State in such fiscal year and amount (computed by the Secretary) equal to the product resulting from multiplying—

"(1) an amount which bears the same ratio to such 85 per centum of the amount so appropriated as the population of such State bears to the total population of all of the States, by

"(2) a number which is the quotient resulting from dividing the revenue effort ratio of such State for the preceding fiscal year by the average national revenue effort ratio for the preceding fiscal year.

"(c) From 15 per centum of the amount appropriated to the revenue-sharing fund pursuant to section 2 for any fiscal year, the Secretary shall allot, to each State with a per capita annual income of individuals residing in such State which is below the average of all the State per capita annual incomes, an amount (computed by the Secretary) in such fiscal year which bears the same ratio to such 15 per centum of the amount so appropriated as the amount of the difference between the per capita annual income of any such State and the average of all the State per capita annual incomes bears to the total of the amounts of the differences between the per capita annual incomes of all such States and the average of all the State per capita annual income.

"(d) Notwithstanding any other provision of this section, (1) the amount of any State's allotment in any fiscal year under either subsection (b) or (c), (2) the total amount of any State's combined allotments in any fiscal year under subsections (b) and (c), or (3) the total amount resulting from combining any State's allotment or allotments in any fiscal year and any reallotment to such State under this subsection and sections 4(c )and 5(b) shall not exceed 12 percent of the amount appropriated pursuant to section 2 for such fiscal year. In the event of any reduction of a State's allotment or reallotment in any fiscal year under the provisions of the preceding sentence, the Secretary shall reallot and pay, from time to time during such fiscal year, the amount of such reduction to other States in proportion to the original allotment to such States under subsection (b) for such fiscal year.

"(e) For purposes of this section—

"(1) The term 'State' means any of the various States and the District of Columbia.

"(2) The term 'revenue effort ratio', when used in relation to any State for any fiscal year, means a fraction (A) the numerator of which is the total of the revenues derived by such State (including revenues derived by any political subdivision thereof) from its own resources during such fiscal year and (B) the denominator of which is the total income of individuals residing in such State during the calendar year ending within such fiscal year.

"(3) The term 'average national revenue effort ratio' means a fraction (A) the numerator of which is the total resulting from adding together all revenue effort ratios of the States, and (B) the denominator of which is 51.

"(4) The term 'income of individuals', when used in relation to any State, means income subject to the tax imposed by chapter 1 of the Internal Revenue Code of 1954.

"(5) The population of a State and the per capita annual income of individuals residing in a State shall be determined by the Secretary on the basis of the most recent data available from the Department of Commerce; but the same period shall be used in determining the population of all the States and the same period shall be used in determining the average of all the State per capita annual incomes.

"(6) The term 'State per capita annual income,' when used in relation to any State, means the quotient resulting from dividing the total income of all individuals residing in such State by the population of such State.

SEC. 4. (a) Each State may use funds from any allotment or reallotment to it in any fiscal year under this Act for activities, programs, projects, and services (including capital expenditures) in the fields of health, education, and welfare. In addition each State may use a portion of such funds, not to exceed 5 per centum thereof, to provide for planning, research, and development in the fields of modernization of the institutions of State government and the improvement of governmental procedures. Toward these ends, each State may provide for planning, research, and development directed toward the establishment of active, well-staffed State budgetary offices, improved budgetary procedures and expenditure controls, adequate recruiting and retaining of qualified planning personnel, reasonable policy coordination between the various units of government and an appropriate salary schedule for management personnel. None of such