04	0.27
Per Capita Number of Schools	<b>0.48</b>	0.10	<b>0.51</b>
Per Capita Number of Teachers	0.33	0.31	0.45
Number of Students per Schools	<b>-0.54</b>	-0.41	<b>-0.70</b>
Number of Students per Teachers	-0.26	-0.40	-0.42
Percent of school students attending lessons in the afternoon because of lack of space	<b>-0.62</b>	-0.15	<b>-0.67</b>

\* Bold means statistically significant

Source: Calculated by authors on the basis of statistical yearbook Tomsk Oblast (1992-1997) and Finance Department data



# Proposed method of distributing budget resources among municipalities of Tomsk Oblast

## 1. Introduction

The budgeting practices currently in use in Tomsk oblast have the following major weaknesses:

1. They do not provide for the budget to be balanced: Tomsk Oblast (TO) budgets for budget years 1996, 1997 and 1998 were all approved with a deficit<sup>19</sup>. This either rendered them impossible to implement, or required borrowing and led to increases of deferred payments, which weakened the financial position of the Tomsk Oblast. When planning the budget for 1999, apart from avoiding the obvious problems of approving unfunded budget expenditures, it is necessary to take into account the stringent constraints on regional budget imbalances imposed by the recently approved RF Budget Code (Article 92, Chapter 13 of the Budget Code).

2. In the current procedure for estimating minimum budgets of municipalities, expenditure needs associated with the execution of spending responsibilities that were delegated to local governments (such as subsidizing telephone tariffs and medication prices) are treated on the same basis as all other expenditures (they are not estimated separately), and therefore the funding of this responsibility is drawn from the common pool of budget resources at the time of budget execution. This creates disincentives for the local governments to execute such delegated responsibilities and worsens the financial position of localities where due to objective reasons the costs of performing such delegated responsibilities or mandates are higher than average (for instance, in the localities with higher percentage of people with benefit entitlements).

3. Estimation of functional components of minimum budgets (expenditure needs by sector) is facility-oriented (depends on availability of schools, kindergartens, polyclinics, hospitals, etc.), rather than client-oriented. It should be realized that the greater the availability of public facilities in a municipality, the easier it is for the municipality in question to offer respective services to its population, therefore the municipalities that have a greater number of schools or hospital beds already find themselves in a better position than municipalities that have less to offer, and increasing minimum budgets of the former on the grounds that they have more public facilities per capita only leads to greater inequality in the abilities of local authorities to provide their population with vital services.

The method currently in use is based on the assumption that the existing spatial distribution of public facilities matches the needs of the localities. In other words, the assumption is that the number of schools is higher in municipalities that have more children of school age, the number of kindergartens is higher in municipalities where there are more children of pre-school age, and the number of hospital beds is higher where susceptibility to illnesses is higher. In reality, however, this assumption often does not hold true and it creates unequal access to basic services that come under the responsibility of local governments.

Another negative outcome of linking financial assistance to the availability of social facilities is that it weakens the autonomy of local authorities in choosing the best way to meet the needs of their constituencies. Rather than getting rid of facilities that are no longer needed, the municipalities are often trying to increase their number by all means (a typical example is increasing the number of hospital beds).

As a result, the ability to deliver the services determined by law as the responsibility of the local government can be quite different for different municipalities.

The method of computing minimum local budgets proposed below permits the elimination of the above weaknesses and develops a more equitable allocation of resources among municipalities.

## 2. The Algorithm

The method proposed here is based on the following principles:

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<sup>19</sup> Total deficit of the oblast budget was 8% of the planned budget expenditures in 1996, 14% in 1997, 22% in 1998 and 27% in 1999. The laws on the oblast budget for 1996 and 1997 did not identify sources to cover the deficit. The law on the 1998 oblast budget says that the deficit will be covered from, among others, revenues from issue of regional securities, but the issue amount is not specified. The 1999 oblast budget law identifies as a source of finance state loans, federal budget loans, loans from lending organizations, but no specific amounts are stated.

1. It ensures that the resulting consolidated budget of the Tomsk Oblast is balanced;
2. It draws the line between regional and local expenditures based on the shares of respective budgets in total expenditures of the base period;
3. For purposes of estimating expenditure needs it treats mandates and local services proper separately;
4. Expenditure needs for delivering local services are estimated based on the number of potential clients of each service in the municipality;
5. Revenue capacity of localities is estimated based on parameters of local economy that characterize the revenue potential of each jurisdiction.

Balancing revenues and expenditures and determining the shares of regional and local expenditures in the consolidated budget of the forthcoming year

In the proposed approach, balancing Tomsk Oblast consolidated budget revenues and expenditures is achieved via the use of relative, rather than absolute, indicators of base year budget expenditures. In contrast to the current method, which uses base period expenditures in nominal terms which are then adjusted to the conditions of the planned year by multiplying them by various coefficients, the proposed method uses the *shares* of regional and local expenditures in total base period expenditures of the consolidated budget. Table 1-A presents base period expenditures, by aggregated expenditure category in functional classification. For every expenditure item, it shows reported regional and local expenditures and their shares (in percent) in the total. At this stage, we are only looking at final expenditures (without intermediate expenditures of the consolidated regional budget in the form of transfers to the localities). Also, the method takes into account regional and local shares of particular expenditures in the grand total ("Total expenditures"). In further calculations we assumed that the expenditure shares in the total consolidated budget expenditures as well as regional and local shares to cover itemized expenditures will remain the same as in the base year. Meanwhile those shares may be adjusted according to the anticipated changes in the forthcoming year (like changes in legislation; reassignment of expenditure responsibilities to inferior governmental authorities, etc.). The stated shares may be also modified as a result of changes in the regional policy priorities. However, since we determine shares only, expenditures on one category can be increased at the expense of reduction of expenditures on other categories likewise oblast budget expenditures can be increased only by reducing municipal spending.

Next year's expenditures by sector are determined by applying the base period shares to the total amount of resources available for spending in the planned year. According to a forecast, in 1999 Tomsk Oblast has 3,528,852 thousand rubles available for expenditures (funds for servicing regional debts are not included). Multiplying this amount by spending shares in the base period, we get consolidated budget spending estimates in absolute terms by sector. By multiplying each of these sectoral spending estimates by oblast and regional shares we obtain local and regional spending amounts for each category of expenditures, the sums of which across all the 15 spending categories produce the total amounts of 1999 regional (1,318,174 Rb. thousand.) and local spending (2,210,678 Rb. thousand) in absolute terms (37% and 63% of consolidated budget expenditures, respectively). The resulting distribution of expenditures between the oblast and local levels is presented in Table 1-A and in Box 1-A.

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**Box 1-A**

Shares of regional and local budgets in total base year (1997) and planned (1999) year expenditures

	1997		1999	
	Rb. thousand	%	Rb. thousand	%
Total spending:				
Local governments	2,597,968	63%	2,210,678	63%
Regional government:	1,549,106	37%	1,318,174	37%
Consolidated budget:	4,147,074	100%	3,528,852	100%

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Separate treatment of mandates and local spending responsibilities

To make sure that the equalization policy conducted by Tomsk Oblast is fair, it is necessary to distinguish between two classes of municipal expenditures when computing the minimum budgets.

1. The first class includes expenditures that have to do with expenditure responsibilities delegated to the local level by the oblast (the so called "delegated responsibilities"). Examples of such delegated responsibilities include provision of subsidized medications, children's allowances, subsidized tariffs for telecommunication services and subsidized public transport fares for certain categories of population (in all these instances the costs of goods or services are partially covered from the budget) and other similar things. What is common to all these delegated responsibilities is that local authorities are mandated to make ("execute") expenditures in strictly prescribed amounts, oblast authorities keep close control over how these expenditure mandates are executed, and the law requires that sufficient funding be provided by the government that delegates the responsibilities, for local governments to be able to perform these delegated responsibilities. Local governments have no right to refuse to execute the responsibilities delegated to them from higher level governments or use the allocated funding for other purposes. Therefore, when estimating minimum budgets (spending needs) this expenditure component should be treated separately. Separate treatment of this class of expenditures permits to achieve the following:

- improve spending compliance with respect to spending responsibilities delegated by the Tomsk Oblast to local governments;
- equalize in a more efficient way the ability of local governments to address local issues and carry out the responsibilities assigned<sup>20</sup> to them by the Tomsk Oblast.

2. The second class of expenditures includes local spending that has to do with addressing local issues (as determined by the Budget Code) and carrying out the responsibilities assigned to the local level by the Tomsk Oblast (we shall call these *own spending responsibilities of the localities*). Current legislation grants significant autonomy to local authorities in executing such functions in terms of finding the best solutions to local policy issues. Local autonomy in this case means that the oblast has no control over spending associated with performing these responsibilities. Autonomy implies that there is no direct administrative control from above, and that local governments are themselves legally accountable for their actions to their constituents.

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<sup>20</sup> Assigned expenditure responsibilities are understood here as those government functions that are assigned to a certain level of government by a decision of a higher level of government. In case of assigned responsibilities the higher level government does not prescribe any funding norms as it does in case of delegated responsibilities, and funding is provided from the general budget fund. For instance, regional and local governments are jointly responsible for health care and education, but the exact division of responsibility is determined by the regional authorities. When the region does this assignment of responsibilities it does not reassign and additional (earmarked) revenues to the local level.

The reason for granting significant autonomy to localities in performing their 'own' (local) responsibilities is primarily the closeness of local governments to taxpayers. On the one hand, closeness of local authorities to taxpayers as clients of the services they provide and their awareness of local problems increases the efficiency of provision of government services. On the other hand, the closeness of local authorities to taxpayers permits the taxpayers to have a say in the policies that local governments adopt and to see the true value of the outcomes of these policies. By assigning part of spending responsibilities to the local level, TO was able to off-load a significant part of the burden associated with providing vital services to the population of the oblast. The main tasks of TO with respect to spending responsibilities assigned to local governments are to provide the municipalities with equal and sufficient ability to provide their constituencies with socially important services and to evaluate the performance of local governments based on the results achieved. One example of such evaluation would be evaluation of the quality of municipal school education based on the results of graduation exams, rather than the amount of resources spent on education by category "Education", evaluation of lower level of sick days, rather than the respective "Healthcare" expenditures, etc. For performance evaluation, it is important to ensure that local authorities cannot affect the outcome of evaluation in any way, in other words the data for such evaluation must come from "independent" sources (for instance, exam works should not be checked by local teachers).

To resume, total funding of municipal expenditures is the sum of two components – funding of delegated spending responsibilities and funding of own spending responsibilities. First of all, the oblast should determine the expenditures that have to do with funding delegated responsibilities. The share of these expenditures in the total municipal expenditures depends on the degree of autonomy granted to local governments by the oblast– the more delegated responsibilities there are, the greater the degree of oblast control over local spending. According to our computations, (Table 1-A and Box 1-A), the total amount of local expenditures in the planned year shall be 2,210,678 thousand Rb. Therefore, the share of expenditures on delegated responsibilities (551,249 thousand Rb.) is 11% of total planned expenditures of the local level. The rest (2,210,678 – 551,249 = 1,659,379 thousand Rb.) should be spent by local governments on performing their own spending responsibilities (Table 3-A).

#### Equalizing the ability of local governments to provide services that fall into the category of 'own' spending responsibilities

Once the expenditure categories that constitute 'own' spending responsibilities of local governments have been determined, the next step is to determine expenditure needs of each municipality for performing these responsibilities.

In the method proposed here, expenditure needs for performing 'own' spending responsibilities of local government are a sum of three components:

- education expenditures,
- health care expenditures, and
- other expenditures.

To justify the choice of these three categories, it is necessary to clearly define the ultimate mission of local governments in carrying out each of their own expenditure responsibilities and the target category of taxpayers whose needs are met by providing the service in question.

The ultimate mission of local authorities in the area of education and health care is clearly the delivery of education and health care services to the population, rather than the continued operation of educational and health care institutions. But if so, then the approach to estimating spending requirements should be entirely different from the one that is currently used. In contrast to the current method of estimating expenditure requirements, which reflects the concern of the local authorities to maintain the existing education and healthcare facilities, the method proposed here shifts the focus to local demand for these services.<sup>21</sup>

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<sup>21</sup> For some of these budget service categories the relevant federal authorities calculated age/sex consumption coefficients (See the Order of the Ministry of Public Health of RF of June 21, 1993, No

Since the ultimate purpose of local governments is service delivery, the appropriate indicator to measure the demand for services would be the size of the population broken down into age groups, since different age groups have different demands for services. Taking into account the age distribution of the population permits a differentiation of expenditure needs of municipalities depending on the specifics of local demography.

Box 2-A

**Target groups for certain public services**

Service	Target group
Education	Population under working age
Health care	All age groups, by applying an increasing coefficient $n$ persons under and over the working age: $n = 2$ ; the assumption is that every child and every senior citizen needs twice as much health care services as an average adult.
Other	All population

In the proposed method it is assumed that services included in the “Other services” category are evenly distributed among all population groups, but if necessary, it is possible to take other services, oriented on a narrower group of clients, out of the “Other services” category and treat them separately. For instance, “Social policy” services are primarily oriented towards the low income households. Therefore, if the data is available, it will be possible to compute the spending norm for social policy.

Spending responsibilities of local governments with respect to housing and utilities require a detailed review in order to determine the ultimate mission of this government function and the target group of population for these services.

The current practice of financing housing and utility services in reality means subsidizing the costs of heating, housing maintenance and other communal services for households that live in municipal housing units. In Tomsk Oblast this amounts to 43% of total population. Therefore, the rest of the population does not have access to any of these subsidies and has to pay the full price of housing maintenance costs, fuel costs, etc. out of its own pocket. Depriving a significant part of the oblast population of any assistance in meeting their housing and utility needs simply on the grounds that their housing unit belongs to the private, rather than the municipal sector, is hardly consistent with the policy objective of Tomsk Oblast to provide all oblast citizens with acceptable living conditions.

There are two ways to eliminate this social unfairness.

1. Estimate expenditure needs for housing and utilities (H&U) by taking into account the entire population of the oblast, rather than only residents of municipal housing. Residents of private housing should be entitled to the same subsidies as residents of municipal housing.

2. Using budget resources to subsidize housing services irrespective of the financial status of residents is an inefficient disposal of public funds, and should be recognized as such. These resources should be focused on providing assistance to those who really need it (socially sensitive groups of population). For the household sector as a whole, the increased spending on housing will be compensated by income increases in the form of additional social outlays to the needy groups of the population. Budget resources currently spent on H&U shall be used for increasing pensions, benefits and wages of public employees (doctors, teachers, etc.). Cutting down H&U expenditures can be spread over several years by gradually increasing the share of H&U costs covered by households up to 100%. The length of this transitional period will depend on what the Tomsk Oblast government decides.

The proposed method computes basic expenditure needs of every municipality in this sector in proportion to

the size of population.

By computing expenditure needs as a function of the size of the target population, irrespective of how the service will be delivered (i.e. irrespective of the number of available hospital beds, number of workers of a particular category, floor area of the facilities used, etc.), we assume that the costs of delivering these services are roughly the same in all municipalities (i.e. wages of doctors, teachers and other category of workers, as well as costs of supplies, medications and other inputs are roughly the same in all municipalities). Since the cost of delivery of such services in different municipalities of the Tomsk oblast are significantly different (mainly due to hard access to some rayons and different climate), an average regional per capita needs under municipal "own" responsibilities should be adjusted for a budget expenditure coefficient, which varies among municipalities.

Such a coefficient of budget expenditures must reflect the cost of services delivered to local population. For this purpose such indicators as a Consumer Price Index, or a basic food basket, or a subsistence level (a ratio of an index  $y$  to the average value across the region) may be used. Cost of fuel may be also included; if so, municipalities could start using more expensive type of fuel in order to increase their own mandates and, therefore, transfers. This way or other, we should not ignore objective differences in fuel costs of various municipalities. We suggest the use of use such indicator as a ratio of the heating season duration in a municipality to the average value across the region. Table 5-A estimates budget expenditures coefficients for the municipalities.

A break down of municipal services in the jurisdiction of local authorities into three categories and computation of expenditure needs (minimum budget needs) in proportion to those three target groups of users of those services permits to significantly simplify the procedure for estimating spending needs (Tables 3-A – 4-A).

#### Sources for covering expenditure needs of municipalities

Regional and local shares in consolidated budget expenditures are different from regional and local shares in consolidated budget revenues. This has to do with the fact that the major part of local expenditures is financed with revenues from tax sharing and transfers from the regional budget. In 1997, 30% of local budget expenditures were financed with revenues from shared taxes, and another 33% were covered with transfers from the regional budget. The major portion of transfers in 1997 was in the form of subsidies from the regional budget and non-planned transfers under "Mutual Settlement" category.

In the base period (1997), therefore, the share of regional government in revenues significantly exceeded its share in expenditures: the region had 80% of all revenues (it also had 30% of all the borrowings), but it transferred 53% of the resources that it had at its disposal to the localities, and it was the local governments that actually made the final disbursements (Box 3-A).

**Box 3-A**

Revenues and expenditures of the regional and local budgets in 1997 before and after tax sharing and transfers

	Regional budget	Municipal budgets	Consolidated budget
Revenues before regional-local tax sharing and transfers,			
Rb. mln.	3,198,759	812,362	4,011,021
And %	80%	20%	100%
O/w:			
Shared taxes allocated to the local level	- 759,789	759,789	
Transfers total, including:	- 930,019	930,018	
Subsidies	-470,333	470,333	
Subventions	- 3,261	3,261	
Mutual settlements	- 456,424	456,424	
Total revenues			
Rb. mln.	1,508,952	2,502,069	4,011,021
And %	38%	62%	100%
Borrowings,			
Rb. mln.	40,154	95,899	136,053
And %	30%	70%	100%
	Regional budget	Municipal budgets	Consolidated budget
Total expenditures,			
Rb. mln.	1,549,106	2,597,968	4,147,074
And %	37%	63%	100%

The Oblast government uses tax sharing and transfers from the oblast budget to localities to equalize the revenue base of municipalities up to a certain required level in order to provide equal access to all vital services determined in the official list of social standards for all oblast residents. The need for transfers is explained by the fact that in some cases even letting the municipalities keep the entire amount of shared taxes collected in their territories does not raise enough revenues to meet the social standards of spending.

As will be shown below, no distinction is made in the proposed method between tax sharing and transfers for the purposes of determining the sources of funding local expenditure needs. It is assumed that the entire amount of shared taxes accrues to the oblast budget irrespective of where (in which municipality) it was collected. This is consistent with the current practice of assigning zero sharing rates to richer municipalities and 100% sharing rates plus additional transfers from the equalization fund to poorer municipalities.

#### Estimating the revenue potential of municipalities

In the proposed method, the estimates of local revenues are based on the measure of tax capacity of jurisdictions, rather than on the forecast of actual tax collections. The tax capacity measure shows how much revenue a given jurisdiction can mobilize using the available revenue (tax) base.

Approaches to estimating the tax base can be different. The most accurate way of measuring the tax base

would be through a detailed survey and across-the-board audit of all business operations in the jurisdiction, including the shadow economy, but this is hardly achievable, or at least the cost of doing this would be forbiddingly high. The proposed method uses an alternative approach, where the unknown parameter (the tax capacity) is estimated using the observable factors. This approach, known as the regression method, has a number of advantages. First, it allows the use of multiple parameters to measure the tax base, and therefore makes it possible to find a combination of different parameters that produces a fair approximation of the tax base. Second, even though the method relies on the use of actual collections, it does not allow local governments to use low tax collection as an argument in its negotiations with the oblast to push the oblast to increase subsidies. Third, it eliminates the possibility of subjective bias in assessing the tax potential.

For lack of other statistical data, we selected a specification that uses as a dependent variable only one parameter of the tax base, namely, the per capita tax revenue (Rp), while average monthly wage (Wp) is used as an independent variable. We also had to introduce a dummy variable C equal to 1 for the city Strezhevoy and other municipalities because in 1997 per capita tax revenue in Strezhevoy was extremely high. As a result of this, per capita tax potential of the city coincides with the level of per capita tax revenue. Thus, we tried to determine the statistical relationship between average monthly wage and the level of per capita tax revenues. The regression was estimated using 19 observations. The relationship was estimated using the method of least squares:

$$Rp = 1,960,664 + 14,243,381 * C + 3,520 * Wp \quad \bar{R}^2 = 0.99$$

(-4.22) (17.40) (7.02)

where:

Rp – is actual per capita collections (thousands of rubles),

Wp – is average monthly wage (thousands of rubles);

C = 1 (for Strezhevoy), C=0 for all other municipalities.

All data used are 1997 figures.

Figures in parenthesis are t-statistics.

This result shows that 99% of variation in tax collections across municipalities can be explained by variation in the wage level. In other words, 99% of tax collections are determined by the economic base of the localities. It would be logical to assume that deviations of actual collections from their estimated amounts (predicted by the model) depend on the level of tax efforts of municipalities.

In other words, the estimated regression equation shows how much taxes should have been collected by each municipality, if, all other things being equal, the level of tax effort that applied in each case coincided with the average tax effort across all municipalities of the oblast. But in reality different municipalities applied different tax efforts, and therefore actual tax collections differ from the ones predicted by the model. An alternative option would be to use other parameters of the economic base of the region (profit of profit-making enterprises, industrial output, etc.). A more precise estimate of the tax potential can be received by evaluation of regressions for each major tax separately, i.e. using as dependent variables per capita tax collections by types of taxes and as independent variables – parameters of the tax base for each such tax. Actual tax collections plus an increase in arrears may be also used as dependent variables – this would encourage municipalities to apply strict sanctions to tax non-payers.

Comparison of actual tax collections with the tax potential estimated using the regression permits to obtain indices of tax effort (tax effort index = actual per capita tax collections/ per capita tax collection predicted by the model). These indices for different municipalities are shown in Table 6-A.

In the proposed method the index of tax efforts is used in two instances:

- when estimating the anticipated collections of local taxes: the forecast of revenues from fixed local tax and non-tax sources for the next tax year is adjusted by applying the tax effort index;
- when estimating local revenues from shared taxes: the next year revenues from shared regional taxes are also adjusted by applying the index of tax efforts shown by local governments in the base period.

To conclude the description of the proposed method for estimating revenue potential of jurisdictions, let us

again reiterate the main advantages of this approach: it creates incentives for local governments to increase their revenue collection efforts since the capacity of municipalities to raise revenue is evaluated by their tax capacity measured with objective economic development indices rather than actual tax collections, therefore changes in actual collections in this case would not entail either changes in the amount of transfers from the equalization fund, or changes in tax sharing rates.

Covering expenditure needs of municipalities via tax sharing and equalization transfers

Table 7-A presents a comparison of expenditure needs of municipalities for performing own responsibilities with the predicted own revenues (assigned revenues sources plus shares from the regional enterprise assets tax at a single rate for all municipalities) adjusted for the tax efforts index<sup>22</sup>. As a result 5 municipalities were identified whose adjusted own revenues in the planned year would exceed their estimated expenditure needs adjusted for the tax effort index (Table 7-A and Box 4-A).

**Box 4-A. Donor municipalities**

Municipality	Difference between expenditure needs and anticipated own revenues , thousand Rb	Difference between expenditure needs and adjusted anticipated own revenues , thousand Rb
Alexandrovsky Raion	-25,943	-7,648
Kargasoksky Raion	-120,570	-65,938
Parabelsky Raion	-4,189	-2,653
City of Strezhevoy	-45,681	-3,338
City of Kedrovyy	797	-683
Total	-195,587	-80,260

The fact that adjusted own revenues of these municipalities exceed their estimated expenditure needs (for performing own expenditure responsibilities) means that there is no need to transfer any additional funds to them. It also should be noted that under current legislation this excess cannot be redistributed to other municipalities via the equalization fund. As a result, the estimated expenditure needs of other municipalities must be adjusted so as to take into account the relevant reduction of resources left at the disposal of the oblast administration for equalization purposes.

Therefore the second iteration should be conducted and a procedure for estimating expenditure needs is repeated, this time for only the subsidized municipalities by reducing total municipal spending to 1,873,607 Rb thousand ( $1,873,607 = 2,210,678 - 337,071$ , where 2,210,678 RB thousand is the original amount of local spending determined in Table 1-A, and 337,071 Rb thousand – own revenues of non-subsidized municipalities adjusted by applying the tax effort index – Table 7-A). The results of this recalculation are shown in Tables 9-A – 11-A.

After the second iteration, no more municipalities with a positive claim were found, so the next step is to determine the sources for covering the difference between the estimated expenditure needs and the amount of own revenues adjusted for tax effort. Theoretically, the entire financial shortfall could be covered with oblast subsidies. The additional benefit of this option is that local authorities would be protected against any losses of revenues from unanticipated shrinkage of the tax base. When the source for such coverage is allocations from shared taxes, they are not protected. However, municipal officials believe that in the present conditions the safer way to get the resources that they are entitled to would be to allow them to retain the

<sup>22</sup> Own revenues were adjusted by applying the index of tax effort shown in the Table 6-A.

collections of shared federal taxes

The method follows the practice already in use by the oblast. The only difference is that the order in which federal shared taxes shall be considered for full/partial assignment to the local level shall be as follows:

- personal income tax
- profit tax
- excise duties
- VAT

Thus each subsidized municipality will first retain 100% of Personal Income Tax (PIT) collections, then of the Enterprise Property Tax, then – excises and lastly – VAT. The revenues from those sources were estimated by applying the previously computed index of tax efforts to the forecast of shared taxes collections for the year in planning.

This practice is in conformity with the basic principle of fiscal federalism which says that local revenues must rely on those taxes where collections are directly related to the wellbeing of major recipients of public services (population and enterprises of the given municipality).

If the entire list of the above shared taxes is exhausted, but the municipality is still lacking the funds needed to cover its estimated expenditure needs, the gap is covered with a subsidy from the regional budget. The source for financing subsidies to municipalities is the fund for financial support of municipalities which accumulates the part of shared taxes that is not retained by municipalities (underretained shares). The size of the equalization fund exactly matches the total gap between expenditure needs of municipalities and tax revenues (own + shared) of those municipalities where this gap remains even after they are allowed to keep all the shared taxes they collected. The match is achieved because all computations from the very beginning were made based on the postulation that expenditures equal revenues. At the first step of the iteration procedure, expenditure shares are computed based on the revenue forecast for the planned year. At the second step (and subsequent steps, if the process does not converge after the second step), total revenues and expenditures of the previous step are reduced by the amount of own revenues of non-subsidized municipalities, and expenditure norms are recalculated anew using the reduced sum of revenues.

As a result of the computations five groups of municipalities were identified:

- 1 Rich municipalities whose own revenues after the tax effort adjustment exceed the estimated expenditure needs. This group includes the following 5 municipalities: Alexandrovsky, Kargasoksky and Parabelsky Raions, City of Strezhevoy and City of Kedrovoy. These were excluded at the stage of the first iteration from further computations as municipalities with a 0 claim on the equalization fund.
- 2 Municipalities whose expenditure needs can be covered with own revenues plus the PIT but without using any other channels for covering the financing gap. This group includes 2 municipalities: Kolpashevsky Raion and Tomsk.
- 3 All other municipalities, where the total of own revenues and shared taxes is not enough to cover the estimated expenditure needs, and therefore direct subsidies are required. This group includes: Asinovsky, Bakcharsky, Verkhneketsky, Zyryansky, Kozhevnikovsky, Krivosheinsky, Molchanovsky, Pervomaisky, Teguldetsky, Tomsky, Chainsky and Shegarsky Raions (in column “From equalization fund (EF)” all these municipalities have non-zero entries).

The size of equalization fund to support subsidized municipalities must be at 241,153 thousand Rb. (Table 12-A, line “Total (revenues), subsidized municipalities”, column “From equalization fund (EF)”). All other gap-filling funding is transferred to the local level in the form of tax sharing.

Let us stress again, that the practice of providing financial assistance to fill in the financial shortfall of municipalities regardless of their revenue potential inevitability reduces the incentives for the local governments to raise their own revenues. In order to eliminate the disincentives associated with revenue equalization, in determining the financial shortfall that will have to be covered with oblast grant it is necessary to use the measure of revenue capacity, rather than actual collection in the base year.

The computations presented in this paper are just an illustration of the method. There are alternative formulations which could be developed including an adjustment for tax effort, where municipalities are “rewarded” for higher tax effort; the determination of expenditures needs could be made more detailed, and the estimation of tax capacity could include other parameters. The distribution of shared taxes and general grants could also be accomplished via a combined grant “pool” of resources instead of relying on the individual shared taxes. In general, however, the proposal made here takes a significant step forward in terms of clarifying the revenue sharing in the region, creating a more stable system, and treating the municipalities fairly.

### 3. Conclusion

To sum up the proposed equalization method, we shall briefly repeat the order of steps:

1. Estimated next year expenditures by functional classification items are grouped into three categories: education – 631,687 Rb. thousand., health care – 262,025 Rb. thousand, other expenditures – 1,316,966 Rb. thousand. (Table 1-A);

2. Subventions allocated in the oblast budget to financing spending responsibilities delegated by the oblast to the local level are also grouped into the same three categories: education – 105,205 Rb. thousand, healthcare – 114,447 Rb. thousand and other expenditures – 331,647 Rb. thousand (Table 2-A);

3. Subtract subventions from the estimated expenditure needs of municipalities, by category of expenditures: the difference thus obtained is the amount of revenues that local governments need to perform their own spending responsibilities: education – 526,482 Rb. thous., health care – 147,578 Rb. thous., other expenditures – 985,319 Rb. thous. (Table 3-A);

4. These amounts are then divided by target population of each service or group of services in the oblast to arrive at per capita spending norms for the oblast: education – 2,506 Rb per target group member, health care – 112 Rb. per target group member, other expenditures – 1,032 Rb. per capita (Table 3-A).

5. Multiply the numeric strength of target groups for each service in each municipality by per capita oblast spending norm; this gives the amount of resources needed by each municipality to perform its spending responsibilities in each expenditure category (Table 4-A);

6. By adding together the expenditure needs for performing own functions we determine total expenditure needs of a municipality (Table 4-A).

7. This total adjusted for the budget expenditure coefficient (from Table 5-A) is compared with own anticipated revenues of municipalities normalized by the tax effort adjustment coefficient (Table 6-A); for 5 municipalities (Alexandrovsky, Kargasoksky and Parabelsky Raions, City of Strezhevoy and City of Kedrov) the adjusted own revenues exceed own responsibilities, and since the excess can not be withdrawn from them, we should exclude those municipalities from the subsidized ones and repeat the computation.

8. Spending needs for performing own responsibilities by subsidized municipalities are estimated in Tables 8-A – 11-A following the same procedure as in Tables 1-A – 4-A and 7-A; the comparison of the generated amounts (adjusted for the budget expenditure index) with own local revenues (adjusted for the tax effort index) shows that none of the municipalities has own revenues exceeding estimated spending needs.

9. Data Table 12-A present how spending needs of municipalities for performing own responsibilities are covered via tax sharing (forecast of regional collections of shared taxes adjusted for tax effort) and transfers from the equalization fund which is formed from under-retained shared taxes in the local budgets. Also, it shows the amounts of subventions transferred to municipalities for funding delegated responsibilities. The total amount of expenditures to be financed by municipalities next year from own revenues, shared taxes and grants from the equalization fund are 2,188,820 Rb. thousand.

The main advantages of this method is that logic of the computation procedure is straightforward and simple and that the criteria used for resource allocation do not present any difficulties for understanding. These features permit to use the method as a basis for developing a legal framework for IGR relations in the Tomsk Oblast. The development of the respective laws will help to strengthen the legal framework of relations

between the Tomsk Oblast and their municipalities.

The proposed approach will permit an increase in the efficiency of local governments in providing for the basic needs of the population, thereby releasing the resources of the TO authorities to concentrate on the problems of regional scope. At the same time, the transparency of criteria of allocating financial assistance from oblast budget will permit local governments to have a fair idea of the amount of resources that will be available to them for spending in next budget year and several years ahead, allowing them to concentrate more on the efficient use of these funds, instead of wasting time and effort in hope of getting additional funding through wearisome and humiliating negotiations with the oblast.

It should be stressed that implementing the basic principles underlying this method is only the first step in reforming the inter-governmental relations in the Tomsk Oblast along the lines of fiscal federalism. Once the budget becomes balanced and allocation of financial assistance to municipalities becomes transparent, further steps to improve the system of fiscal relations in the Tomsk Oblast can be made. An important next step would be to create incentives for the local governments to increase their tax base and improve the methodology of forecasting regional and local revenues. The Tomsk Oblast has every chance of creating an efficient model system of intergovernmental relations at the subnational level, and the first step in this direction should be the implementation of the principles underlying the method proposed here.



Table 1-A. Dividing consolidated expenditures of the planned year between oblast and local budgets based on 1997 shares

№ of section	Budget item (functional classification)	Base year expenditures						Planned year expenditures					
		Local budgets		Oblast budget		Consolidated budget		Local budgets		Oblast budget		Consolidated budget	
		Rb. th.	% in consolidated expenditures	Rb. th.	% in consolidated expenditures	Rb. th.	% in total expenditures	Rb. th.	% in total local expenditures	Rb. th.	% in consolidated expenditures	Rb. th.	% in total expenditures
1	Public administration	150,352	77%	44,848	23%	195,200	5%	127,938	77%	38,162	23%	166,101	5%
4	Law and order	18,711	21%	70,210	79%	88,921	2%	15,922	21%	59,744	79%	75,665	2%
6	Industry, energy, and construction	9,956	17%	48,425	83%	58,381	1%	8,472	17%	41,206	83%	49,678	1%
7	Agriculture	27,505	9%	287,181	91%	314,686	8%	23,405	9%	244,370	91%	267,774	8%
8	Environment protection	1,278	56%	1,012	44%	2,290	0%	1,087	56%	861	44%	1,949	0%
9	Transport, telecommunications and IT	71,808	87%	11,129	13%	82,937	2%	61,103	87%	9,470	13%	70,573	2%
10	Development of market infrastructure	3,073	52%	2,795	48%	5,868	0%	2,615	52%	2,378	48%	4,993	0%
11	H&U	885,710	97%	24,115	3%	909,825	22%	753,673	97%	20,520	3%	774,194	22%
12	Prevention and liquidation of emergencies	505	6%	8,000	94%	8,505	0%	430	6%	6,807	94%	7,237	0%
13	Education	742,353	81%	178,878	19%	921,231	22%	631,687	81%	152,212	19%	783,899	22%
14	Culture and art	57,208	68%	26,727	32%	83,935	2%	48,680	68%	22,743	32%	71,422	2%
15	Mass media	13,248	91%	1,249	9%	14,497	0%	11,273	91%	1,063	9%	12,336	0%
16	Health care and physical culture	307,929	69%	135,402	31%	443,331	11%	262,025	69%	115,217	31%	377,242	11%
17	Social policies	218,076	63%	127,138	37%	345,214	8%	185,566	63%	108,185	37%	293,752	8%
30	Other expenditures	90,256	13%	581,997	87%	672,253	16%	76,801	13%	495,236	87%	572,037	16%
97	Total expenditures	2,597,968	63%	1,549,106	37%	4,147,074	100%	2,210,678	63%	1,318,174	37%	3,528,852	100%

Table 2-A. Subventions transferred to localities for performing delegated responsibilities

№	Localities	Subventions			
		Health care	Education	Other	Total
1	Aleksandropvsky Raion	1, 452	1, 941	3, 875	7, 268
2	Asinovsky Raion	4, 919	5, 263	14, 029	24, 211
3	Bakcharsky raion	2, 151	2, 474	5, 370	9, 995
4	Verkhneketsky Raion	2, 748	3, 111	6, 423	12, 282
5	Zyrjansky Raion	1, 909	2, 080	3, 749	7, 738
6	Kargasoksky Raion	3, 726	4, 686	11, 167	19, 579
7	Kozhevnikovsky Raion	2, 784	2, 976	7, 013	12, 773
8	Kolpashevsky Raion	7, 404	7, 173	24, 104	38, 681
9	Kryvosheinsky Raion	2, 276	2, 483	6, 379	11, 138
10	Molchanovsky Raion	2, 167	2, 275	6, 827	11, 269
11	Parabelsky Raion	2, 078	2, 346	4, 856	9, 280
12	Pervomajsky Raion	2, 493	2, 869	4, 051	9, 413
13	Teguldetsky Raion	1, 123	1, 209	2, 434	4, 766
14	Tomsky Raion	9, 441	10, 123	26, 102	45, 666
15	Chainsky Raion	2, 277	2, 237	4, 848	9, 362
16	Shegarsky Raion	2, 336	2, 675	5, 090	10, 101
17	Tomsk	56, 866	42, 019	176, 883	275, 768
18	City of Strezhevoy	5, 699	6, 331	17, 069	29, 099
19	City of Kedrovyy	598	934	1, 378	2, 910
	Total	114, 447	105, 205	331, 647	551, 299

Table 3-A. Per capita expenditure needs for three categories of own local expenditures

	Education	Health care	Other	Total
Total (Rb. Thousand)	631, 687	262, 025	1, 316, 966	2, 210, 678
Delegated responsibilities (Rb. thousand)	105, 205	114, 447	331, 647	551, 299
Own responsibilities (Rb. thousand)	526, 482	147, 578	985, 319	1, 659, 379
Number of clients (thousand)	210	1, 322	955	955
Per capita expenditure needs (Rb.)	2, 506	112	1, 032	1, 738

Table 4-A Expenditure needs of localities for performing own responsibilities

N	Localities	Pop., thousand	% of population aged:			Population by age groups, thousand persons			Health care		Education		Other		Total			
			< working age	working age	> working age	< working age	Working age	> working age	Number of conventional consumers, thousand persons	Local expenditure needs	Number of conventional consumers, thousand persons	Local expenditure needs	Number of consumers, thousand persons	Local expenditure needs	Local expenditure needs for 3 expenditure categories, thousand Rb	Local expenditure needs for 3 expenditure categories, adjusted for expend. coefficients thousand Rb	Per capita local expenditure needs for 3 expenditure categories, adjusted for expend. Coefficients thousand Rb	Per capita expenditure needs as % of average
1	Aleksandropvskiy Raion	12.1	26.7	61.4	12	3.2	7.4	1.4	17	1,872	3.24	8,105	12.1	12,480	22,457	29,380	2,429	1.47
2	Asinovsky Raion	46.9	24.4	54.4	21	11.5	25.5	10.0	68	7,627	11.45	28,691	46.9	48,390	84,707	70,780	1,509	0.92
3	Bakcharsky Raion	17.2	25.6	57.9	17	4.4	10.0	2.8	24	2,726	4.41	11,037	17.2	17,728	31,491	28,959	1,685	1.02
4	Verkhneketsky Raion	21.9	24.8	59.2	16.0	5.4	13.0	3.5	31	3,445	5.44	13,640	21.9	22,614	39,700	42,139	1,922	1.17
5	Zyrjansky Raion	17.5	23.8	58.8	17	4.2	10.3	3.0	25	2,755	4.16	10,413	17.5	18,028	31,196	25,262	1,446	0.88
6	Kargasoksky Raion	27.1	27.0	59.3	14	7.3	16.0	3.7	38	4,252	7.32	18,328	27.1	27,925	50,505	59,982	2,216	1.34
7	Kozhevnikovskiy Raion	24.7	24.0	56.6	19	5.9	14.0	4.8	35	3,948	5.91	14,805	24.7	25,438	44,191	37,443	1,519	0.92
8	Kolpashevskiy Raion	51.0	24.5	56.3	19	12.5	28.7	9.8	73	8,177	12.46	31,219	51.0	52,583	91,979	99,700	1,956	1.19
9	Kryvosheinskyy Raion	17.9	25.7	55.7	19	4.6	10.0	3.3	26	2,887	4.60	11,528	17.9	18,490	32,906	32,143	1,794	1.09
10	Molchanovskiy Raion	18.3	24.3	56.3	19	4.4	10.3	3.5	26	2,933	4.44	11,130	18.3	18,866	32,929	31,123	1,702	1.03
11	Parabelskiy Raion	15.1	24.2	58.4	17	3.6	8.8	2.6	21	2,385	3.65	9,138	15.1	15,566	27,088	27,559	1,827	1.11
12	Pervomajskiy Raion	23.4	25.7	56.1	18	6.0	13.1	4.3	34	3,764	6.03	15,109	23.4	24,166	43,039	35,070	1,497	0.91
13	Teguldetsky Raion	8.9	25.8	55.7	19	2.3	4.9	1.6	13	1,429	2.29	5,738	8.9	9,148	16,315	14,702	1,658	1.01
14	Tomskiy Raion	85.7	24.1	57.2	19	20.7	49.0	16.0	122	13,663	20.66	51,752	85.7	88,408	153,823	121,203	1,414	0.86
15	Chainsky Raion	16.2	25.2	56.8	18.0	4.1	9.2	2.9	23	2,590	4.08	10,220	16.2	16,721	29,532	27,716	1,710	1.04
16	Shegarsky Raion	23.6	23.2	56.8	20.0	5.5	13.4	4.7	34	3,771	5.48	13,730	23.6	24,337	41,839	40,326	1,710	1.04

N	Localities	Pop., thousand	% of population aged:			Population by age groups, thousand persons			Health care		Education		Other		,Total			
			< working age	working age	> working age	< working age	working age	> working age	Number of conventional consumers, thousand persons	Local expenditure needs	Number of conventional consumers, thousand persons	Local expenditure needs	Number of consumers, thousand persons	Local expenditure needs	Local expenditure needs for 3 expenditure categories, thousand Rb	Local expenditure needs for 3 expenditure categories, adjusted for expend. coefficients thousand Rb	Per capita local expenditure needs for 3 expenditure categories, adjusted for expend. coefficients thousand Rb	Per capita expenditure needs as % of average
17	Tomsk	477.7	18.9	65.5	16	90.3	312.7	74.7	643	71,766	90.31	226,285	477.7	492,892	790,942	711,154	1,489	0.90
18	City of Trezhevoy	44.6	27.8	64.2	8.0	12.4	28.6	3.6	61	6,757	12.37	30,999	44.6	45,968	83,724	126,067	2,829	1.72
19	City of Kedrovyy	5.4	34.1	61.8	4.1	1.8	3.3	0.2	7	833	1.84	4,614	5.4	5,571	11,018	13,823	2,560	1.55
	Total	955.0	22.0	62	16	210.1	588.2	156.7	1 322	147,578	210	526,482	955	985,319	1,659,379	1,574,532	1,649	0.24

Table 5-A. Expenditure coefficients estimation.

N	Localities	Minimum consumer budget to the oblast average	Ratio of the days of heating seasons to the oblast average	Expenditure coefficient
		K1	K2	$K=K_1*K_2$
1	Aleksandropvsky Raion	1.23	1.06	1.31
2	Asinovsky Raion	0.85	0.98	0.84
3	Bakcharsky raion	0.94	0.98	0.92
4	Verkhneketsky Raion	1.03	1.03	1.06
5	Zyrjansky Raion	0.83	0.98	0.81
6	Kargasoksky Raion	1.18	1.01	1.19
7	Kozhevnikovsky Raion	0.88	0.96	0.85
8	Kolpashevsky Raion	1.09	1.00	1.08
9	Kryvosheinsky Raion	0.95	1.03	0.98
10	Molchanovsky Raion	0.97	0.98	0.95
11	Parabelsky Raion	0.99	1.03	1.02
12	Pervomajsky Raion	0.83	0.98	0.81
13	Teguldetsky Raion	0.90	1.01	0.90
14	Tomsky Raion	0.81	0.98	0.79
15	Chainsky Raion	0.94	1.00	0.94
16	Shegarsky Raion	1.00	0.96	0.96
17	Tomsk	0.92	0.98	0.90
18	City of Strezhevoy	1.42	1.06	1.51
19	City of Kedrovyy	1.26	0.99	1.25

Table 6-A. Determining the tax capacity and tax effort levels for 19 municipalities of the Tomsk Oblast

$$R = -1\,960\,664 + 14\,243\,381 \cdot D + 3\,520 \cdot AW \quad \bar{R}^2 = 0.99$$

(-4.22)      (17.40)      (7.02)

N	Localities	Per capita tax revenues, 1997, Rb. thousand	Average wage, 1997, Rb. th..	Estimated per capita tax revenues	Coefficient of tax efforts
		Rp, reported	AW	Rp, estimated	Rp reported/ Rp estimated
1	Aleksandropvsky Raion	3, 776, 436	1, 378	2, 889, 146	1.31
2	Asinovsky Raion	471, 673	639	288, 054	1.64
3	Bakcharsky raion	568, 683	744	659, 437	0.86
4	Verkhneketsky Raion	512, 442	913	1, 254, 003	0.41
5	Zyrjansky Raion	567, 014	577	70, 856	8.00
6	Kargasoksky Raion	3, 237, 459	1, 234	2, 382, 938	1.36
7	Kozhevnikovsky Raion	542, 103	632	263, 412	2.06
8	Kolpashevsky Raion	1, 398, 804	1, 242	2, 412, 508	0.58
9	Kryvosheinsky Raion	515, 425	773	761, 876	0.68
10	Molchanovsky Raion	561, 292	828	953, 376	0.59
11	Parabelsky Raion	1, 827, 009	1, 058	1, 764, 787	1.04
12	Pervomajsky Raion	631, 229	677	422, 527	1.49
13	Teguldetsky Raion	575, 458	798	847, 417	0.68
14	Tomsky Raion	958, 745	811	893, 884	1.07
15	Chainsky Raion	562, 109	687	458, 433	1.23
16	Shegarsky Raion	548, 397	720	573, 192	0.96
17	Tomsk	2, 487, 085	1, 177	2, 182, 638	1.14
18	City of Strezhevoy	19, 777, 623	2, 129	19, 777, 623	1.00
19	City of Kedrovyy	1, 581, 367	1, 195	2, 244, 242	0.70

Table 7-A. Expenditure needs and own revenues of municipalities.

	Expenditure needs for performing own responsibilities, thousand Rb	Expenditure needs for performing own responsibilities, adjusted for expenditure coefficient, thousand Rb	Own revenues, thousand Rb	Own revenues adjusted for tax effort, thousand Rb	Difference between expenditure needs and own revenues adjusted for tax effort, thousand Rb
1 Aleksandropvsky Raion	22,457	29,380	48,400	37,028	-7,648
2 Asinovsky Raion	84,707	70,780	11,888	7,260	63,520
3 Bakcharsky raion	31,491	28,959	5,057	5,864	23,095
4 Verkhneketsky Raion	39,700	42,139	6,875	16,824	25,315
5 Zyrjansky Raion	31,196	25,262	7,025	878	24,384
6 Kargasoksky Raion	50,505	59,982	171,075	125,920	-65,938
7 Kozhevnikovsky Raion	44,191	37,443	6,519	3,168	34,276
8 Kolpashevsky Raion	91,979	99,700	21,318	36,767	62,933
9 Kryvosheinsky Raion	32,906	32,143	3,768	5,570	26,574
10 Molchanovsky Raion	32,929	31,123	3,302	5,609	25,514
11 Parabelsky Raion	27,088	27,559	31,277	30,212	-2,653
12 Pervomajsky Raion	43,039	35,070	9,155	6,128	28,942
13 Teguldetsky Raion	16,315	14,702	2,013	2,964	11,738
14 Tomsky Raion	153,823	121,203	43,342	40,410	80,793
15 Chainsky Raion	29,532	27,716	3,893	3,175	24,541
16 Shegarsky Raion	41,839	40,326	5,338	5,579	34,746
17 Tomsk	790,942	711,154	417,777	366,636	344,518
18 City of Strezhevoy	83,724	126,067	129,405	129,405	-3,338
19 City of Kedrovyy	11,018	13,823	10,221	14,505	-683
Total	1,659,379	1,574,532	937,648	843,902	1,366,776
Subsidized localities	1,464,588	1,317,721	547,270	506,832	1,447,036
Non-subsidized localities	194,791	256,811	390,378	337,071	-80,260

Table 8-A. Expenditure needs of subsidized municipalities

Budget Code	Expenditures	Base year expenditures						Planned year expenditures							
		Local Budgets		Oblast Budget		Consolidated Budget		Local Budgets				Oblast Budget		Consolidated Budget	
		Rb. th.	% in consolidated expenditures	Rb. th.	% in consolidated expenditures	Rb. th.	% in consolidated expenditures	Rb. th.	% in Total Expenditures of Local Budgets	% in consolidated expenditures	Including Subsidized Municipalities	Th. Kub	Rb. th.	% in consolidated expenditures	Rb. th.
1	Public Administration	150,352	77%	44,848	23%	195,200	5%	127,938	6%	77%	108,431	38,162	23%	166,101	5%
4	Law and Order	18,711	21%	70,210	79%	88,921	2%	15,922	1%	21%	13,494	59,744	79%	75,665	2%
6	Industry, Energy, Construction	9,956	17%	48,425	83%	58,381	1%	8,472	0%	17%	7,180	41,206	83%	49,678	1%
7	Agriculture and Fishing	27,505	9%	287,181	91%	314,686	8%	23,405	1%	9%	19,836	244,370	91%	267,774	8%
8	Protection of Nature	1,278	56%	1,012	44%	2,290	0%	1,087	0%	56%	922	861	44%	1,949	0%
9	Transport, Roads, Telecommunications	71,808	87%	11,129	13%	82,937	2%	61,103	3%	87%	51,787	9,470	13%	70,573	2%
10	Development of Market Infrastructure	3,073	52%	2,795	48%	5,868	0%	2,615	0%	52%	2,216	2,378	48%	4,993	0%
11	Housing and Utilities*	885,710	97%	24,115	3%	909,825	22%	753,673	34%	97%	638,758	20,520	3%	774,194	22%
12	Prevention and Liquidation of Emergencies	505	6%	8,000	94%	8,505	0%	430	0%	6%	364	6,807	94%	7,237	0%
13	Education	742,353	81%	178,878	19%	921,231	22%	631,687	29%	81%	535,372	152,212	19%	783,899	22%
14	Culture and Art	57,208	68%	26,727	32%	83,935	2%	48,680	2%	68%	41,257	22,743	32%	71,422	2%
15	Mass Media	13,248	91%	1,249	9%	14,497	0%	11,273	1%	91%	9,554	1,063	9%	12,336	0%
16	Healthcare and Physical Culture	307,929	69%	135,402	31%	443,331	11%	262,025	12%	69%	222,073	115,217	31%	377,242	11%
17	Social Policies	218,076	63%	127,138	37%	345,214	8%	185,566	8%	63%	157,272	108,185	37%	293,752	8%
30	Other Expenditures	90,256	13%	581,997	87%	672,253	16%	76,801	3%	13%	65,091	495,236	87%	572,037	16%

Budget Code	Expenditures	Base year expenditures						Planned year expenditures								
		Local Budgets		Oblast Budget		Consolidated Budget		Local Budgets				Oblast Budget		Consolidated Budget		
		Rb. th.	% in consolidated expenditures	Rb. th.	% in consolidated expenditures	Rb. th.	% in consolidated expenditures	Rb. th.	% in Total Expenditures of Local Budgets	% in consolidated expenditures	Including Subsidized Municipalities	Il. Kub	Rb. th.	% in consolidated expenditures	Rb. th.	% in total expenditures
97	Total Expenditures	2,597,968	63%	1,549,106	37%	4,147,074	100%	2,210,678	100%	63%	<b>1,873,607*</b>		1,318,174	37%	3,528,852	100%

Total expenditures for subsidised municipalities less Total expenditures for non-subsidised municipalities (337 071 thousand Rb)

le 9-A. Per capita expenditure needs for three categories of own local expenditures, for subsidized municipalities

	Education	Health care	Other	Total
Total (Rb. Thousand)	535,372	222,073	1,116,163	1,873,607
Delegated responsibilities (Rb. Thousand)	88,967	100,894	293,302	483,163
Own responsibilities (Rb. Thousand.)	446,405	121,179	822,861	1,390,444
Number of clients (thousand)	182	1,178	851	851
Per capita expenditure needs (Rb.)	2,457	103	967	1,634

Table 10-A. Expenditure needs of localities for performing own responsibilities

N	Localities	Pop., thousand	% of population aged:			Population by age groups, thousand persons			Health care		Education		Other		Total			
			< working age	working age	> working age	< working age	working age	> working age	Number of conventional consumers, thousand persons	Local expenditure needs	Number of conventional consumers, thousand persons	Local expenditure needs	Number of consumers, thousand persons	Local expenditure needs	Local expenditure needs for 3 expenditure categories, thousand Rb	Local expenditure needs for 3 expenditure categories, adjusted for expend. coefficients thousand Rb	Per capita local expenditure needs for 3 expenditure categories, adjusted for expenditure coefficients thousand Rb	Per capita expenditure needs as % of average
1	Aleksandrovsky Raion																	
2	Asinovsky Raion	46.9	24.4	54.4	21.2	11.5	25.5	10.0	68	7 029	11.45	28 131	46.9	48 390	83 549	63 862	1 362	0.79
3	Bakcharsky raion	17.2	25.6	57.9	16.5	4.4	10.0	2.8	24	2 512	4.41	10 821	17.2	17 728	31 062	37 173	2 163	1.25
4	Verkhneketsky Raion	21.9	24.8	59.2	16.0	5.4	13.0	3.5	31	3 175	5.44	13 374	21.9	22 614	39 163	42 587	1 943	1.12
5	Zyrjansky Raion	17.5	23.8	58.8	17.4	4.2	10.3	3.0	25	2 539	4.16	10 210	17.5	18 028	30 777	28 996	1 659	0.96
6	Kargasoksky Raion																	
7	Kozhevnikovsky Raion	24.7	24.0	56.6	19.4	5.9	14.0	4.8	35	3 638	5.91	14 516	24.7	25 438	43 593	36 705	1 489	0.86
8	Kolpashevsky Raion	51.0	24.4 5	56.3	19.3	12.5	28.7	9.8	73	7 536	12.46	30 609	51.0	52 583	90 728	107 079	2 101	1.21
9	Kryvosheinsky Raion	17.9	25.7	55.7	18.6	4.6	10.0	3.3	26	2 661	4.60	11 303	17.9	18 490	32 454	29 941	1 671	0.96
10	Molchanovsky Raion	18.3	24.3	56.3	19.4	4.4	10.3	3.5	26	2 703	4.44	10 912	18.3	18 866	32 482	33 252	1 818	1.05
11	Parabelsky Raion	15.1																
12	Pervomajsky Raion	23.4	25.7	56.1	18.2	6.0	13.1	4.3	34	3 469	6.03	14 813	23.4	24 166	42 449	41 723	1 781	1.03
13	Teguldetsky Raion	8.9	25.8	55.7	18.5	2.3	4.9	1.6	13	1 317	2.29	5 626	8.9	9 148	16 091	19 747	2 227	1.29
14	Tomsky Raion	85.7	24.1	57.2	18.7	20.7	49.0	16.0	122	12 592	20.66	50 741	85.7	88 408	151 742	168 381	1 965	1.13

N	Localities	Pop., thousand	% of population aged:			Population by age groups, thousand persons			Health care		Education		Other		Total			
			< working age	working age	> working age	< working age	working age	> working age	Number of conventional consumers, thousand persons	Local expenditure needs	Number of conventional consumers, thousand persons	Local expenditure needs	Number of consumers, thousand persons	Local expenditure needs	Local expenditure needs for 3 expenditure categories, thousand Rb	Local expenditure needs for 3 expenditure categories, adjusted for expend. coefficients thousand Rb	Per capita local expenditure needs for 3 expenditure categories, adjusted for expenditure coefficients thousand Rb	Per capita expenditure needs as % of average
15	Chainsky Raion	16.2	25.2	56.8	18.0	4.1	9.2	2.9	23	2 387	4.08	10 021	16.2	16 721	29 129	36 969	2 281	1.32
16	Shegarsky Raion	23.6	23.2	56.8	20.0	5.5	13.4	4.7	34	3 475	5.48	13 462	23.6	24 337	41 275	43 978	1 864	1.08
17	Tomsk	477.7	18.9	65.5	15.6	90.3	312.7	74.7	643	66 143	90.31	221 865	477.7	492 892	780 899	810 193	1 696	0.98
18	City of Strezhevoy																	
19	City of Kedrovyy																	
	Total for non-subsidized municipalities	865.9	21.0	61	16.8	181.7	524.0	145.1	1 178	121 179	182	446 405	851	877 810	1 445 393	1 500 586	1 733	0.16

Table 11-A. Expenditure needs and own revenues of municipalities

		Expenditure needs for performing own responsibilities, thousand Rb	Expenditure needs for performing own responsibilities, adjusted for expenditure coefficient, thousand Rb	Own revenues, thousand Rb	Own revenues adjusted for tax effort, thousand Rb	Difference between expenditure needs and own revenues adjusted for tax effort, thousand Rb
1	Aleksandropvsky Raion	22,457	29,380	48,400	37,028	-7,648
2	Asinovsky Raion	83,549	69,813	11,888	7,260	62,553
3	Bakcharsky raion	31,062	28,564	5,057	5,864	22,700
4	Verkhneketsky Raion	39,163	41,569	6,875	16,824	24,745
5	Zyrjansky Raion	30,777	24,923	7,025	878	24,045
6	Kargasoksky Raion	50,505	59,982	171,075	125,920	-65,938
7	Kozhevnikovsky Raion	43,593	36,936	6,519	3,168	33,768
8	Kolpashevsky Raion	90,728	98,345	21,318	36,767	61,578
9	Kryvosheinsky Raion	32,454	31,702	3,768	5,570	26,133
10	Molchanovsky Raion	32,482	30,700	3,302	5,609	25,091
11	Parabelsky Raion	27,088	27,559	31,277	30,212	-2,653
12	Pervomajsky Raion	42,449	34,589	9,155	6,128	28,461
13	Teguldetsky Raion	16,091	14,500	2,013	2,964	11,536
14	Tomsky Raion	151,742	119,563	43,342	40,410	79,153
15	Chainsky Raion	29,129	27,339	3,893	3,175	24,164
16	Shegarsky Raion	41,275	39,783	5,338	5,579	34,203
17	Tomsk	780,899	702,125	417,777	366,636	335,488
18	City of Strezhevoy	83,724	126,067	129,405	129,405	-3,338
19	City of Kedrovyy	11,018	13,823	10,221	14,505	-683
	Total	1,640,184	1,557,261	937,648	843,902	713,359
	Subsidized localities	1,445,393	1,300,451	547,270	506,832	793,619
	Non-subsidized localities	194,791	256,811	390,378	337,071	-80,260

Table 12-A. Providing grants to municipalities with a positive claim through tax sharing and equalization transfers

		Expenditure needs for performing own responsibilities, adjusted for expenditure coefficient	Own revenues adjusted for tax effort	PIT			EPT			Excise duties			VAT			Transfer from equalization fund	Total revenues available for performing own responsibilities	Subventions for performing delegated responsibilities	Total local expenditures
				total collections	% retained	amount retained	total collections	% retained	amount retained	total collections	% retained	Amount retained	total collections	% retained	amount retained				
1	Aleksandropvsky Raion	29,380	37,028	12,929	0%	0	23	0%	0	2	0%	0	1,859	0%	0	0	37,028	7,268	44,296
2	Asinovskiy Raion	69,813	7,260	6,119	100%	6,119	886	100%	886	52	100%	52	2,687	100%	2,687	52,809	69,813	24,211	94,024
3	Bakcharsky raion	28,564	5,864	9,207	100%	9,207	649	100%	649	1	100%	1	1,635	100%	1,635	11,208	28,564	9,995	38,559
4	Verkhneketsky Raion	41,569	16,824	14,120	100%	14,120	2,056	100%	2,056	0	0%	0	4,282	100%	4,282	4,288	41,569	12,282	53,851
5	Zyrjansky Raion	24,923	878	754	100%	754	101	100%	101	0	0%	0	221	100%	221	22,969	24,923	7,738	32,661
6	Kargasoksky Raion	59,982	125,920	24,511	0%	0	2,635	0%	0	0	0%	0	8,192	0%	0	0	125,920	19,579	145,499
7	Kozhevnikovskiy Raion	36,936	3,168	3,226	100%	3,226	306	100%	306	0	0%	0	1,016	100%	1,016	29,220	36,936	12,773	49,709
8	Kolpashevskiy Raion	98,345	36,767	71,575	86%	61,578	7,054	0%	0	12	0%	0	19,851	0%	0	0	98,345	38,681	137,026
9	Kryvosheinskyy Raion	31,702	5,570	8,544	100%	8,544	458	100%	458	35	100%	35	1,966	100%	1,966	15,129	31,702	11,138	42,840
10	Molchanovskiy Raion	30,700	5,609	11,941	100%	11,941	289	100%	289	0	0%	0	1,733	100%	1,733	11,129	30,700	11,269	41,969
11	Parabelskiy Raion	27,559	30,212	13,320	0%	0	7,080	0%	0	0	0%	0	5,119	0%	0	0	30,212	9,280	39,492
12	Pervomajskiy Raion	34,589	6,128	4,023	100%	4,023	80	100%	80	0	0%	0	1,627	100%	1,627	22,731	34,589	9,413	44,002
13	Teguldetsky Raion	14,500	2,964	3,961	100%	3,961	885	100%	885	0	0%	0	1,119	100%	1,119	5,571	14,500	4,766	19,266
14	Tomskiy Raion	119,563	40,410	36,455	100%	36,455	1,231	100%	1,231	3,099	100%	3,099	15,645	100%	15,645	22,724	119,563	45,666	165,229
15	Chainskiy Raion	27,339	3,175	4,241	100%	4,241	261	100%	261	11	100%	11	1,354	100%	1,354	18,297	27,339	9,362	36,701

16	Shegarsky Raion	39,783	5,579	5,916	100%	5,916	1,003	100%	1,003	115	100%	115	2,090	100%	2,090	25,078	39,783	10,101	49,884
17	Tomsk	702,125	366,636	345,445	97%	335,488	191,822	0%	0	76,213	0%	0	173,455	0%	0	0	702,125	275,768	977,893
18	City of Strezhevoy	126,067	129,405	119,680	0%	0	105,510	0%	0	467	0%	0	166,640	0%	0	0	129,405	29,099	158,504
19	City of Kedrovyy	13,823	14,505	10,062	0%	0	170	0%	0	0	0%	0	468	0%	0	0	14,505	2,910	17,415
	Subsidized	1,300,451	506,832	525,527	96%	505,573	207,082	4%	8,205	79,539	4%	3,313	228,681	12	35,375	241,153	1,300,451	551,299	1,783,614
	Non-subsidized	256,811	337,071	180,502	0%	0	115,419	0%	0	469	0%	0	182,279	0	0	0	337,071	483,163	405,207
	TOTAL	1,557,261	843,902	706,029	72%	505,573	322,500	4%	8,205	80,007	4%	3,313	410,960	12	35,375	241,153	<b>1,637,521</b>	68,136	2,188,820

Expenditure needs for performing own responsibilities, adjusted for expenditure coefficient (1 557 261) + difference between adjusted own revenues and adjusted expenditure needs (80 260) = **1 637 521** thousand Rb

## MODEL

### Law of Tomsk Oblast: Subject of the Russian Federation

#### "On creating a financial relationship between the administration of the subject of the Russian Federation and units of local self-government in that subject"

##### Article 1. Purpose and General Provisions

This law establishes the financial relationship between the oblast budget and units of local self-government in the oblast. Its purpose is to provide a relationship that is stable and transparent, that provides equitable financing to all units of local self-government, that provides units of local self-government with revenues appropriate to the affordable expenditure responsibilities they face, and that does not discourage efforts of financial self-sufficiency and revenue collections on the part of local units of self-government.

The financial relationship provided in this law includes three primary elements:

1. The establishment of stable sharing rates for the regulating taxes divided between the oblast and local units of self-government.
2. The creation of a fund for the support of local units of self-government in the Tomsk oblast budget and the definition of consolidated budget resources for this fund.
3. The promulgation of a formula for stable distribution of resources from this fund to local units of self-government.

##### Article 2. Dividing Consolidated Revenue Between the Subject and its Local Units of Self-Government

The subject will include in each annual budget an explicit appropriation for the support of local units of self-government. This amount will be calculated in the following stages:

1. The oblast will forecast the consolidated revenues to all budgets in the oblast for the next budget year.
2. The oblast will divide this revenue pool between the oblast budget and the consolidated budgets of all units of local self-government. The division factor to units of self-government will be their combined share of spending they executed in the standard year (1997).

To the extent that there are legislated changes in the distribution of expenditure responsibilities between the oblast and its units of local self-government, the appropriate share will be permanently adjusted.

This annual appropriation will be supported by any and all revenues legally available to the oblast budget and will be used for payments to units of local self-government under articles 3, 7, and 8 of this law.

### **Article 3. Financing of Entitlements for the Population**

Laws of the Russian Federation and of this subject of the Federation require that certain defined payments be made to certain classes of the citizenry and that these payments be made by units of local self-government.

A subvention to each unit of local self-government will be made to provide for these payments, based on the number of citizens eligible for this support who live in the unit, and separately appropriated in the fund for the support of units of local self-government in this subject of the Federation. This money will come from the local share determined in Article 2 of this law.

The remaining amount of the fund will be distributed according to the formula established in this law.

### **Article 4. Financing for Delegated Oblast Responsibilities**

The oblast government may choose to delegate to units of local self-government or to enterprises responsibility for certain functions that have been designated oblast functions in Federation law. This delegation will be by contract between the parties. The contract will include an agreed payment for delivery of the service, to be paid from the oblast budget. When delegation is to a unit of local self-government, this payment will not be part of the transfer arrangement between the oblast and the units of local self-government and will not come from the fund for the support of local units of self-government.

### **Article 5. Establishment of Minimum Expenditure Norms**

The minimum budget expenditure norm for units of local self-government will be established by dividing executed local spending in the previous budget year for the oblast by the relevant customer population of the oblast. Minimum budget expenditure in a unit of local self-government will equal the minimum budget expenditure norm for the oblast multiplied by the number of relevant customers living within that unit of local self-government.

Minimum budget norms will be established for three expenditure categories:

1. education
2. health care
3. other local expenditure.

Initial norms may be multiplied by standardized adjustment coefficients to reflect special problems of production of those services or to reflect differences in the prices paid for production inputs across units of local self-government. The adjustment coefficients must be published and are to remain stable for the term of the distribution formula.

Relevant customer populations will be defined as follows:

1. education: number of children enrolled in schools operated by units of local self-government
2. health care: population of the units of local self-government adjusted by coefficients reflecting the higher needs of the elderly and the young.
3. other local expenditure: the population residing in the unit of local self-government

The minimum budget for a unit of local self-government equals the sum of minimum budgets for education, health care, and other local expenditure.

## **Article 6. Establishment of Fiscal Capacity of Units of Local Self-Governments**

The fiscal capacity (or standard revenue potential) of each unit of local self-government will be estimated according to the economic and industrial base of that unit, not according to the actual revenues collected or forecast to be collected within that unit.

The method for estimating fiscal capacity will adjust the actual revenue forecast for the unit for effort made by that unit to raise and collect its revenues. Total fiscal capacity includes all revenue sources legally available to the unit of local self-government in the oblast, without regard to whether the legislative body of that unit has chosen to adopt that revenue source.

## **Article 7. Establishment of Fiscal Need of Units of Local Self-Government**

Total fiscal need of each unit of local self-government will be established by subtracting the total minimum budget expenditure as estimated in Article 5 from fiscal capacity from taxes assigned to the local level by Federation legislation, as estimated in Article 6. Those units for which the result is positive will receive no appropriation from the subject, except as subventions provided under Articles 3 and 4 of this law. Other units will receive shares from appropriations, as determined by their share of the total difference between fiscal capacity and minimum expenditure established here.

The minimum expenditure norm calculation will not allow deficits in the minimum budget.

## **Article 8. Establishment of Sharing Rates for Regulating Taxes and Establishment of the Fund for Support of Units of Local Self-Government**

Regulating taxes will be shared between the oblast and the local unit of self-government to fill the gap between minimum expenditure and fiscal capacity. Local units of self-government will be assigned revenue from taxes in this order of precedence:

1. property tax not already assigned to local units of self-government
2. personal income tax
3. enterprise profits tax
4. excises available to subnational governments
5. value added tax

All revenue will be assigned to the local unit until the gap has been closed. Shares determined in the first year of the distribution formula shall remain in effect for three years and all shares will be rounded to the nearest five percent.

The subject budget will use shares not allocated to units of local self-government to create the Fund for the Support of Units of Local Self-Government. If revenues for some local units of self-government do not fill the estimated gap, these locals receive direct transfers from the fund for support of local self-government. A percentage of the fund may be used to stimulate additional generation of tax revenues.

## **Article 9. Fiscal Independence of Units of Local Self-Government**

Nothing in this law shall be taken to interfere with fiscal independence of units of local self-government. These units may spend revenues received from the fund for the support of local units of self-government or from other sources in any manner that is consistent with laws of the Federation, the oblast, and the locality.

Revenue from new sources adopted by a unit of local self-government may be retained by that unit without reducing transfers or tax shares to which it is entitled. Collections in excess of those

forecast for preparation of the consolidated budget shall not be used to reduce tax shares or transfers from the oblast budget.

**Article 10. Stability of the System of Financial Relationships**

The formula established in this law shall remain in place for three years, subject only to modifications and adjustments described in this law or required by the law of the Russian Federation.

**Article 11. Date of Effectiveness**

This system of financial relationship between the oblast and its units of local self-government will be applicable for the 2000 budget and shall continue in force until repealed by the legislative assembly of the oblast.

## EXPLANATORY NOTE AND COMMENTS

### Model Law "On creating a financial relationship between the subject of the Russian Federation and units of local self-government in that subject"

The model law provides an outline that a subject of the Russian Federation might use to regularize its financial relationship with its units of local self-government, as passage of Federation law "On the Financial Foundations of Local Self-Government" in the fall of 1997 requires. These notes briefly describe the intent of each article of the model and provide some additions or alternatives that remain within the spirit of the basic financial framework outlined here.

**Article 1.** The law establishes a fundamental financial relationship between the subject and its localities. The relationship is intended to be transparent (to avoid financing through secret negotiation and raw political power), rationally determined, and stable. The relationship outlined here emphasizes provision of sufficient resources to localities to provide minimum services of critical importance to the subject as a whole and local fiscal equalization without discouraging local incentive for economic development and effort to collect government revenue.

**Article 2.** The article provides financial stability for local units of self-government by requiring an annual appropriation from the subject budget of money for transfer to localities and establishes a means for calculating that amount. The amount is designed to take account of total revenues available in the subject and to allow for the actual division of expenditure responsibilities between the subject and the localities.

**Article 3 and 4.** Payments to support entitlements and to support responsibilities assigned to the subject by Federation law but delegated by the subject to localities are outside the formula payments established in later articles of the law. Payments for entitlements come from the local share determined in Article 2. Payments for delegated responsibilities come from the regular subject budget.

**Article 5.** The article establishes minimum expenditure norms for local government services, based on what the subject can afford, and distributed according to clients or customers for the service. Subject governments may choose to identify additional expenditure categories for separate estimation (for instance, social protection) or may choose not to identify an expenditure category from this model (for instance, health care may be omitted). The list of separately identified categories should be kept as small as possible to maintain flexibility for local governments, to avoid confusion in the process, and to focus subject attention to the service areas of greatest overall importance. Furthermore, the categories should be separately identified only if clear clients for the service can be distinguished and used as the basis for estimating minimum expenditure. Adjustment coefficients may take into account only objective criteria -- prices of inputs used to produce the local service, special problems in the delivery of services, etc.

**Article 6.** Local fiscal capacity (or standard revenue potential) may be estimated through a variety of different methods, including the use of industrial and commercial activity, the use of representative tax capacity, and so on. The important features are that unadjusted actual collections NOT be used as the factor and that tax effort be used.

**Article 7.** The transfer shares calculated in this article are determined to provide fiscal equalization. Other factors may be added if the subject so desires. For instance, the subject may decide to devote 80 percent of the Article 2 appropriation to fiscal equalization, 10 percent of that appropriation to encourage localities to generate more tax revenues (for instance, giving a bonus distribution to localities that collect more tax revenue to the consolidated subject budget), and 10 percent of the appropriation to localities that develop new projects of great regional importance. There should be no more than three of these distribution factors in the system. More factors would make the system

too complex for transparency and would dull the impact of the factors in the final distribution.

**Article 8.** The shares of taxes that are regulated between subject and the localities need to be stable and to direct to local budgets the taxes that are most closely connected to the local economy. The changes in fiscal position of a locality will be adjusted by transfer from the fund, but only within its limits. As noted above, the subject may decide to allocate a portion of the Article 2 appropriation to stimulate tax effort.

**Article 9.** Local governments are not administrative departments of the subject and therefore need considerable independence in how they serve their citizenry.

**Article 10.** The system needs stability.

**Article 11.** The system should go in place for the 2000 budget.