



# What Does Government Spend on Children?

## Evidence from Five Cities

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*“The prosperous national economy of the late 1990s seems to have done little to boost public efforts on behalf of children in distressed cities.”*

### Findings

A study of expenditures by all levels of government for services to children in five economically distressed cities—Baltimore, Detroit, Oakland, Philadelphia, and Richmond—from 1997 to 2000 reveals that:

- **Spending on children increased only marginally compared to overall economic and expenditure growth.** After adjusting for inflation, average per-child spending in the five cities grew by less than 2 percent. Meanwhile, the economy grew at a 7 percent rate per capita, and state per capita expenditures rose nearly 12 percent.
- **Education was the largest children’s service on an expenditure basis, accounting for 42 percent of total spending on children across the five cities.** Changes in real per-pupil education spending from 1997 to 2000 varied dramatically, however, from a 2 percent decline in Richmond to a 26 percent increase in Baltimore.
- **During the late 1990s, expenditures on income support dropped, while child care, social services, and juvenile justice spending increased.** Dramatic reductions in TANF and food stamp caseloads fueled a 30 percent decline in real spending on income support. At the same time, spending increased for child care (90 percent), social services (32 percent), and criminal justice programs involving children (18 percent).
- **State and federal governments funded 80 percent of children’s expenditures across the five cities.** On average, local governments raised just one of every five dollars spent on children, and the local share did not exceed one-third in any of the cities. The federal government provided most financing for income support, child care, and employment services, while states were primary funders for education, health, and social services.

As our findings demonstrate, a strong national economy provides no guarantee that expenditures on behalf of children in economically distressed cities will increase. With this type of fiscal analysis, citizens and government officials in all types of cities can understand from a local perspective how economic, policy, and political changes impact government spending on children.





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## Introduction

**D**iscussion of public policy often focuses solely on the bulk bottom line—the raw dollars and cents awarded various programs.

But beyond that bottom line, a detailed tracking of financial outcomes for vulnerable populations like children can better illuminate how economic, social, and policy forces combine to affect public spending priorities.

For if policy makers and the public wish to enhance popular youth-oriented policies such as after-school activities, access to pre-kindergarten programs, and improved standards in public schools, they might focus more closely on how—and how much—money government spends on children.

This survey summarizes findings from just such an analysis of public expenditures on children in a sample of distressed U.S. cities between 1997 and 2000. We proceed in five parts. First, we provide background on how we conducted our analysis, discussing the cities we chose to examine, how we defined and classified expenditures on children, and what distinguishes this analysis from techniques employed to create “children’s budgets.” Second, we ask whether children were a spending priority in the five cities in the late 1990s, comparing aggregate children’s expenditure trends to broader measures of economic growth and public expenditure. Third, we examine the mix of programs and services targeted to children across the five cities, noting differences by expenditure classification, size, and growth. Fourth, we quantify the sources of funds for child-focused expenditures, assessing the degree to which local governments contribute to spending on their own children, and compare that to federal and state government spending on their behalf. We conclude with a brief discussion of the implications of our findings for future research.

## Background

**T**his paper examines public spending on children between 1997 and 2000 in five localities: Baltimore, Detroit, Oakland, Philadelphia, and Richmond. These cities participate in the Urban Health Initiative (UHI), a ten-year Robert Wood Johnson Foundation program aimed at improving health and safety for young people in these cities. The Center for Health and Public Service Research at New York University is evaluating the program. The evaluation seeks to determine whether collaborative efforts of interested organizations can develop and implement plans to change service delivery systems for children, and whether such changes result in better outcomes for children. A group of ten additional cities serves as a comparative benchmark.<sup>2</sup>

Among five methods for evaluating the initiative’s effectiveness, one is a fiscal analysis of public expenditures on services for children and youth, conducted three times over the course of the initiative.<sup>3</sup> The fiscal analysis investigates two assumptions implicit in the Urban Health Initiative’s design—that better outcomes require: (a) increased public expenditures on behalf of children; and (b) a reallocation of public expenditures to favor preventive measures that would reduce the need for corrective measures owed to prior neglect. Child advocates and policymakers frequently articulate these same propositions.

To track the extent of such changes in the five UHI cities, the evaluation design includes a fiscal profile of public expenditures on behalf of children in a baseline year (1997) and updates based on data for 2000 and 2004. Because we anticipated that this fiscal analysis would be difficult and labor intensive, and because we viewed it as an innovative technique to be tested, we are not conducting similar analyses in the ten comparison cities. Causal inferences about change



**Table 1. Selected Indicators for UHI Cities, Other Distressed Cities, and Remaining Cities Among 100 Largest Cities**

Characteristic	UHI Cities n=5	Other Distressed n=22	Non-distressed n=73
Percent Change in Population, 1990 - 2000	-5.3	0.3	13.2
Unemployment Rate, 2002	8.8%	7.6%	6.4%
Median Household Income, 2000	\$32,305	\$32,766	\$39,174
Child Poverty Rate, 1999	26.1%	26.0%	17.0%
Percent Black, 2000*	57.6%	44.1%	17.7%
Violent Crimes per 100,000 persons, 2002	1,618	1,215	771
Proportion of Births to Mothers Age 19 and Under, 2001	17.0%	15.3%	11.9%
Infant Mortality per 1,000 live births, 2000	11.1	11.5	7.6

Note: \*Includes African-Americans who identified more than one race.

Sources: Census 2000; BLS Local Area Unemployment Statistics Program; U.S. Federal Bureau of Investigation Uniform Crime Reports; National Center for Health Statistics Natality Files; National Center for Health Statistics Mortality Files.

in the five UHI cities are based primarily on comparisons to national benchmark data relating to similar types of public expenditures.

Before presenting our findings, we consider two methodological issues: First, how like other cities are the UHI demonstration sites, and how valid might generalizations from the five UHI sites be for other distressed American cities? Second, how does the fiscal analysis used in the UHI evaluation address the methodological challenges that arise in virtually all approaches to fiscal analysis?

### **The UHI Cities**

The five UHI cities were not selected randomly; in fact, they were selected in part because of their distressed conditions. This non-random selection has advantages and disadvantages.

The major disadvantage is that the findings cannot be generalized to all American cities. Because of their distinct economic characteristics, the UHI cities differ in important ways from other more prosperous places. Recent attention has focused on a subset of large American cities that share features of economic stress, and some analysts argue that urban policies should be designed with these

common characteristics in mind. In its 1999 report, *Now is the Time: Places Left Behind in the New Economy*, the U.S. Department of Housing and Urban Development (HUD) identified a group of “double trouble” cities that, despite the national economic boom, still faced high unemployment, significant population loss, and/or high poverty rates. These cities also had low rates of new investment and declining tax bases. Each of the five UHI cities was in this “double trouble” group.

At the same time, the UHI cities share important demographic and economic characteristics with a significant subset of the top 100 cities, and findings from the UHI cities are likely to apply to this broader group. While the HUD study considered all cities with at least 25,000 residents, the UHI cities typify larger cities with economic problems. Table 1 divides the 100 largest cities in the United States into three groups—the five UHI cities, 22 other distressed cities, and 73 non-distressed cities.<sup>4</sup> Compared to the non-distressed cities, the UHI cities and the distressed cities share several characteristics: population loss or stagnation, large black populations, low median incomes, and large shares of children in poverty.

Not only do the UHI and distressed cities share low indicators of economic performance, but also they exhibit relatively poor outcomes for children and youth. Compared to the non-distressed cities, the UHI and distressed cities have much higher rates of infant mortality, violent crime, and teen births. Thus for a broader group of cities that share characteristics with the UHI cities, the results of the fiscal analysis are likely to have some resonance.

### **Fiscal Analysis versus Children's Budgets**

The fiscal analysis described here can be distinguished from another analytic exercise, the creation of “children’s budgets.” Public officials and children’s advocates create these budgets primarily to inform the public about a particular state’s, city’s or agency’s fiscal commitment to children. Unlike conventional public budget documents, children’s budgets identify and isolate expenditures on behalf of children.

The UHI fiscal analysis can be distinguished from efforts to create a children’s budget in two respects. First, like all budgets, children’s budgets usually reflect what is planned

for a given year, rather than what has actually happened. But budgets are often changed during adoption and implementation. Actual spending typically varies considerably from budgeted amounts. The fiscal analysis used in the UHI evaluation relies primarily on sources indicating actual expenditures rather than budgeted amounts.

Second, children's budgets typically relate only to one type of government. A governor might prepare a state children's budget to show what state agencies are doing on behalf of children. Similarly, a mayor might prepare a children's budget to show what municipal agencies are doing for children. Advocates often create children's budgets to enhance spending by a specific state or local government. In contrast, the UHI fiscal analysis relates to *all* public expenditures (federal, state, and local) within the five cities on behalf of children. This approach recognizes that local efforts may seek to influence spending by federal and state agencies, as well as by units of local government.

## Methodology

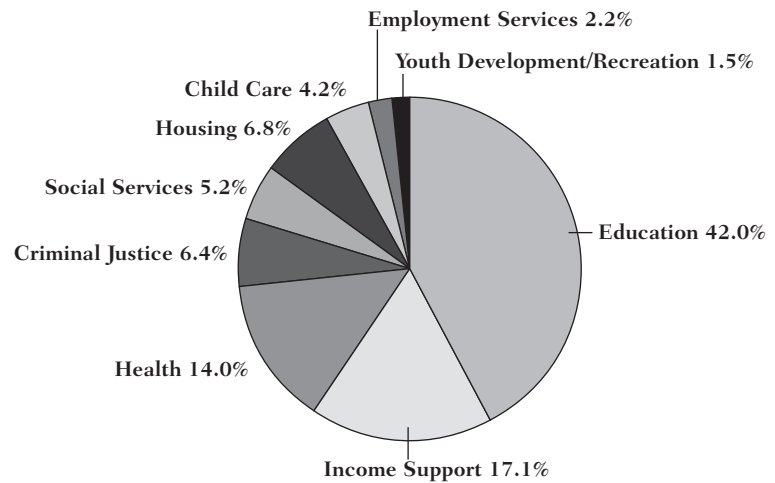
Several methodological challenges underpin our attempt to define and track spending on children in the five UHI cities. Below, we discuss how we approached major questions regarding what constitutes a "children's service," classifying expenditures by function, and allocating expenditures to the local level. (Explanations of more detailed methodological decisions are contained in the Technical Appendix.)

### Defining Children's Services

Analysts involved in preparing children's budgets have recognized that there is no commonly accepted definition of a "children's service," and have thus employed defensible variations in the scope of services they include.

Generally, there is broad agreement

**Figure 1. Share of Total Children's Expenditures by Function, Five UHI Cities, FY 2000**



Source: Authors' calculations. Figures are unweighted averages for the five UHI cities.

among analysts on including services with direct developmental impacts and objectives such as education, day care, medical care, recreational services, and child protective services including foster care. More disagreement surrounds the treatment of services directly affecting children's developmental paths, but not necessarily provided in a "positive" context. Examples are criminal justice activities including police investigations of crimes committed by youth, the prosecution of these crimes in court, and punishment of youth by correctional agencies. Services that clearly provide benefits to children, but not necessarily of a developmental nature, also engender disagreement among analysts. For example, local governments typically collect household refuse, including much trash generated by children. Similarly, public transit agencies have many children as riders. Such broad or universal services have children as beneficiaries, but the benefits are not targeted to influencing the development of children.

In the end, the correct approach to defining an appropriate range of children's services depends on the purpose

of the analysis. For the UHI evaluation, we derived our definition from the scope of expenditures that might be considered for reallocation in pursuit of more effective public interventions. Given the assumptions around shifting expenditures from "corrective" or "back end" interventions to preventive programs, it seemed relevant to include criminal justice system activities affecting children in the analysis. In contrast, because we did not consider services such as refuse collection and local transportation (except school buses) as part of the "pot" of funds appropriate for reallocation, we excluded them from the analysis.

An additional methodological choice concerns expenditures that benefit children but do so by aiding the entire family of which the child is a part. Examples include cash allowances under the Temporary Assistance to Needy Families (TANF) program, food stamps, and a variety of subsidies to help families with children pay for suitable housing. What share, if any, of these family allocations should be considered as expenditures for children? Three options are:



excluding such expenditures entirely; attributing a share of these expenditures to children (versus adult family members); and including the entire expenditure.

We opt to include the entire expenditure. Excluding these expenditures would omit large and highly relevant programmatic efforts. Estimating a share attributable to children would involve a necessarily arbitrary calculation, with much false precision. It would also misrepresent the policy options, since it would be difficult to reallocate this fraction of spending separate from the rest of the allowance or subsidy. While including the entire sum may exaggerate somewhat the level of expenditures for children, it is the most policy-relevant method for calculating expenditures for children from the perspective of UHI participants.

#### *Classifying Expenditures*

Governments typically report expenditures by administrative agency. Within agencies, there may be program categories, but the sub-agency detail is more likely to relate to objects of expenditure such as salaries, fringe benefits and various types of supplies. Since the names of agencies vary and the assignment of responsibilities to agencies varies among communities, these categories are not a highly meaningful standard of comparison across cities.

More meaningful analysis requires common functional categories for describing expenditures within a city. The UHI analysis defined nine functional categories (presented in Figure 1). We allocated all or part of an agency's expenditures to one or more of the nine categories based on information from public reports and relevant agency contacts, and the judgment of evaluation staff. Working documents prepared by evaluation staff for each city also track expenditures by subcategories within functions, so that more refined comparative analysis is possible.

#### *Allocating Federal/State/County Expenditures*

The UHI fiscal profile seeks to measure spending on children by multiple, overlapping jurisdictions. Direct expenditures are made by the federal government and by states in each of the five cities. In addition, in two of the cities (Detroit and Oakland), the city and county governments are not merged, and counties that include the city also make significant expenditures for children's services. For federal, state, and county expenditures, we must make an estimate of the share of spending that benefits children in each UHI city.

For the federal government, two factors combine to make this a relatively simple task. First, there are only a few federal programs that include direct spending for children; most federal efforts are grants-in-aid made to states or localities and are analyzed as part of those jurisdictions' expenditures. The large direct federal efforts are cash benefits for disabled children under Social Security and the Supplemental Security Income program, and grants to nonprofit entities under the community health center and Head Start programs. Second, the federal government regularly reports expenditures by geographic area for these programs. Thus, identifying direct federal spending for children at the city level is straightforward.

In contrast, most states spend funds directly on behalf of children through a variety of agencies and programs. Direct state efforts typically include criminal justice agencies such as courts and correctional agencies, income support programs, health care benefits under Medicaid and SCHIP (State Children's Health Insurance Program), assistance to the developmentally disabled, among others. In addition, states often do not track or report the intrastate distribution of these expenditures. In some cases (such as for state Medicaid programs) unpublished administrative data relate expenditures

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**Table 2. Total and Per-Child Public Spending for Children's Services, Fiscal Years 1997 and 2000**

	Baltimore	Detroit	Oakland	Philadelphia	Richmond
<b>Fiscal Year 1997</b>					
Total Spending (millions)	\$1,953	\$3,390	\$889	\$4,338	\$454
Per Child	11,695	11,308	9,109	11,330	10,611
<b>Fiscal Year 2000</b>					
Total Spending (millions)	\$1,935	\$3,420	\$926	\$4,370	\$461
Per Child	11,980	11,560	9,280	11,390	10,700
<b>Change 1997–2000 (%)</b>					
Total Spending	-0.9	0.9	4.1	0.7	1.6
Per Child	2.4	2.2	1.9	0.5	0.8

Source: Authors' calculations. All amounts reported in constant 2000 dollars.

**Table 3. Change in Selected Economic and Fiscal Indicators, Constant Dollars Per Capita 1997–2000**

	Change (%)
<b>Federal measures</b>	
GDP	7.2
Total federal outlays	1.4
Total domestic federal outlays	2.0
Direct payments to individuals	-1.4
Grants to states and localities	10.5
<b>State measures</b>	
Education	11.6
Corrections	11.4
Medicaid	6.2
Public Assistance	-16.5
All other	16.1
<b>Total</b>	<b>11.9</b>

Sources: Federal spending from Historical Tables, FY 2002 Budget of the United States Government; State spending from the National Association of State Budget Officers, State Expenditure Report Annual Editions.

to the residence of beneficiaries. However, for many programs we must estimate the share of direct expenditures made on behalf of children in a particular city based on the share of the caseload or client population living in that city. Such data were obtained for many state programs and provided the basis for geographic allocations of statewide expenditures. In some cases where client data were not available, we made allocations based on a city's share of the statewide population under age 18, or the city's share of the statewide poverty population under age 18. We used similar methodology, where necessary, to allocate county expenditures to the city level (where the two jurisdictions were not merged).

## Findings

### **A. Spending on children increased only marginally compared to overall economic and expenditure growth.**

The first part of our analysis examines how overall spending on children in the UHI cities compared to broader measures of government spending and economic growth in the late 1990s. Table 2 presents results from fiscal years 1997 and 2000 regarding total public expenditures for children's services in each of the UHI cities. The

figures shown include the amount of spending on children's services, adjusted for inflation, on a total and per-child basis. In constant dollars per child, expenditures increased in each of the five cities, but by small amounts. Increases in per-child spending ranged from 0.5 percent in Philadelphia to 2.5 percent in Baltimore. On average, the increase across the five cities was only 1.6 percent.

These increases pale in comparison to the rate of economic growth the nation experienced in the late 1990s, and the rise in state government expenditures that growth enabled. Table 3 presents benchmark measures of economic growth and inflation; measures of federal spending including total spending and spending for grants to states and localities (separated by their relevance to children's services); and spending by the 50 states, both total and for selected functions that include children's services.

In all five cities, total spending for children's services increased much more slowly than gross domestic product, and slightly more slowly than domestic federal outlays. This may reflect the degree to which these cities relied on direct federal payments to individuals to support children, as those payments declined in real terms in the late 1990s. At the same time,



**Table 4. Total and Per Pupil Public Spending for Education  
Fiscal Years 1997 and 2000**

	Baltimore	Detroit	Oakland	Philadelphia	Richmond
<b>Total Spending (millions)</b>					
1997	\$659	\$1,414	\$299	\$1,704	\$226
2000	787	1542	360	1805	215
Change (%)	19.3	9.1	20.1	5.9	-4.8
<b>Per Pupil</b>					
1997	\$6,137	\$8,047	\$5,633	\$7,972	\$7,982
2000	7,750	9,230	6,530	8,970	7,810
Change (%)	26.3	14.7	15.9	12.5	-2.2

Source: Authors' calculations. All amounts reported in constant 2000 dollars.

federal grants to states and localities (including those most relevant to children) and total spending by states grew at several times the rate of children's expenditures in the five UHI cities. The disparity between growth in total real per capita state spending (11.9 percent) and real per capita children's expenditures in the five cities (1.6 percent) was especially stark. Overall, then, child-focused expenditures in the five distressed cities did not appear to reap the benefits of the strong economic growth the nation enjoyed in the late 1990s.

This finding should not be understood as evidence of the failure of the Urban Health Initiative. Three years into the eight-year intervention, we did not anticipate a measurable impact on children's expenditures, because the sites initially focused on planning and laying the groundwork with local political leaders for more dramatic changes. Although children's expenditures did not increase significantly between 1997 and 2000 in the five UHI cities, our ongoing fiscal analysis is more likely to find that the initiative made quantifiable impacts in the remaining years.

***B. Education is the largest children's service on an expenditure basis, accounting for 42 percent of total spending on children in the five cities.***

Our fiscal analysis confirms similarities across the five cities in how children's expenditures are distributed by functional category. As shown in Figure 1, education was the single largest expenditure category for children's services (among the nine categories used in the analysis) across the five UHI cities. This pattern also held in each of the cities, where in 2000 education accounted for between 39 percent and 47 percent of total spending on children. Income support, the second-largest category on average, accounted for 17 percent of children's expenditures overall. In two of the five cities—Philadelphia and Richmond—health expenditures on children were slightly larger than income support expenditures.

While spending on children's education clearly led all other categories in each of the five cities, changes over the three-year period varied quite widely (Table 4). In terms of real spending growth per pupil, Baltimore led all other cities with a 26 percent increase, while Richmond actually spent 2 percent less per pupil at the end of the three-year period.

Local policy and political decisions

*“Education was the single largest expenditure category for children's services across the five cities.”*



appear to drive these widely varying rates of growth in education spending. Across the five cities, state funding for education tended to grow more rapidly than local funding. In Detroit, the state of Michigan provided 75.8 percent of education funding in 2000, up from 69.7 percent in 1997. In Richmond, the state of Virginia's share in 2000 was 43.3 percent, up from 35.1 percent in 1997.

This relatively rapid growth in state support for education in the UHI cities is consistent with the trend nationwide, as real per capita education spending in the 50 states increased 12 percent between 1997 and 2000 (Table 3). Thus, it appears that some local districts like Baltimore used this additional state funding to boost education expenditures overall, while others like Richmond may have effectively substituted these funds for local tax effort, leaving overall spending slightly lower than at the start of the period.

**C. During the late 1990s, expenditures on income support dropped, while child care, social services, and juvenile justice spending increased.**

As noted previously, income support was the second-largest children's expenditure for three of the five UHI cities and on average in 2000. The programs in this income support category include Temporary Assistance to Needy Families (TANF), cash payments for disabled children under the Social Security program (OASDI) and Supplementary Security Income (SSI) programs, and food stamp benefits for families with children. The share of total children's spending devoted to income support ranged from 12 to 21 percent among the five cities.

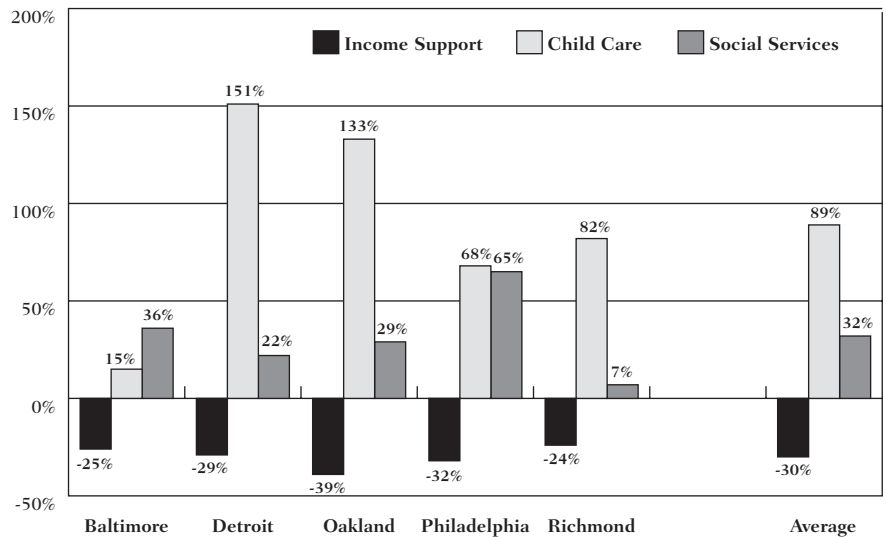
Notably, however, income support expenditures declined precipitously in each of the five cities during the late 1990s. The drop in per-child spending (in inflation-adjusted dollars) ranged from 24 percent in Richmond to 38 percent in Oakland (Figure 2). Expen-

**Table 5. Expenditures for Children's Services by Source, Five UHI Cities, Fiscal Year 2000**

Source	Baltimore	Detroit	Oakland	Philadelphia	Richmond
Federal	37.4%	32.3%	40.6%	40.1%	32.4%
State	48.3%	52.9%	39.8%	40.9%	34.7%
Local	14.3%	14.8%	19.6%	19.0%	32.8%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Authors' calculations.

**Figure 2. Change in Income Support, Child Care, and Social Services Expenditures Per Child, Five UHI Cities, FY 1997 to FY 2000\***



Source: Authors' calculations. Five-city average is unweighted.

\* Figures are adjusted for inflation.

ditures for TANF cash assistance and food stamps, the two largest programs, declined fastest. Expenditures on disabled children in the OASDI and SSI programs declined much more slowly.

The TANF and food stamp expenditure drops relate to sharp declines in caseloads over the three-year period, which generally parallel the national trend. These caseload declines are a positive development, to the extent that they reflect increased employment and

earned income among households with children. Some questions have accompanied the declines, however, including: (a) whether caseload declines reflect tightened administrative practices rather than actual movement to employment; and (b) whether movement to low-wage employment has moved former TANF households out of poverty. Nonetheless, a significant part of the decline in caseloads seems to reflect the positive impact of the strong economy in the late 1990s.<sup>6</sup>





Our expenditure analysis does not incorporate tax expenditures, so that the Earned Income Tax Credit (EITC) is not included in the income support category analyzed here.<sup>7</sup> While including the EITC in our calculations would raise the absolute level of income support expenditure in each of the five UHI cities (by about 10 percent on average), the growth in EITC payments from 1997 to 2000 was relatively modest, and usually not enough to keep up with inflation. Thus, the basic finding that income support expenditures declined substantially would still hold.

In contrast, child care spending (which we define to include both after-school and pre-school programs) grew exceptionally in the UHI cities during the late 1990s. In 1997, child care was only a minor spending purpose, accounting for between 1 and 4 percent of total public spending for children's services in the five cities. As shown in Figure 2, in the next three years, expenditures for child care (again measured on a per-child, constant-dollar basis) rose very rapidly in four of the five cities, from 68 percent in Philadelphia to 151 percent in Detroit (Baltimore's rise was more modest at 15 percent). As a consequence, the share of total children's spending devoted to child care ranged from 3 to 6 percent in 2000. Similar increases occurred in the social services and employment services categories in four of the five cities.

This trend of rising child care expenditures amid declining income support expenditures seems to reflect broader federal and state efforts to assist low-income parents' transition into the labor force during the late 1990s. A recent study of 16 states from 1995 to 1999 finds, for instance, that child care expenditures in the typical state increased by 117 percent during this period.<sup>8</sup> This growth rate is consistent with the average 103 percent rise across the five UHI cities from 1997 to 2000. Still, this expenditure tradeoff should be viewed in light

of the fact that even at the end of the three-year period, income support expenditures across the five cities were roughly three and a half times as large as child care expenditures.

Expenditure shifts in other categories were notable, but less striking. Significant increases in employment and social services spending also occurred during this period, and often reflected the reallocation of TANF funds away from cash assistance, towards "work support" services. In the case of employment services, the large percentage changes began from small base spending. The average per-child increase in criminal justice spending of 18 percent appeared to relate to increases in overall police department budgets. In the end, the functional mix of government spending on children shifted somewhat in the late 1990s, but overall expenditure effort in this area changed little.

***D. State and federal governments funded 80 percent of children's expenditures across the five cities.***

As explained in the methodology, our fiscal analysis combines expenditures that have their sources in federal, state, and local governments. The relative role that each of these governmental levels plays in funding services for children varies across the five UHI cities, and this part of our analysis probes that variation.

One trend shared across the cities is that local governments typically provide revenues for a small share of children's expenditures. In four of the five cities, local government represents the smallest source of funds, ranging from 14 to 20 percent of the total. (In Richmond, local and federal shares are nearly equal at just under one-third.) State and federal governments each play a larger role. In three of the five cities, their contribution levels are quite similar; in Baltimore and Detroit, state governments fund a significantly higher proportion of children's expenditures than the federal

*“Local governments typically provide revenues for a small share of children's expenditures.”*





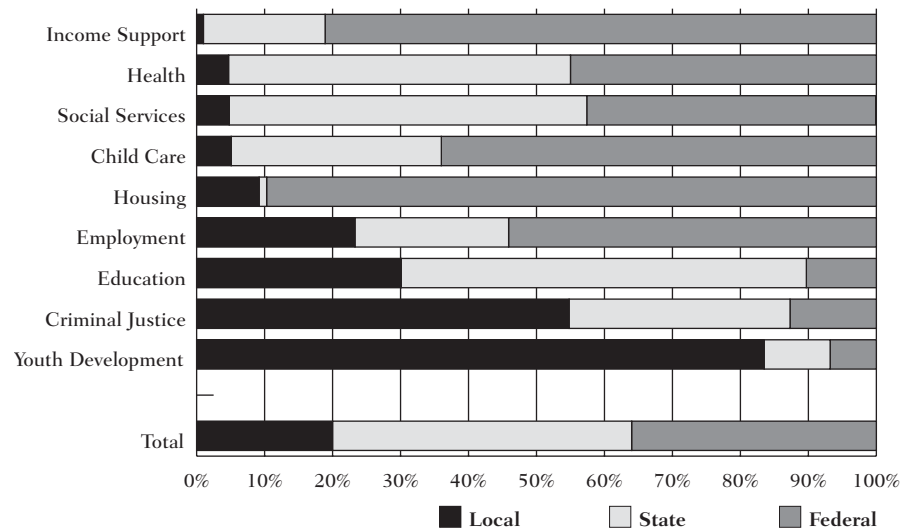
government.

These shares of funding by source, of course, reflect the aggregation of multiple streams of funding. In each of those functional streams, one governmental level typically predominates, as Figure 3 demonstrates. For the cities as a group, the federal government provided more than four of every five dollars for income support and housing, and more than half the funds for child care and employment. States were the largest source of funding for health and social services, areas in which the federal government also played a major role (through programs like Medicaid) while local governments provided a small share. States were also leading funders of education, but here local funds picked up a significant chunk (30 percent) of the tab. Overall, local governments provided the majority of funds for youth development and criminal justice, and played a significant role in funding employment services and education.

This mix of funding sources changed only modestly from 1997 to 2000. Consistent with the devolution of federal programs occurring in the 1990s, the (unweighted) average state share of children's expenditures increased from 39 percent to 43 percent, reflecting increases in each of the five cities. At the same time, local and federal spending shares dropped by similar amounts on average. As suggested earlier, rising state expenditures on education contributed significantly to this trend; in the average UHI city, the state's share of education spending rose from 55 percent to 60 percent. Functions other than education experienced relatively little change in their governmental funding source.

Focusing on the 37 percent of funds that the federal government contributes toward children's expenditures, we note two implications for locally-based efforts to improve services and conditions for children. First, it is probably not realistic to expect

**Figure 3. Distribution of Expenditures for Children's Services by Source and Function, Five UHI Cities, Fiscal Year 2000**



Source: Authors' calculations. Figures are unweighted averages for the five UHI cities.

local coalitions to be able to influence federal spending patterns. Local efforts may, within the constraints of federal categorical programs, help shape how state and local governments use those funds, and in the case of entitlement programs may help draw down more federal funds through outreach to eligible families (e.g., food stamps, Medicaid). However, broader coalitions and national interest groups are more likely to play a role in enlarging or reallocating federal funds.

Second, the larger policy and political forces that drive federal spending play an important role in changing the scale and nature of spending for children in any city. The example of how federal welfare reform impacted income support spending in the UHI cities illustrates how these decisions play out in local terms.

The relatively large role states play in financing services to children in distressed cities also carries important implications for locally-based reform efforts. In the UHI cities, advocates for children initially did not fully

recognize the importance of state decisions on funding children's services in their cities. This fiscal analysis has helped point them toward statehouses as a lever for changing the scale or nature of spending for children's services. This lesson may have broader applications for those organizations concerned about children in other distressed cities.

## Conclusion

In efforts to reform service delivery systems for youth, there is often little interest in the complex and tedious task of meticulously following the money. But the amount expended and the categories of expenditure provide a window into the extent and direction of change in public policies, and their attendant impacts on children as a priority for public spending.

The intergovernmental nature of funding and delivery of children's services, however, makes this type of analysis complex. In urban settings,





local government delivers the vast majority of these services. Local government is fragmented, however, encompassing cities, independent school districts, and counties. Further exacerbating this fragmentation, most of the resources that local governments use to provide these services are, in turn, provided by higher levels of government—often with tight strings attached. Consequently, local governments rely heavily on “other people’s money” and have limited ability to shape new policies and programs.

Welfare reform provides a useful illustration of the intergovernmental dynamics involved in funding children’s services. Policy changes, combined with the effects of a healthy economy, dramatically reduced funding for income support, previously one of the larger purposes of public expenditures. A shift toward funding other children’s services (most notably, child care) accompanied this retrenchment in income support expenditures. At the same time, however, these reductions also allowed states to fund other programs that did not have direct benefits for children, also providing them with general fiscal relief. This suggests that federal policies designed to increase funding flexibility for states may, in the end, jeopardize governmental support for children’s services.

The type of fiscal analysis described in this survey can help advocates, policy makers, and elected officials to understand better the local impacts of policy and political change. Other efforts like the “children’s budget” analysis described earlier look only at a single government’s spending, and may obscure the relative importance of different levels of government in the support and regulation of services for children. While we faced many challenges in undertaking a comprehensive fiscal analysis of this kind, the results present a much clearer picture of funding patterns, and offer local leaders the opportunity to re-prioritize

the scale and function of children’s expenditures. Absent this type of analysis, it is too easy to overlook the fact that the prosperous national economy of the late 1990s seems to have done little to boost public efforts on behalf of children in some of the nation’s distressed cities.

### Technical Appendix

**T**his appendix provides further detail on how the authors translated certain budget items into estimated children’s expenditures in the five UHI cities. More detailed methodological explanations are available in working papers from the authors.

**Capital expenditures.** Conceptually, capital resources used in producing a service clearly ought to be counted as part of the cost of that service. To the extent children’s services require capital assets, the use of those assets should be counted as part of the expenditures on behalf of children. However, public sector accounting practices make it difficult to identify these expenditures.

The private sector (and some government activities operated on an “enterprise fund” basis) account for capital costs in two ways. First, firms estimate the consumption of assets as part of annual operations based on the concept of depreciation. When an asset is acquired, a firm assigns it a “useful life” and establishes rules for subtracting value from the cost of the asset for each year of its useful life. This annual reduction in the value of the asset is depreciation, and firms report it as an expense even though there is no accompanying cash outlay. Second, if a firm has borrowed in order to acquire the asset, then it also counts the interest paid on the loan for acquiring the asset as an operating expense. (Repayment of the principal portion of the loan is not an operating expense; it is a reduction in the

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outstanding liability.) Thus, for private firms, depreciation and interest comprise the cost of capital used in production.

The method for accounting for the use of capital by state and local governments is in transition. Rules promulgated by the Governmental Accounting Standards Board in 1999, which became effective in the period 2001 to 2003 depending on the size of the government, have moved these jurisdictions to a system closer to private sector rules. However, during the period covered by the first two fiscal profiles of this evaluation, state and local governments used a different system of accounting.

Under this older system of accounting, governments treated most of their physical assets as “infrastructure,” and assumed that these assets had no value to parties outside of government and would have a useful life far longer than most depreciable private sector assets. Accordingly, governments did not carry the historical cost of these facilities and structures as an asset on their balance sheets, and did not estimate or report depreciation of these assets as an annual expense. Instead, they kept a separate account of capital expenditures, which they reported as expenditures each year they were incurred. Also, if governments took loans to finance the acquisition of an asset, then it labeled as “debt service” the annual payments due on these loans (both interest and principal).

Given this system of accounting, a suitable technique for estimating capital costs for a government is to equate them with debt service. The validity of this method rests on the assumptions that: most assets are acquired by borrowing; the schedule for repayment of principal corresponds to depreciation or the use of the asset; and the interest included as part of debt service should be counted as part of the cost of capital. While reality often departs from these assumptions,

debt service remains a reasonable way to estimate governments’ capital costs, given the distinctive financial reporting systems. Debt service is preferable to the reported capital expenditures, because capital expenditures are notoriously “lumpy.” That is, capital expenses are made when a facility is built and are concentrated in a short period, even though the asset is intended to last a far longer period. Thus, capital expenditures for an agency might be very large for one or two years, and then be minimal for several years thereafter. Counting these capital expenditures in any given year would be a misleading way to estimate the capital used in producing services, since capital expenditures vary more widely than does the actual use of capital assets by the agency each year.

In the UHI fiscal analysis, we use debt service as the proxy measure for capital in state and local governments’ expenditures on children’s services. Generally, we could identify the debt service related to major areas requiring large capital investments, such as public schools and public housing. However, debt service related to other expenditure functions usually was not identifiable, and is therefore omitted from the fiscal analysis. This is because units of general government typically report debt service for the entire jurisdiction and do not allocate it among agencies or services. For many specific children’s services we were not able to identify the share of government-wide debt service attributable to them. Capital expenditures for playgrounds and recreation centers are two such examples. In these instances, rather than making a necessarily arbitrary estimate of the applicable debt service, we did not count the debt service. This omission generally is not significant, because we applied common practices across cities, and because the debt service for children’s services other than education and housing was usually relatively small.

An additional note regarding the federal government’s reporting of capital costs: The federal government has a unique set of reporting rules and standards. It does not keep a record of infrastructure assets, does not estimate or report depreciation for most of its assets, and makes no distinction between capital and operating expenses in reporting its annual expenditures. The federal government does report its annual debt service, but makes no distinction between borrowing for capital and operating purposes, and debt service is not allocated among agencies or services. Hence, in the UHI analysis we made no effort to identify capital expenditures by the federal government as a part of its expenditures on children.

#### **Expenditures for fringe benefits and pension fund contributions.**

Fringe benefits and pension fund contributions funded by employers are part of employee compensation costs, and should be counted as expenditures in the same manner as salary and other cash compensation. However, identifying the amount of such expenditures applicable to children’s services sometimes proves difficult in practice.

The difficulty arises because, although state and local governments typically report salary expenditures by agency and by program within agency (making allocation to children’s services relatively easy), they typically follow a different practice in reporting fringe benefit expenses. These expenses are often reported only on a government-wide basis. Therefore, in order to include these expenditures, it is necessary to allocate them to children’s services. Generally, the best basis for this allocation is in proportion to the relevant share of salary expenses, and this method is used where needed in the UHI analysis. Some inaccuracy accompanies this method. For example, some payroll taxes are capped, and some fringe benefits are fixed per person, rather





than in proportion to salary. Still, we believe that a general allocation in proportion to salary provides acceptable results given the lack of more precise data.

In counting pension fund contributions, an additional issue arises. Employers are supposed to make pension fund contributions based on actuarial assumptions about the annual amounts needed to pay for future benefits. However, for a variety of reasons, governments do not always make a contribution equal to the amount indicated by actuarial assumptions. That is, governments sometimes under-fund their employees' pension funds. This under-funding is accounted for as a governmental liability. It is not practical to identify and attribute this liability to children's services in most instances. Thus, it is possible that pension fund contributions actually made and counted in the UHI analysis do not fully reflect the amount governments should have paid if their pension fund liabilities were fully funded.

**Intergovernmental transfers.** In the American federal system large amounts of money are passed from one level of government to another, usually in the form of grants-in-aid. The national government gives funds to states and to local governments directly; states give money to local governments (including independent school districts) and pass some of the money they receive from the federal government onto localities.

Since the task of the UHI fiscal analysis is to identify funds spent by all levels of government for services to children within five cities, some decision rules must be established to avoid the "double counting" of intergovernmental transfers. For example, state aid to the local school district should not be counted as both a state expenditure and a local school district expenditure. The rule followed in the UHI analysis is not to count transfers from one government to another, but to count expenditures made by the

"last" level of government—that is, to count the expenditure when it leaves the public sector. Thus, federal grants to states are not counted as federal expenditures, but as state expenditures; and state grants to localities are not counted as state expenditures, but as local expenditures. Expenditures counted in this way are generally referred to as "direct" expenditures.

However, the UHI analysis also tracks the sources of funds for children's services. Spending at each level of government is also identified with a source of funding. The analysis identifies, by function, the source of funds (federal, state or local) for expenditures for children's services. The identification of sources by function sometimes involved estimates, because in financial reports not all grants are allocated to specific services; sometimes, grants are identified only by the department receiving them, rather than by the specific program or programs they support. These estimates were made based on the UHI staff's knowledge of the nature of the grant programs and on unpublished information made available by local government officials in each city.

Estimating children's shares of universal services. Some public services that children receive are available not only to children, but also are offered to residents of all ages. Common examples are libraries, parks, and police protection (and prosecution).

For these "universal" services, we sought to estimate the share of program spending that benefits children. Again, these data are typically not maintained by the relevant agency, and with the cooperation of local officials, we were often able to identify an appropriate proxy indicator that could be used to allocate total program spending between children and adults. In some cases, periodic client survey data were available. For example, some park and library systems survey their users and include age as a question. In other cases, administrative data include age, and these reports were made available

to the evaluators. For example, most court systems track the share of cases involving juveniles, and police records indicate the number and share of arrests involving juveniles. While such allocations require simplifying assumptions (such as that juvenile and adult services consume equal resources and staff time per user), we believe that they yield reasonable estimates for expenditures on children.







## Endnotes

1. Charles Brecher and Beth C. Weitzman are both professors at New York University's Robert F. Wagner Graduate School of Public Service. Diana Silver is a research scientist at NYU's Center for Health and Public Service Research. Cynthia Searcy, formerly a research consultant at NYU, is currently a doctoral student at Syracuse University's Maxwell School.
2. Beth C. Weitzman, Diana Silver, and Kerin Nicole Dillman, "Integrating a Comparison Group Design into a Theory of Change Evaluation: The Case of the Urban Health Initiative." *American Journal of Evaluation* 23(4) (2002): 371–385.
3. The other four methods are: annual site visits to each of the UHI cities and one-time visits to each of the comparison cities; analysis of telephone interviews with six to ten civic leaders in each of the UHI and comparison cities every 18 months to assess professional perceptions and organizational interests in issues related to children and youth; analysis of administrative data on over 30 demographic, economic, health, crime, and education indicators for the participating UHI cities, the comparison cities and the rest of the 100 most populous American cities; and a national telephone household survey of parents and youth to investigate a host of attitudes and perceptions regarding youth health and safety, family and school issues.
4. The 22 distressed cities are: Baton Rouge, Birmingham, Boston, Buffalo, Chicago, Cincinnati, Cleveland, Jackson (MS), Jacksonville, Jersey City, Memphis, Milwaukee, Minneapolis, New Orleans, Newark, Norfolk, Pittsburgh, Rochester, Sacramento, St. Louis, Tampa, and Washington, DC.
5. For an instructive overview of these efforts see Mark Friedman and Anna Danegger, *A Guide to Developing and Using Family and Children's Budgets* (Washington: The Finance Project, 1998).
6. Rebecca Blank, "Welfare and the Economy." In I. Sawhill and others, eds., *Welfare Reform and Beyond: The Future of the Safety Net* (Washington: Brookings Institution, 2002).
7. Tax expenditures are revenues foregone through special provisions of the tax code and include deductions and credits, including refundable credits. About 86 percent of EITC dollars were in the form of refundable payments in 2000. "Individual Income Tax Returns, 2000," available at [www.irs.gov/pub/irs-soi/00indtr.pdf](http://www.irs.gov/pub/irs-soi/00indtr.pdf) (February 2004).
8. Donald J. Boyd and others, *The Fiscal Effects of Welfare Reform: State Social Service Spending Before and After Welfare Reform* (Albany, NY: Nelson A. Rockefeller Institute of Government and the Brookings Institution, 2003).
9. See Technical Appendix for a discussion on how we treated intergovernmental expenditures in our analysis of governmental funding source.



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