LOST IN THE BALANCE:
HOW STATE POLICIES AFFECT THE FISCAL HEALTH OF CITIES

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ABOUT THE AUTHORS

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ABSTRACT

Despite recent signs of economic and fiscal recovery, many U.S. central cities continue to struggle with declines or slow growth in population and employment, higher tax burdens, lower quality public services, and poorer performing schools compared to their suburban neighbors. This paper examines the factors that have led to fiscal distress in central cities, and fiscal disparities between cities and suburbs, in three states – California, New York and Wisconsin. Using data on intergovernmental aid, it also presents new evidence on how these state governments are responding to fiscal issues in their cities. Throughout most of the 1990s, both the population and the tax base of most of the central cities in these three states grew more slowly than the population and tax base in their suburbs. Rather than serving to compensate these cities for their slower rates of growth in fiscal capacity, however, state aid and state tax policies in CA, NY and WI over this same period tended to favor suburban communities, making it relatively more difficult for cities to afford basic services for their residents. These trends suggest that the devolution of welfare programs to the state level may exacerbate cities' fiscal problems, especially during an economic downturn. Drawing from the evidence on state-city fiscal relationships in these three states, the papers offer recommendations for new policy directions at the federal, state and local levels that could serve to improve the fiscal health of central cities.

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I. INTRODUCTION

In its 1999 annual report on the *State of the Cities*, the U.S. Department of Housing and Urban Development (1999) declared that "...thanks to a booming national economy, most cities are experiencing a strong fiscal and economic recovery...Most city balance sheets are the healthiest they have been in years, and city services are improving as a result." Between 1998 and 1999 the number of city residents in poverty fell by 1.8 million people, and the income of central city households increased faster than the rest of the nation.[1]

Despite these positive assessments, many U.S. cities continue to struggle. Population and employment continues to decline in many central cities. Even where the number of central city jobs has increased, the rate of increase is usually much slower than job growth in the suburbs. Even though city residents often face higher tax burdens than the majority of their suburban neighbors, the level and quality of public services in many cities is frequently quite poor. Although city crime rates have fallen in recent years, they generally remain significantly higher than those in the suburbs. And despite some recent improvements, a large number of public school students in the nation's central cities continue to perform very poorly.[2]

In this paper we focus on the longer-run fiscal prospects of American central cities. A city's fiscal condition depends on the costs it faces in providing services, relative to the revenue sources available. If costs are rising faster than revenue capacity, then a city will face long-run or *structural* fiscal problems. Central cities tend to face much more severe structural fiscal problems than neighboring suburban jurisdictions, creating fiscal disparities within regions.

Intergovernmental aid also plays an important role in the fiscal health of central cities. The federal and state governments can provide financial assistance in many forms, such as lump sum grants or targeted spending on particular programs. This assistance, combined with the rules that states set for how cities can raise and spend revenues, has tremendous implications for local fiscal health.

In order to determine how state aid affects these inter-jurisdictional disparities, we examine state policy trends in three states – California, New York, and Wisconsin. Evidence indicates that state fiscal policy in all three states is evolving in ways that favor suburbs over cities. Rather than offsetting increases in central city fiscal burdens, these policies are likely to exacerbate central city fiscal distress.

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[1] U.S. Census Bureau, *Poverty in the United States, 1999*. Current Population Reports, Series P60-120, Washington, DC: US Government Printing Office.

[2] In a recent report, the Council of the Great City Schools (1999) reports on the low test score result achieved by many students in the public schools of the nation's largest cities.

The paper has two sections. In the first section we review the concept of the structural fiscal health of cities. We emphasize the broad set of factors, both on the cost and capacity sides of the fiscal ledger, that have contributed to fiscal disparities between center cities and their suburbs, and fiscal distress in central cities. We illustrate with data on changes in population and property base in cities and suburbs in New York, Wisconsin and California.

Section two presents new empirical work on fiscal issues in three states, California, New York, and Wisconsin. We examine how state governments are dealing with city fiscal issues. Our analysis shows that in the 1990s, despite the fact that cities have continued to lose population and fiscal base relative to their suburbs, changes in the distribution of state aid have tended to favor suburban areas over central cities. We also discuss new restrictions on city taxing authority, such as the elimination of the commuter tax in New York, which further weakens local fiscal capacity.

II. THE FISCAL HEALTH OF CITIES

To understand the long-run fiscal problems faced by many central cities, it is important to recall that local governments are responsible for both the provision and financing of most government services used by the average citizen on a daily basis. Police and fire protection, sewage and sanitation, recreation, the lighting and maintenance of streets, the provision of water, elementary and secondary education, libraries, and public health are all local government functions. This reliance on local government finance has the advantage of allowing public decisions about the mix and the level of government services to closely reflect the preferences and tastes of the residents of each local community, and encourages innovation in producing public services.

The governance of most American metropolitan areas is highly fragmented. For example, the Chicago metropolitan area contains 262 separate general-purpose governments. When one counts all school districts and special districts, there are nearly 1,200 different governmental bodies within the Chicago metropolitan area. The existence of a large number of governments is not necessarily bad. A wide choice among governments enhances consumer well-being by matching public good preferences and willingness to pay. Furthermore, competition among governments may force local governments to operate more efficiently.[3]

The strength of a decentralized fiscal system must however be tempered by the realization that when urban areas are divided into a number of fiscally independent local governments, each local government has an incentive to exclude those individuals who require extra expenditures in excess of their marginal contributions to locally-raised revenues. As the poor tend to be concentrated in central cities and in older suburbs, there exists a strong incentive for the non-poor to escape fiscal responsibilities for the poor by moving to suburban communities where the poor are often effectively excluded through the use of zoning ordinances and the existence of housing market discrimination. The fiscal health of central cities can then be further weakened if the out-migration from the city of both businesses and moderate- and high-income families creates *fiscal externalities.* These occur if out-migration leads to a further weakening of the fiscal capacity of the central city and a raising of the average cost of providing public services.

A. Measuring the Fiscal Condition of Local Governments

It is useful to select a single measure to represent and compare the *structural* fiscal condition of local governments. Drawing on the work of Bradbury et al. (1984), and Ladd and Yinger (1991), a *need-capacity gap* can be calculated for each local government. It is defined as the gap between the *expenditure need* and the *revenue-raising capacity* of each local government. Expenditure need indicates the minimum amount of money a government must

[3] See Oates (1999) for a discussion of the conditions under which competition among local governments will be efficiency enhancing.

spend per resident in order to provide a standard or average level of public services for which it is responsible. Revenue-raising capacity indicates the amount of revenue per resident a local government has available if its residents face a standard or average tax burden. Revenue-raising capacities can be enhanced by cities' receipt of grants from higher level governments, and by giving cities the legal authority to impose commuter taxes on non-resident workers. It is important to emphasize that this measure of the fiscal condition of local government focuses on factors that are generally outside the immediate control of local government officials. In this way, need-capacity gaps provide a reasonably objective measure of the structural fiscal problems faced by local governments, one which can be used to compare cities and their suburbs.

While the concept of measuring fiscal health in terms of the need-capacity gap seems straightforward, measurement of both need and fiscal capacity are empirically difficult. In principle, fiscal capacity depends on the economic resources located within a jurisdiction, and on the ability of the local government to transform those resources into public sector revenues. Resources consist of the income received by city residents and city-based firms and the stock of tangible assets – real estate – in the city. Measurement of income resources at the city level is difficult, particularly for business income. No comprehensive data source exists which provides these data.[4]

The ability of a city to tap its income resources depends on the set of taxes and fees to which the city has legal access. The revenue that a city can collect depends, in turn, on how businesses and individuals respond to the imposition of taxes. In general, for any given tax burden placed on its residents, a city will raise more revenue if its businesses can export taxes to non-city residents in the form of higher prices, lower profits, or lower wages. For taxes on business, for example New York City's corporation income tax, it is conceptually difficult to determine where the ultimate burden falls. Even if the incidence of a tax is well understood, empirical estimates of exportability are difficult to obtain.

On the need or cost side, it is often difficult to separate out costs that are beyond the control of city officials from costs that can be influenced by city policy. Although efficiency in the delivery of public services can have an important impact on the level of total spending, it is particularly difficult to determine the extra spending attributable to inefficiency in government operations. Studies of particular cities tend to focus on egregious examples of inefficiency. These studies often reach the erroneous conclusion that a city could dramatically improve its fiscal condition simply by eliminating these inefficiencies. Systematic comparisons between cities are, however, much less likely to find big differences in efficiency between cities.[5] Objective and systematic estimates of fiscal need, periodically updated, are thus quite important in guiding policy.

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[4] One solution is to 'share income down' to the city level from state estimates of gross state product (New York City Independent Budget Office, 2000a).

[5] Helen F. Ladd and John Yinger, *America's Ailing Cities; Fiscal Health and the Design of Urban Policy*. Baltimore, MD: Johns Hopkins University Press.

B. Fiscal Disparities within Metropolitan Areas: Causes and Consequences

Within metropolitan areas, differences in the fiscal conditions of local governments, whether measured by need-capacity gaps or by alternative measures, are generally referred to as *fiscal disparities.* The existence of fiscal disparities has both equity and efficiency implications. Fiscal disparities result in horizontal inequities among metropolitan area residents. These inequities occur when residents of two metropolitan area communities face identical tax rates but receive different level of public services. Alternatively, inequities exist when residents of communities providing similar levels of public services face different tax rates.

Some have argued that fiscal inequities are not a policy problem, because they are automatically undone by market forces. If people are motivated to move from fiscally weaker to fiscally stronger communities, then differences in fiscal condition will be translated into differences in land and housing values.[6] Thus fiscally attractive jurisdictions will see property values increase, while the reverse will occur in fiscally stressed central cities. By raising the price of admission to favored jurisdictions, and lowering the price in the central city, the process of capitalization will help to limit the movements induced by fiscal disparities. The difference in fiscal situation among metropolitan area governments, however, still leaves cities with a smaller fiscal base from which to raise revenues. Moreover, so long as there is an expectation that fiscal disparities will worsen, households will continue to bid up housing values in the suburbs relative to the central cities. Unless the fiscal advantages of suburbs (and the associated capital gains) are fully anticipated, current residents will benefit from any changes that augment the existing fiscal advantage of many suburban communities.

Economic forces that tend to keep the poor in the central city – older, less expensive housing stock, accessibility to public transportation – are reinforced by policies which limit access to suburban jurisdictions. Zoning and other land use mechanisms in the United States place severe constraints on the residential mobility of low-income households and help explain why metropolitan area fiscal disparities are not self-correcting. The use of zoning regulations allows suburban communities to effectively set a minimum price (and rent) for housing within their boundaries, thereby providing an effective way to exclude low-income households.[7] A number of states have tried to open up the suburbs to lower-income households with subsidies for low-income housing, and legal requirements that suburban jurisdictions allow such housing. These attempts, however, have met with only limited success.

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[6] There is considerable evidence that fiscal advantages and disadvantages are least partially capitalized into housing prices. However, while capitalization reduces the cost of housing for individuals living in communities in weak fiscal condition, it does not eliminate inter-community inequities in both access to public services and in tax-prices faced by residents.

[7] There is limited empirical evidence on the fiscal zoning model. Harrison (1982) finds that, controlling for a variety of other factors, housing costs in New Jersey in 1970 were correlated with stricter zoning requirements. The higher the minimum lot size, the higher the average price of housing in that community. He also finds that the degree of racial segregation by county is correlated with the strictness of the zoning requirements.

There is also considerable evidence that racial discrimination in the housing and rental markets is widespread.[8] These discriminatory practices make it more difficult for minority residents to move out of central cities in order to find housing in communities in better fiscal health than the central city. While there has been some limited suburbanization of minorities, patterns of racial segregation have largely been preserved, with minorities concentrated in a few typically older and poorer suburbs.[9]

To the extent that individuals and businesses make locational decisions within metropolitan areas based on fiscal considerations, a pattern of inefficient location decisions is likely to occur.[10] By encouraging suburbanization, fiscal considerations may result in a pattern of business and residential locations that increases metropolitan area congestion and environmental degradation.[11] The high cost of new suburban infrastructure may also divert funds from more cost-effective upgrading and expansion of existing facilities. To the extent that high income residents and businesses are most sensitive to fiscal conditions, their out-migration from central cities exacerbate the deteriorating fiscal health of the city.[12] These fiscal externalities are likely to occur because private decisions to leave the city will not only reduce the city's revenue-raising capacity, but by changing the mix of the remaining residents, may well result in increases in the average per capita cost of providing public services. For example, because of "peer-group" effects in education, the departure of middle-class children from central city schools is likely to raise the costs of educating those children who remain.[13]

C. Reasons for Weak Fiscal Health of Central Cities

In the following paragraphs we consider a number of reasons why many American central cities are in weak fiscal health relative to their suburbs. They can be grouped into the following four areas: (1) relatively low revenue-raising capacities in many cities, due to both population shifts and relative property values and income levels, (2) growing service responsibilities, (3)

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[8] John Yinger, *Closed Doors, Opportunities Lost: The Continuing Costs of Housing Discrimination*. New York: Russell Sage.

[9] Douglas Massey, "American Apartheid: Segregation and the Making of the Underclass." *American Journal of Sociology* 96: 329-57.

[10] There is a large empirical literature in both the U.S. and Europe addressing the role of fiscal factors in the intra-metropolitan locational decisions of households and businesses. Although these studies present a wide range of findings, there appears to be broad support for the contention that fiscal factors play a significant role in locational decisions within metropolitan areas. For a good summary of the U.S. literature on the role of taxes in locational choices, see Wasylenko (1997).

[11] Joseph Persky and Wim Wiewel, "Economic Development and Metropolitan Sprawl: Changing Who Pays and Who Benefits." *The End of Welfare? Consequences of Federal Devolution for the Nation*, Max B. Sawicky, editor, M.E. Sharpe, Armonk, New York: 127-156.

[12] Research by Haughwout et al. (1999) on the effect of tax rate increases on city fiscal bases suggests that even in cities with relatively low tax burdens and fiscal institutions that are favorable to central cities—strong annexation power in Houston and tax base sharing in Minneapolis—city-suburban *relative* tax burdens have an important impact on city fiscal health.

[13] Vernon Henderson, Peter Mieszkowski, and Yvon Sauvageau, "Peer Group Effects and Educational Production Functions." *Journal of Public Economics* 10 (August): 97-106.

higher uncontrollable costs in cities relative to their suburbs, and (4) policies of higher level governments. We illustrate our reasoning with data from three states.

1. Low Revenue-Raising Capacity

a. Population Changes

Urban economists have argued that rising incomes and declining transportation and communication costs induce both individuals and businesses to move away from the city center and toward outlying areas, where land is generally less expensive. Between 1980 and 1998 population grew by 6.1 percent in the 23 central cities with populations over 500,000 in 1980, while over the same period the population of these cities' suburban rings grew by 28.6 percent.

Detailed population data for the states of Wisconsin, New York, and California highlights the fact that, within metropolitan areas, population is continuing to shift from central cities to their suburbs.

Wisconsin. Table 1 displays the population data for 1990 and 1999 for the major central cities in Wisconsin and their surrounding suburbs. The pattern of population changes in the Milwaukee metropolitan area is similar to those found in a substantial number of metropolitan areas throughout the U.S.[14] Milwaukee's population fell by 3.2 percent between 1990 and 1999, while the population of the Milwaukee suburban ring rose by 11.4 percent–a rate nearly 50 percent higher than the growth rate of the state population overall.

Although the population of Wisconsin's smaller central cities rose between 1990 and 1999, in most cases the rate of growth lagged substantially behind the rate of growth of these cities' suburban rings. In 1990, the population of the central cities listed in Table 1 equaled 27.9 percent of the state's total population. By 1999, the cities' share of state population had fallen to 26.5 percent. Although this is a modest reduction in the central cities' share of state population, it does reflect a continued decline in the political, and perhaps economic, influence of central cities.

New York. Table 2 illustrates a similar pattern of population change within New York State. While population in the state grew by one percent between 1990 and 1998, the growth took place primarily outside of the central cities. In general, the pattern is one of substantially slower growth (or actual decline) in population in New York's central cities. New York City's population grew by 1.3 percent, while the four counties closest to New York City grew at rates ranging from 1.1 percent (Nassau county) to 6.0 percent (Rockland County). A number of central cities in the smaller metropolitan areas had substantial population losses over the five year

[14] A recent study by the U.S. Department of Housing and Urban Development (1999) indicates that the between 1980 and 1996, the population of all central cities grew by 10.8 percent, while the population of all suburbs grew by 25.4 percent. During this same period one of every five central cities experienced a population decline of five or more percent.

period, while four of the seven suburban areas of the smaller metropolitan areas displayed in Table 2 experienced growth in population.

California. Population growth has also been more rapid in the suburban portion of most of California's major metropolitan areas. The data in Table 3 demonstrate that between 1995 and 1998, population grew more slowly in the central cities of California's two largest metropolitan areas, Los Angeles-Long Beach and San Diego. The patterns of population growth were mixed in the state's smaller metropolitan areas. Population grew at a faster rate in the central cities of the San Jose, San Francisco, and Bakersfield metropolitan areas, while it grew more rapidly in the suburban portion of the six other metropolitan areas listed in Table 3.

Very slow growth or absolute decline in population suggests a local economy that is under stress. Even in expanding metropolitan regions, most central cities are growing more slowly than their suburbs. This decline in absolute and/or relative position is likely to translate into potential fiscal stress as well. To the extent that central city population losses are due primarily to the out-migration of middle- and high-income families, the slower rate of central city population growth is an indicator of the diminished ability of city governments to raise revenues. Central cities' revenue-raising capacity is particularly threatened when middle income families are replaced by families and individuals with lower incomes or not replaced at all. To compensate, city governments are forced to either increase tax rates or cut public services—further convincing middle-class residents to leave.

b. Property Values and Income Levels

Most local taxes must ultimately be paid from the income of residents. Hence, income is a direct indicator of the ability to pay taxes. The property tax base of a local government is a function both of local income and the presence of firms doing business in the community. The property tax base is thus a proxy for the total amount of economic activity within a jurisdiction. The part of the property tax base made up of commercial and industrial property is an indicator of a jurisdiction's ability to export some of the burden of local taxes to workers and owners of capital living outside of the jurisdiction.

Wisconsin. In Wisconsin, nearly all municipal government tax revenue comes from the property tax.[15] The ability of local governments to generate property tax revenue depends on the size of their property tax bases. Table 4 displays data on the tax bases of local governments in Wisconsin measured as per capita equalized property values. The data for 1990 in the first panel of Table 4 make it clear that, with the exception of La Crosse, central cities have smaller tax bases than their suburbs. The central city-suburban disparities are particularly striking in the Milwaukee metropolitan area, where Milwaukee's tax base was substantially below the state average ($20,141 compared to $27,059) and only 56 percent of the average tax base of its

[15] Among municipalities and school districts, the property tax accounts for over 95 percent of locally-raised tax revenue.

suburbs. The property tax base in Madison, Wisconsin's second largest city, was greater than the state-wide average, but nevertheless, was lower than the suburban Madison tax base.

Between 1990 and 1997, per capita property values in Wisconsin grew by 66 percent. The data in the third panel of Table 4 indicate, however, that in general per capita property values grew substantially faster in the suburbs than in the state's central cities. For example, Milwaukee's property tax base grew by 26 percent over this 7 year period, while the tax base in the Milwaukee's suburban ring grew by 66 percent. Even in the case of Madison, which experienced rapid tax base growth during this period (71 percent), the tax base in its suburbs grew at a faster rate (87 percent). As a result of this differential pattern of tax base growth, the fiscal capacity of central cities relative to their suburbs deteriorated over this period. In 1997, Milwaukee's tax base was only 42 percent of the tax base of its suburbs, a decline from 56 percent in 1990. The ratio of the central city to suburban ring tax base declined from 98 percent to 90 percent in the Madison metropolitan area and from 88 percent to 77 percent in the Green Bay metropolitan area.

New York. As in Wisconsin, the property tax is the most important revenue source for most local jurisdictions in New York. Cities, counties, and some school districts, however, have access to a local sales tax, and New York City and Yonkers impose a local income tax. Overall, 39.6 percent of local tax revenues came from non-property tax sources in fiscal year 1997.[16] With the exception of New York City, school districts taxes come almost entirely from the property tax; for cities and counties, non-property taxes are almost as important as the property tax. New York City has a uniquely diversified tax system, with about 40 percent of tax revenues coming from the property tax and other real estate related taxes, and the remaining 60 percent coming mainly from income and sales taxation.

To provide a sense of the differences in revenue-raising capacity of central cities and suburbs in New York State, tables 5 and 6 present data on the per capita property tax base and per capita income for New York's largest metropolitan areas. Table 5 shows that the per capita property tax base is considerably higher in the suburban areas than in the cities of New York State. Within the New York City region, the per capita property tax base in 1995 was more than twice as large in the counties adjoining New York City - Westchester and Nassau – as in the city itself. In Rockland and Suffolk counties the base was about 75 percent larger than the city. While growth in the Long Island counties - Nassau and Suffolk - was slower than New York City, the gap in property values between New York City and Westchester and Rockland widened over the period.

In the smaller metropolitan areas, property values were uniformly higher in the suburbs than in the cities in 1990, and the gap between suburb and city widened over the five year period.

[16] New York State Office of the Comptroller, *Comptroller's Special Report on Municipal Affairs for Local Fiscal Year Ended 1997*. Division of Municipal Affairs, Albany: December, 1998.

In 1995, suburban property wealth was well more than twice as high as center city property wealth in almost all metropolitan areas of New York.

Table 6 shows per capita income levels and changes. The income measure is New York Adjusted Gross Income (NYAGI), which in 1996 was equal to 96 percent of federal AGI in New York State.[17] Income data are reported at the school district level in New York State, and the county wide income levels are obtained by adding up income in the school districts. The general pattern from the income data is similar to the pattern for property taxes, with income substantially higher in the suburbs than the cities in 1990 and rising more rapidly in the suburbs between 1990 and 1995. The ratio of suburban to central city income levels is about the same as the comparable ratio for property values. For example, the ratio of per capita income in Nassau County to that in NYC is 1.93, while the ratio of property values is slightly higher, standing at 2.11. It is striking that the concentration of high-valued commercial property in New York City is not sufficient to overcome the rise in suburban property values that has accompanied greater rates of growth in population, employment, and income. Though the cities continue to have higher ratios of employment to population than their suburbs, the story that emerges from these data is one of suburban growth and relative or absolute stagnation in New York's central cities.

The traditional role of central cities as centers of employment is also diminishing. Brennan and Hill (1999) studied private sector job growth in 92 large metropolitan areas between 1993 and 1996—a period of rapid economic growth in the United States. They found that 23 percent of the central cities in their sample lost employment during this period, while their suburbs gained employment. The number of jobs increased in 52 percent of the central cities, but at a slower rate than in their suburbs. The result of these patterns of job growth is that the central cities' share of metropolitan area employment fell in 82 percent of the metropolitan areas studied.

Not only the level, but also the structure of employment in cities is changing. Cities are losing manufacturing jobs while gaining some white-collar employment in business services, finance, insurance, and real estate. The holders of high-paying city jobs in these sectors often prefer to live in the suburbs and commute to work. To illustrate the shift in residential location, the share of New York City wages earned by non-residents grew from 33.8 percent in 1990 to 36.8 percent in 1996.[18] Average wages earned by non-resident workers in NYC are almost twice as high as resident wages. Cities' ability to capture a share of the higher wages paid by high-productivity industries therefore depends on whether they can tax the income of nonresidents.

Yet doing so is difficult because city governments that want to levy an income or sales tax must seek authorization from state government. And suburban-dominated legislatures often refuse to allow cities to expand their tax base because such a move would mean higher taxes for

[17] New York State Department of Taxation and Finance, 1999.
[18] New York City, Office of the Comptroller, "Who Pays New York City's Personal Income Tax?" Vol. VIII, No. 2, May.

suburban residents. Only eight of the nation's 24 largest cities impose an income or wage tax, and those eight cities tax income earned by nonresidents at a very low rate or not at all.[19] Even if a city does succeed in taxing earnings, businesses may move to the suburbs to avoid paying a wage premium to attract workers. And if a city imposes a sales tax, the higher the tax, the smaller the chance that suburban residents will choose to shop in the city.

While central cities may no longer dominate their regions' economy as they did in the past, they continue to serve as their regions' cultural and entertainment centers. Although, cities' museums, concert halls, and sports facilities continue to be popular with residents, suburbanites, and tourists, the fiscal benefit to cities of these facilities is often limited. To the extent that these facilities are owned by governments or non-profit organizations, they are exempt from property taxation. As a result, cities that rely heavily on the property tax get limited fiscal benefit from their cultural, educational, and sports facilities. In general, tax exempt property is concentrated in central cities. For example, in New York City nearly a third of property value is exempt from taxation, while only 13 percent of property value is exempt from taxation in suburban Nassau County and 22 percent in Westchester County.

2. Broad Service Responsibilities

In the United States, local governments are responsible for providing a wide array of public services. In fact, many of the core services most people associate with governments are provided, and in most cases financed, by local governments. Although the assignment of functions differs across states, local governments generally play the role of *service provider of last resort*, required by state governments or by the courts to provide shelter to the homeless and child welfare services to troubled families. Policy changes at higher levels of government often end up having fiscal implications for local governments. Expanded public service responsibilities often come in the form of mandates from both the federal and state governments. Such mandates are likely to impose greater costs on cities than on suburbs. For example, the wide-spread deinstitutionalization of the mentally ill that has occurred over the past couple of decades in effect forced cities to deal with the mentally ill who ended up on the street, became public nuisances, committed crimes, or needed medical care.

In New York, the role of government as service provider of last resort is more explicit than in most states, because of a state constitutional requirement (Article XVII, Section 1) mandating that state and city governments provide for "the aid, care and support of the needy." The local fiscal implications of the constitutional requirement are potentially very important in light of the federal lifetime time limits under the 1996 welfare reform act. Welfare costs are shared equally between state and county governments in New York. Hence, New York's counties will

[19] Authors' calculations based on data from U.S. Census Bureau (1996).

automatically face an increase in costs as recipients leave the federally funded TANF program because of time limits and move onto the state program (known as Safety Net Assistance).[20]

Service responsibilities tend to be greater in central cities than in most suburban communities. As demonstrated by recent research conducted by Anita Summers and her colleagues at the University of Pennsylvania, one reason why public expenditures tend to be high in central cities relative to their suburbs is that city governments finance a number of direct services to poor persons, especially in the areas of public welfare and public health.[21] In 1999, despite a drop of 2.1 percentage points from the previous year, the average poverty rate in American central cities was 16.4 percent, a rate that is nearly twice as high as the average suburban poverty rate.[22] Not only are the poor concentrated in central cities, but many of the nation's social problems -- problems that hardly existed 20 years ago like homelessness and the AIDS epidemic -- also tend to be spatially concentrated in central cities.

While concentrated poverty generally implies an increased need for social services, the magnitude of the increase in fiscal costs borne by cities will vary depending on city policy. Cities generally have some discretion in determining the level of services they provide to the poor. One strategy that cities may choose as a means of improving their relative fiscal condition is to reduce services that primarily benefit the needy. Some have argued that, even if this policy leads to increasing hardships for the poor, it is nonetheless an appropriate policy response to the economic constraints faced by cities.[23] Under Mayor Rudolph Guiliani, New York City appears to be explicitly following this approach.

Whether a strategy of reducing spending on the poor makes sense, even in purely fiscal terms, is difficult to determine. It is possible that reducing spending on direct services to the poor may prove to be self-defeating. Reducing child welfare services, youth recreation or summer job programs may save money in the short run, but cities may have to spend more on public assistance and public safety in the long run. Quantifying the relationship between social service spending and future fiscal costs is a daunting problem, to which more research effort should be devoted.

When central city governments must provide special services to citizens with various social and economic problems, the fiscal consequence is that other city residents and businesses must either pay higher taxes or contend with lower levels of basic public services, such as public

[20] The New York City Independent Budget Office projects that public assistance costs in New York City will increase from $377 million in 2001 to $470 million in 2004 as a consequence of this shift in funding responsibility (City of New York, Independent Budget Office, 2000b).
[21] After completing a detailed analysis of the budget of the City of Philadelphia, Summers and Jakubowski (1996) concluded that in 1995 the City devoted 7.6 percent of its own-source revenues to direct poverty-related services. In another study, Pack (1995) reported that larger cities spent more money per capita on direct poverty functions than smaller cities.
[22] U.S. Census Bureau, 2000.
[23] Edward Glaeser, "Are Cities Dying?" *Journal of Economic Perspectives* 12 (Spring): 139-60.

safety and sanitation. The concentration of the poor within central cities results in broader service responsibilities for central city governments relative to their suburbs, which in turn serves to weaken the relative fiscal condition of cities.

3. The High Cost of Providing Services

To the extent that fiscal considerations influence locational decisions, it is reasonable to imagine that both businesses and individuals compare the level and mix of public services the city provides and the taxes and fees they must pay to receive these services. Available evidence suggests that the relationship between benefits received and expenses incurred is generally less favorable in central cities than in their suburbs. This central city fiscal disadvantage may occur either because city governments operate inefficiently compared to the average suburban governments, or, because factors beyond city control require that city governments spend more money than suburban governments in order to deliver the same bundle of public services. Economists refer to the minimum amount of money that a government must spend in order to provide any given level of public services as the *costs* of public services.

If cities are simply too big to deliver services efficiently (i.e. there are significant diseconomies of scale) then the policy rationale for attempting to compensate cities for their higher spending is weakened.[24] Although one can find examples of inflated city government spending due to ineffective management, inefficient and out-dated union work rules, and wasteful administrative structures, there also exists strong econometric evidence that central cities face above-average costs due to factors over which they have no control.[25] Research suggests three major reasons why on average costs tend to be higher in cities than in suburbs.

First, the costs of achieving any given level of public safety or of educating children to meet any given level of educational performance are generally higher in locations with concentrations of low-income households. Not only is the incidence of crime higher in poor neighborhoods, but community attributes associated with poverty, such as high density and poor housing conditions, increase the amount of resources required to provide public safety in these neighborhoods. Studies also suggest that smaller class sizes, specially-trained teachers, and extra classes are necessary to compensate for the social and economic disadvantages faced by most children from poor families.[26]

Second, cities have higher costs than their suburbs because their infrastructure is older, and consequently the costs of maintenance and often of fire prevention, are higher. While it may be more expensive to maintain older city infrastructure as compared to more recently constructed

[24] William Oakland, "Fiscal Equalization: An Empty Box?" *National Tax Journal* 46 (March): 199-210.
[25] Examples of this econometric evidence include Bradbury et al. (1984), Ladd and Yinger (1991), Ladd, Reschovsky, and Yinger (1992), and Green and Reschovsky (1994).
[26] Two recent studies that estimated cost functions for public education found a strong relationship between concentrated poverty and educational costs are Duncombe and Yinger (1997) and Reschovsky and Imazeki (1998).

suburban infrastructure, from a societal standpoint it may still be considerably cheaper to maintain or even expand existing infrastructure in the central city than to build new infrastructure in the suburbs.[27]

Finally, costs measured on a per resident basis tend to be higher in central cities relative to suburbs because cities must provide services for a significant number of non-residents, whether they be suburbanites commuting to central city jobs or taking advantages of the city's cultural, entertainment, and commercial attractions. In particular, nonresidents contribute to the costs of public safety, sanitation, and cultural and recreation services provided by city governments.

To the extent that city governments need to spend more money than their suburban neighbors in order to provide services for the poor and for nonresidents, there are fewer resources available for improving public service delivery for businesses and for the middle class. City governments face the difficult task of having to either cut services or raise taxes, either of which may increase the chances of out-migration by these relatively mobile groups.

[27] For example, the average cost of building sewer lines in the suburbs is likely to be higher than the cost of new hookups or maintenance in the center city because of the lower density of suburban development and the longer distances to existing sewage treatment facilities.

III. THE EFFECT OF STATE AND FEDERAL POLICIES ON CITIES

In principle, the structural fiscal problems that plague many central cities could be mitigated by explicit policies of state governments or the federal government. The most direct form of assistance would be the allocation of lump-sum grants to local governments in weak fiscal positions. Alternatively, higher level governments could take over either the provision or financing of some public services currently carried out by city governments or, as we shall discuss in more detail below, higher level governments could provide incentives for increased fiscal cooperation among central cities and their suburbs.

In the following section, we review the current state of intergovernmental relations. We first consider state-city fiscal relations. We present new data on the spatial distribution of grants-in-aid in three states, and discuss state tax policies in terms of their fiscal effect on cities. Our results show a pattern of states shifting fiscal resources towards faster growing suburban areas, and away from fiscally weaker central cities. We then review the issue of federal government policies. Our major focus here is on recent welfare reforms and the possible central city impacts of devolving federal responsibilities for the poor to the states.

A. State Government Policies: Fiscal Relationships in Three States

State policies affect the fiscal condition of their cities in a number of ways. On the revenue side, these include the amount and distribution of state aid, the types of taxes cities are allowed to impose, and state rules for the geographic distribution of user fees and taxes collected by regional public authorities. On the expenditure side, state assumption of particular local services (e.g. public assistance, criminal justice) can reduce costs to large cities. On the other hand, many state mandates are likely to have a greater spending impact in cities than in suburbs.

A full examination of all these issues is beyond the scope of this project. Our approach is to look in detail at the recent history of state-local intergovernmental relations in three states—Wisconsin, New York, and California. Although conclusions will not be possible until many more states and cities are included in the analysis, we can use our study of a few states to identify some possible trends in the changing relationship between state governments and their largest cities.

1. Fiscal Relationships in Wisconsin

Compared with the average state, a large share of state government spending in Wisconsin is allocated to direct financial assistance to local governments. In fiscal year 1998, 44 percent of state general expenditures in Wisconsin consisted of local government aid, while the average state allocated only about a third of total spending to state aid.[28] Not surprisingly, state revenue plays an important role in the financing of local governments in Wisconsin, with 41.4

[28] U.S. Census Bureau, 2000.

percent of local government general revenues coming from state aid. Only eight states have larger state shares of local revenue than Wisconsin.[29] Wisconsin also differs from most states in that it allocates a substantial portion of its financial assistance to general-purpose local governments in the form of unconditional grants. The data are striking. In fiscal year 1994, 3.3 percent of the direct expenditures in the nation's 24 largest cities came from general-purpose state aid, while in Milwaukee, the figure was 38 percent.[30]

Wisconsin's direct aid to local governments takes three main forms: the Shared Revenues program, transportation aid, and aid to school districts.[31] The state annually allocates over one billion dollars of general-purpose aid to its 1,848 municipal governments and 72 counties through its *Shared Revenues* program. These grants are allocated using a formula designed to equalize per capita property tax bases among municipalities and counties.[32] In addition to Shared Revenue, municipal governments in Wisconsin receive substantial amounts of state grant revenue in the form of state Transportation Aid. The purpose of these grants is to help finance the construction and maintenance of roads under municipal and county jurisdiction. Although these grants, which totaled $326 million in fiscal year 1999, are earmarked for highway and road use, there is good reason to believe that they are functionally equivalent to general-purpose aid. As total transportation aid accounted for less than a quarter of local government spending on highways, the receipt of transportation grants has the potential of freeing up municipal fiscal resources for other uses. Whether these grants are in fact used for other purposes is unknown.

Finally, Wisconsin's state government provided the state's 429 independent school districts with nearly $4 billion in direct financial assistance in fiscal year 1999. Nearly 90 percent of this amount was distributed using a complex "equalization aid" formula that is designed to

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[29] These calculations are based on data for fiscal year 1996 from U.S. Census Bureau (1998).

[30] These calculations are based on data from the U.S. Census Bureau's *City Government Finances for 1993-94* (available at www.census.gov/govs/city/).

[31] Wisconsin also distributes approximately $620 million annually to municipal governments in the form of property tax credits. The purpose of these credits is to compensate local governments for the loss of tax revenue attributable to two property tax credits that local governments must provide to all taxpayers. (The smaller of the two credits, the lottery credit, is restricted to homeowners.) The school levy credit is the larger of the property tax credits. The size of each municipality's levy credit is proportional to its school property tax revenues. Because property wealthy communities rely more heavily on property tax revenue to finance public education, they tend to receive larger levy credits. As a result, the per capita levy credit in Milwaukee's suburbs was more than twice as large as Milwaukee's credit ($126 compared to $60 in fiscal year 1997). With a few exceptions, the state's smaller central cities also received smaller credits per capita than their suburbs.

While local governments are free to use the revenue received from state grants to either increase spending or reduce property tax levies, state allocations for property tax credits must be used to finance property tax reductions for individual taxpayers. An argument can be made that property tax credits provide local governments with indirect aid because, by lowering tax liabilities, they increase the willingness of taxpayers to support increases in local government spending and tax rates. However, because the magnitude of this effect is unknown, we consider only direct state aid and not the payment of tax credits in the analysis to follow of the spatial distribution of state aid to local governments.

[32] These unconditional shared revenue grants account for approximately two-thirds of total state aid received by Wisconsin's municipal governments.

guarantee that school districts choosing identical property tax rates will be able to achieve equal levels of per pupil expenditures independent of the size of their per pupil property tax base.

In addition to these three large aid programs, the state government provides a number of relatively small grants to local governments for a wide range of specific purposes. We do not include these categorical grants in our analysis because these grants are in most cases given to local governments in order to carry out specific objectives of state government, rather than as a means of enhancing the fiscal resources available to local governments.

Even a casual look at the formulas Wisconsin uses to allocate state aid indicates that the demographic and economic changes highlighted in tables 1 and 2 will have a direct impact on the distribution of state fiscal assistance to local governments. While the population factor should favor suburbs, the equalization factor in the shared revenues and school aid formulas should favor cities. Because of the complexity of the formulas, however, there is no way to know *a priori* the relative strength of these demographic and economic forces. We must thus look directly at the changes in state aid. Table 7 presents the data on the dollar changes in aid between fiscal years 1991 and 1997 and Table 8 illustrates the changes in state aid per capita.[33]

Between fiscal years 1991 and 1997, state aid increased by 76 percent (Table 7). In constant 1997 dollars, this is equivalent to a 49 percent increase in aid. In percentage terms and in dollar terms, Milwaukee's suburbs received larger increases in aid then the central city. State aid to Milwaukee was 60 percent higher in 1997 than in 1991, while aid to Milwaukee's suburbs grew more than twice as fast--by 137 percent during the same period. With the exception of the Beloit-Janesville metropolitan area, suburbs received larger dollar increases in aid than their central cities. In percentage terms, however, the central cities of most of the smaller metropolitan areas benefited from larger increases in aid than their suburbs.

Comparing per capita aid in different years allows us to assess changes in the distribution of grants once population changes have been accounted for. The data in Table 8 show a mixed picture, with some central cities receiving higher levels of per capita aid than their suburbs, while other central cities receive smaller grants than their suburbs. For example, in fiscal year 1997, per capita aid in Milwaukee was $1,330 compared to $638 in Milwaukee's suburbs, and in the Green Bay metropolitan area, the central city's allocation was $875, compared with the suburban allocation of $808. On the other hand, Madison's per capita grant of $466 was less than 60 percent of the average per capita aid going to its suburbs, and the $842 per capita grant going to La Crosse was smaller than the $1,009 average per capita aid allocated to its suburbs. Part of the explanation for the observed difference in per capita aid between central cities and their suburbs is attributable to differences in per capita property tax bases. Thus, central cities that receive per

[33] Because school districts and municipalities are generally not coterminous in Wisconsin, to compare changes in the spatial distribution of direct state grants, school aid to each school district had to be allocated to its component municipalities. This allocation was done on the basis of the share of school district property value in each municipality.

capita aid that is greater than the per capita aid going to their suburbs tend to have tax bases that are substantially smaller than the tax base in their suburbs. Thus, while the current distribution of state aid is equalizing (at least in terms of per capita property wealth), the pattern of recent *changes* in state aid has been disequalizing, as we shall see below.

Between fiscal years 1991 and 1997, per capita aid to Milwaukee increased by 64 percent, while per capita aid to Milwaukee's suburbs rose by 117 percent. This change in the distribution of aid, highly favorable to the suburbs, occurred despite the fact that between 1990 and 1997, per capita property values grew over 2½ times faster in Milwaukee's suburbs than in the central city. In the smaller metropolitan areas, the pattern was mixed, with per capita aid increasing at a faster rate in the central cities than in their suburbs in a number of metropolitan areas, such as Beloit-Janesville, Madison, and Eau Claire.

Dividing total aid into its three components allows us to more fully understand the changes in the distribution of per capita aid illustrated in Table 8. Table 9 displays dollar and percentage changes in per capita shared revenue, transportation aid, and school aid.

Between 1991 and 1997, most of the central cities experienced greater increases – or slower declines in the case of Green Bay and Madison – in shared revenue grants than their respective suburbs. However, the shared revenue program experienced only modest growth between fiscal years 1991 and 1997 with all the growth occurring between 1991 and 1995. Since 1996 the state has not increased its shared revenue allocation. This implies that since then, as the state population grows, average per capita shared revenue allocations fall.

Milwaukee's 42 percent increase in shared revenues results from the relatively slow growth in its per capita tax base and the implementation in 1991 of a new aid program called the Expenditure Restraint Program (ERP). Although ERP is a small aid program (only $48 million per year), it allocates grants in a way that is favorable to large cities. For example, in 1997 Milwaukee, with about 12 percent of the state's population, received 18 percent of total ERP payments. It is important to note, however, that as long as the total budgetary allocation for both ERP and Shared Revenue grants remains frozen, the payments going to Milwaukee and most of the state's other large cities are likely to decline each year in both relative and absolute terms. In fact, between 1998 and 1999, Milwaukee's ERP payment declined by 14.6 percent, with the City's share of the total ERP allocation now at 15.2 percent.

In 1998, municipal governments received $305 million in transportation aid from the state. The faster population growth and resulting road construction in the suburbs help explain why the percentage increase in per capita transportation aid is greater in the suburbs of most of the state's metropolitan areas. Per capita transportation aid grew by nearly 29 percent between fiscal year 1991 and 1997 in the Milwaukee suburbs, but by only 6 percent in the city. In Madison, suburban transportation aid grew by 53 percent, compared to 41 percent in the city; and in the Green Bay area, aid grew by 35 percent in the suburbs and by 18 percent in the city.

In 1997, school aid constituted 77 percent of total state aid. Furthermore, school aid contributed 91 percent of the increase in per capita aid between fiscal years 1991 and 1997: $336 million in school aid out of a total increase of $368 million (Table 9). This reflects an 88 percent increase in per capita school aid over this time period. The most important reason for the large increase in school aid was legislation enacted in 1996 that committed the state to finance two-thirds of school spending. As a direct result of this legislation, school aid increased by nearly one-third between fiscal years 1996 and 1997. Although the dollar increase in school aid between fiscal years 1991 and 1997 was greater in Milwaukee than its suburbs, in percentage terms, school aid grew substantially faster in the suburbs as compared to the city (183 percent compared with 81 percent). This pattern emerged in part because the legislation operationalizing the state's "two-thirds initiative" changed the equalization aid formulas in ways that resulted in substantial increases in aid to the high property wealth school districts that ring Milwaukee.

The pattern of school aid increases in Wisconsin's smaller metropolitan areas tend to be much more favorable to the central cities, with the percentage increases enjoyed by the cities generally larger than the percentage increases in aid experienced by their suburbs. In the case of Madison, its relatively high per pupil property wealth meant that prior to 1997 it did not receive equalization aid. The new formula enacted as part of the "two-thirds initiative" resulted in a substantial increase in aid.

The changes in school aid illustrated in Table 9 tell only part of the story. In order to prevent large increases in spending on education by local school districts and, given the state's commitment to finance two-thirds of education expenditures, large increases in the state aid budget, the state imposed a *revenue cap*. With a few minor exceptions, the revenue cap limits annual increases in spending (except expenditures financed by federal aid) to $206 per pupil. Although on the surface, the revenue cap appears to be spatially neutral, there is evidence that they are in general more binding on central cities than on their suburbs. A recent study of the *costs* of education in Wisconsin found that central city's school districts must spend more money than the average suburban school district in order to achieve any given educational goal, for example, average student performance on a standardized test administered to all 10th graders.[34] Because per pupil spending tends to be higher in school districts with higher costs, the revenue cap results in smaller allowable *percentage* increases in revenues (and hence in spending) in these districts. In a study of the impact of revenue limits on teacher salaries, Imazeki (2000) provides evidence that the limits have resulted in relatively large reductions in beginning teacher salaries in school districts with high per student spending and with high proportions of students

[34]Andrew Reschovsky and Jennifer Imazeki, "The Development of School Finance Formulas to Guarantee the Provision of Adequate Education to Low-Income Students." *Developments in School Finance, 1997*, Washington, DC: National Center on Education Statistics, U.S. Department of Education. Federal education aid provides some limited compensation for the higher educational costs faced by central city school districts. Even in Milwaukee, where federal aid makes up a much larger share of total revenue than in the average Wisconsin school district, the federal grants only contribute 10 percent of total school district revenues.

from low-income families. These results suggest that the revenue limits may further limit the ability of central city school districts to compete with suburban districts for high quality teachers.

To summarize, Wisconsin allocates a relatively large share of state spending to local government aid, centered around three main programs: Shared Revenue, transportation, and school aid. In Milwaukee, Wisconsin's largest city, a static snapshot of 1997 per capita aid allocations shows the central city receiving twice as much aid as the neighboring suburbs. Yet examining the dynamic picture of changes in state aid over time indicates a different pattern: while the city of Milwaukee's shared revenues increased more than that of the suburbs between fiscal years 1991 and 1997, state funding for that program has not increased since 1996. Increases in school aid -- the program with the most dramatic recent growth -- went disproportionately to the Milwaukee suburbs. The pattern is less clear in Wisconsin's smaller metropolitan areas, with a mix of some central city and some suburban "winners."

2. Fiscal Relationships in New York

In 1998, New York devoted 37 percent of state government direct expenditures to local government assistance—a figure that is slightly above the national average of 34.[35] From the perspective of local governments, the most recent data available from the Census of Governments indicates that in 1995-96 state aid in New York contributed 32 percent of local government general revenue, a level somewhat below the national average of 34 percent.[36]

In contrast to the Census data, information from the state Comptroller's Office indicates that in fiscal year 1997, state aid contributed 20 percent of total local government.[37] The discrepancy between the two sets of data is due to different treatments of Medicaid and to somewhat different definitions of total revenue. New York, in contrast to most other states, requires that its county governments pay half of the non-federal share of most Medicaid and public assistance expenditures. Medicaid is an enormous program in New York, with total spending of $19.3 billion in fiscal year 1998-99.[38] Rather than treating Medicaid as a local or county program funded by intergovernmental aid, all Medicaid funds, whether federal, state, or local, are channeled through a central management information system, then paid directly to providers. Conceptually, in the analysis of state aid to localities, it would be appropriate to treat Medicaid in the same way that the state treats cash assistance. Because Medicaid data are not available on a county basis, the discussion below is based on the state's definition of state aid, which does not include Medicaid.

[35] U.S. Census Bureau, 2000.
[36] U.S. Census Bureau, "Finances of Individual City Governments Having 500,000 Population or More: 1993-94," 1996.
[37] New York State Office of the Comptroller, 1998.
[38] New York State Office of the Comptroller, 1999.

Of New York State spending labeled as state aid, most goes to schools (50 percent) and social services (36 percent).[39] The biggest component of state aid for social services is for income maintenance. The state pays one half of the non-federal share of spending on welfare (AFDC/TANF) and general assistance (Home Relief/Safety Net Assistance). As these programs were formerly entitlement programs, aid flows were mainly a function of the number of recipients. With federal welfare reform, the entitlement to AFDC was replaced with a block grant to states and strict time limits for recipients.

New York City remains paramount in local fiscal affairs in New York. Though its share of local government revenues has been declining for many decades, fully one half of the total local government revenues ($43.6 billion) in New York State accrued to New York City and its school district in FY 1997.[40] Excluding school district expenditures, all other cities in New York State received a total of $2.7 billion, while New York City's revenues were approximately $36.5 billion.

To examine recent trends in the spatial distribution of state aid, we compare state aid in the metropolitan areas of New York State for the years 1990 and 1995. The results are shown in tables 10 to 12.[41] Table 10 shows the change in the total dollar amount of state aid between 1990 and 1995. Because New York City is both a city and a county, the aid figure for New York City includes state aid to both levels of government. For comparability, we also show total state aid to the county and all its jurisdictions for the New York City metropolitan area counties. As we are interested in identifying state aid flows to central cities and to their surrounding suburban rings, in the smaller metropolitan areas the state aid figures in the tables exclude aid that goes directly to county governments. For this reason, the data do not permit a direct comparison of state aid amounts in the New York City and upstate metropolitan areas.

Between 1990 and 1995 total state aid to New York City grew by 20 percent, a rate of growth that was substantially greater than the growth rate in aid in New York City's suburban counties.[42] Comparing smaller cities with their suburbs, there is no clear pattern in the rate of growth in total aid. State aid grew more rapidly in the suburban areas of Albany, Binghamton, Buffalo, and Utica-Rome than in their central cities, but more slowly in the suburbs of Rochester and Syracuse.

Population growth was much more rapid in the suburbs than in the cities, and one would expect state aid to be responsive to this growth. To control for population growth, Table 11 examines changes per capita aid. In the smaller metropolitan areas, the results are again mixed.

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[39] Ibid.

[40] New York State Office of the Comptroller, 1998.

[41] Note that the tables refer to metropolitan areas, while the available data on state aid are only available on a county basis. As a consequence, some metropolitan areas as defined by the Census Bureau may not coincide exactly with county areas, although the overlap is substantial.

[42] Because Nassau County had a special nine-month fiscal year in 1995, the negative growth for Nassau County is misleading.

In Rochester, Syracuse, Utica-Rome and Westchester (White Plains and Yonkers) aid to the cities grew faster than aid to the suburbs. In Albany-Schenectady-Troy, Binghamton, and Buffalo, aid grew faster in the suburbs. Given the much more rapid rate of growth in per capita income and property values in the suburbs, this mixed pattern indicates that state aid was not particularly equalizing in the smaller metropolitan areas of New York.

In Table 12, we decompose state aid into two parts - aid to cities, towns, and villages and aid to school districts. In the smaller metro areas, the general pattern is one of decline in state aid to municipalities, and increase in aid to school districts. This reflects the fact that general-purpose aid - state revenue sharing - has been frozen for many years. Local government aid fell by larger dollar amounts in most cities than in their suburbs, but the percentage drop was greater in the suburbs. School aid grew more rapidly in the central cities than in the suburbs. This pattern reflects the fact that the amount of state operating aid to school districts is an inverse function of district property values and income, and both factors grew more rapidly in the suburbs than in the central cities.

It is interesting to note that, despite the fact that school aid rose more rapidly in the cities than the suburbs, and non-school aid fell more in the suburbs than the cities, total aid grew faster in a number of suburban ring areas than in their center cities. In Buffalo, for example, local government aid fell by 20 percent, and school aid rose by 50 percent, while in the suburbs, government aid fell by 36 percent, while school district aid rose by 38 percent. Yet total aid grew by 31 percent in the suburbs, versus 30 percent in the central city. This pattern reflects the fact that aid to local governments was more concentrated in cities than in suburbs. By allowing this type of municipal aid to erode relative to school aid, the effect is to shift state aid away from many cities to their suburbs.

Turning to the New York City metropolitan area, where non-school aid includes aid to county governments, Table 11 shows that per capita aid grew substantially faster in New York City than in the suburban counties. Table 12 provides separate data on school aid and other aid. The more rapid growth in total aid in New York City compared to its suburbs reflects the growth of both school and non-school aid from 1990 to 1995. Growth in school aid was largely due to more rapid growth in student enrollment and slower growth in the city's fiscal capacity relative to the suburbs. Non-school aid was heavily influenced by state aid to counties for social services. This type of aid was largely determined on an entitlement basis, based on changes in caseloads. Because caseloads grew much more rapidly in New York City than in its suburbs between 1990 and 1995, total expenditures for income maintenance grew four times faster in New York City: by 32 percent versus 8 percent growth in the suburban counties.

As shown in the last column of Table 10, the 1990-1995 spatial pattern of state aid was reversed between 1995 and 1997, with aid to the suburbs growing more rapidly than aid to New York City. Aid amounts actually dropped in New York City between 1995 and 1997, a reflection of the sharp drop in welfare rolls and hence the drop in state aid for public assistance. The shift in

the pattern of aid from city to suburbs since 1995 may also reflect the shift in political power in New York State in 1994, with a Republican governor replacing a three-term Democratic governor. Since the core electoral strength of Republican candidates for governor in New York comes from the suburban and upstate areas, it would not be surprising if these areas were rewarded with additional state aid.

Two recent policy initiatives support the conjecture about the importance of political changes in influencing the spatial distribution of state aid. School Tax Relief and the repeal of the commuter tax aid have both exacerbated the shift in state support from New York City to its suburbs. The school property tax relief initiative known as STAR shifts the burden of local education financing from homeowners to the state by replacing a portion of local property taxes with increased state aid, in a manner quite similar to the school levy credit in Wisconsin.

STAR targets the greatest savings to districts with high rates of homeownership, high effective property tax rates, and high housing values. Tax relief in the first year was equal to $582 million, almost three percent of all state aid to local government. When fully implemented, STAR tax savings will be close to $2.7 billion. Because New York City has relatively low homeownership rates, low property tax rates on owner-occupied housing, and a heavy reliance on non-property taxes, its share of total relief is likely to be well below its share of local education spending, and well below its share of other state aid.[43] Even among eligibles, initial participation in New York City has been lower than in the suburbs. This is probably due to the fact that owners of Cooperative and Condominium apartments, which are much more prevalent in New York City than in the suburbs, face higher information costs in learning about the program than do single family owners.

The second initiative that negatively impacts New York City is the May 1999 repeal of New York City's non-resident personal income tax. The so-called "commuter tax" was levied at a rate of 0.45 percent on New York City income earned by non-residents (0.65 percent for self-employment income). Legislative support for the repeal came from a coalition of suburban legislators, with unexpected backing from some New York City legislators. The cost of the tax cut is estimated at more than $500 million per year over the next five years, about 8.5 percent of total revenues from the income tax.[44] The share of New York City earned income going to commuters has been increasing over time, going from 34 percent in 1990 to 37 percent in.[45] If this trend continues, the cost in foregone tax revenues from the repeal of the commuter tax will also increase over time.

The decline in New York City's share of state aid, combined with the STAR tax relief program and the repeal of the commuter tax, are indicative of the long-run decline in the relative

[43] City of New York, Independent Budget Office, "School Tax Relief and Education Aid Proposals: Impacts on New York City." *IBO Fiscal Brief*, New York, 1999.
[44] City of New York, Independent Budget Office, "Taxing Metropolis: Tax Effort and Tax Capacity in Large U.S. Cities." New York, 2000.
[45] New York City Office of the Comptroller, 2000.

political power of New York City in the New York State legislature, as population has shifted to the suburbs. As discussed next, the movement of fiscal resources away from New York City has been reinforced by the devolution of welfare and social service financing.

The recent drop in public assistance caseloads has resulted in large direct fiscal savings for New York City, due to the fact that counties in New York State pay one-half of the non-federal share of public assistance and Medicaid. Compared to 1994, New York City in 1998-99 realized savings of approximately $143 million for TANF and of $293 million for General Assistance, for a total savings of $436 million. Joint financing, however, raises the question of how the TANF "windfall"--the additional block grant dollars which states have received above and beyond what they would have received under the old AFDC matching grant system--is divided between the state and its counties. In most states this issues does not arise, as the state government pays the entire non-federal share of welfare and Medicaid. The results of bargaining over the distribution of this windfall offers a clue as to how New York City will fare under the decentralization of welfare finance.

The allocation of the TANF windfall or "surplus" has been a matter of some dispute.[46] The surplus is divided into two parts - the *baseline*, which includes prior AFDC-funded programs such as emergency assistance and family shelters, and *incremental* funds. The baseline is allocated back to counties in proportion to previous spending, while incremental funds are all being placed in various state government reserve funds. There has been considerable disagreement over the appropriate size of the baseline. The state government, by minimizing the amount included in the baseline, has been able to build up large reserve funds. As a result, the official TANF surplus has been growing dramatically, with unspent "surplus" funds rolled over into future year budgets. In principle, some of these funds could have been used to finance direct services to welfare recipients.

In addition to the TANF surplus issue, New York City claims that it has suffered in the distribution of the state's block grant for child care (CCBG). This block grant is composed of the federal Child Care Development Block Grant plus the amount that the state was spending from its own funds on child care prior to the federal block grant. The CCBG has a local maintenance of effort requirement. New York City claims that it is being shortchanged in the distribution of the block grant funds because it pays 81 percent of the local CCBG maintenance of effort requirement. However, in FY 1997-1998, New York City received only 57 percent, or $168 million, of the $294 million in state CCBG funds. In FY 2000, New York City is receiving only 52 percent of Child Care Block Grant Funds, despite having 70 percent of New York State's children on public assistance.[47]

[46] The discussion of the allocation of the TANF surplus in New York is based on a conversation with Paul Lopatto of the New York City Independent Budget Office.

[47] New York City's share of the Child Care Block Grant was provided to us by Paul Lopatto, of the New York City Independent Budget Office.

It is difficult to sort out the exact magnitude and the geographic distribution of the TANF surplus because of (a) the numerous programs and funding streams, (b) the state's ability to move TANF funds to other programs (such as child care), and (c) the state's ability to use TANF surplus funds to indirectly satisfy the local maintenance of effort requirements. It does seem clear, however, that the conversion to block grants for both cash assistance and child care, and the concomitant increase in state discretion over the allocation of funds, have not worked to the fiscal advantage of New York's largest city. Determining whether smaller cities have fared better than New York will require further detailed analysis of data on state aid flows.

To summarize our results, long-standing patterns of suburbanization of population, income, and property base continued between 1990 and 1995, with particularly acute central city decline in New York's smaller metropolitan areas. The state fiscal data showed a mixed pattern in the smaller metropolitan areas- compensating for city decline in some areas and favoring the suburbs in other areas. Thus the overall pattern of state aid did not consistently equalize the fiscal capacity of poorer cities as opposed to richer suburbs. By contrast, aid did grow more rapidly in New York City than in the suburban counties in the same time period, even after subtracting the more rapid growth in aid for public assistance in the city. More recently, however, these trends seem to be reversing themselves in the New York City region, with aid to the suburbs growing more rapidly than aid to the city. This likely reflects two major shifts, one in the state's political leadership and the other in changes to the federal welfare law and state public assistance caseload.

3. Fiscal Relationships in California

The relationship between the state government and local governments is much more complicated in California than in most other states. As we shall explain below, in the California context, it is even difficult to arrive at an unambiguous definition of state aid. In most states, local governments make decisions about how much property tax revenue they wish to raise. In California, however, both the definition of the property tax base and determination of the property tax rate are out of local control and have become more restrictive over time. Proposition 13 and a series of other voter-enacted initiatives have greatly reduced local (and state) government fiscal discretion, and have in fact largely redefined the fiscal landscape in California.

Passed in 1978, Proposition 13 limited the local property tax rate to a maximum of one percent of market value, rolled back assessments to their 1975 values, and, unless a property was sold, limited the increase in assessed values to two percent per year. Upon sale or for new construction, property is assessed at market value. Proposition 13 also required two-thirds voter approval for any new *special purpose* taxes.[48] The immediate consequence of Proposition 13 was to cut property tax revenues by 45 percent. By fiscal year 1995-96, real property taxes per capita were still 46 percent lower than their 1977-78 level. The initial fiscal deficit created by

[48] In 1986, the passage of Proposition 62 required governing board and majority voter approval to increase *general purpose* local taxes as well.

Proposition 13-mandated tax cuts was offset by an increase in state aid. The longer run consequence of Proposition 13 is, however, that local property tax revenues no longer depend on the fiscal choices of individual jurisdictions. The county-wide amount of property tax revenue is approximately fixed by the Proposition 13 rules, with the allocation of the county total among the underlying (and competing) local government jurisdictions determined by the state legislature.[49] As a result, the property tax is effectively a state tax, with allocations of local property taxes functionally equivalent to state government grants to local governments.

How have cities fared in this allocation of property tax revenue? Within each county the initial allocation of the property tax was made proportional to the property tax shares of each jurisdiction prior to Proposition 13. This tended to favor high tax rate jurisdictions over low rate jurisdictions. We have not been able to find any data indicating whether the property tax allocation rules are neutral with respect to city size, fiscal needs or responsibilities. We do know, however, that while the average city received about $75 per capita in property tax revenue in fiscal year 1995, the *range* within that average is wide. A number of city governments received in excess of $200 per capita and a number received less than $25 per capita.[50]

Over time the state legislature has adjusted the allocations of the property tax in response to local pressure and state fiscal exigencies. For example, state fiscal crises in the early 1990s led to a reallocation of over $3 billion of property taxes away from counties, cities, and special districts to school districts. The state then decreased state aid to schools. The result was increased fiscal problems for cities and other non-school jurisdictions.

For counties and school districts, decreases in property tax revenues have largely been made up by increases in intergovernmental aid. For cities, however, there has been a sharp decline in the share of revenue coming from both property taxes and intergovernmental aid. These reductions have been offset by a wide variety of user fees, and dedicated tax revenues for development. At this point, it is not clear whether these shifts in financing have weakened the fiscal position of central cities relative to their suburbs, though research by Wolch et al (1997) is suggestive. Defining fiscal capacity among Southern California cities in 1997 taking account only of revenue sources over which cities have control, they found that fiscal capacity declines as the percentage poor in a city increases. They also found that the variation in fiscal capacity has increased between 1982 and 1997.

Musso finds that changes in California's local government fiscal policies have forced cities to become considerably less reliant on traditional municipal financing sources, like sales and property taxes, and more reliant on alternative financing sources like utility taxes and fees for

[49] The current property tax allocation system was established in 1979 with the enactment of AB 8 (Chapter 282, Statutes of 1979). Since then the legislature has made some changes to the allocation rules, but these changes did not fundamentally alter the system established after the passage of Proposition 13 (Legislative Analyst's Office, 1996).

[50] Legislative Analyst's Office, "Property Taxes: Why Some Local Governments Get More Than Others." *Policy Brief*, Sacramento, CA, August 21, 1996.

sanitation, sewage treatment and solid waste removal.[51] She finds that while these taxes are highly efficient - in the sense that they cannot be exported to non-residents—they are also regressive and may exacerbate regional income disparities and further weaken the relative fiscal position of central cities.

B. Federal Government Policies: Devolution and Welfare Reform

In contrast to many, if not most, other countries, the federal government in the United States provides its local governments with no general-purpose aid. Most federal funds that are allocated to local governments are in the form of categorical grants designated for quite specific purposes, such as mass transit, education for disabled children, and community development. After a brief experiment with direct federal aid to cities in the late 1960s and 1970s, the federal government has retreated to a relatively hands-off stance towards its cities, at least in fiscal terms. Direct financial assistance from the federal government to city governments peaked in the late 1970s, and has declined sharply as a percentage of city government spending. The cuts in direct federal assistance have been particularly steep for the nation's 23 largest cities. The share of expenditures financed by the federal government in those cities fell from 14 percent in fiscal year 1977 to under 5 percent in fiscal 1994 (the latest year for which such data are available).

Perhaps even more important than direct federal aid for the long-run fiscal health of cities are the unintended pro-suburban spatial biases in a number of federal policies. The most salient examples are found in transportation, housing, and tax policies used by the federal government. These policies tend to reinforce both the market incentives that cause middle- and upper-income residents to migrate to the suburbs and the growing concentration of the poor in the central cities.[52]

One recent policy trend will have enormous implications for the fiscal health of local governments: devolution. The Personal Responsibility Act of 1996, commonly referred to as "welfare reform," devolved responsibility for the major program providing cash assistance to low-income families (Aid to Families with Dependent Children, or AFDC) to the states. Prior to 1996, eligible families were *entitled* to a monthly cash grant funded jointly by the federal and state governments. With the passage of the welfare reform legislation, this entitlement was eliminated, and states gained increased responsibility in determining eligibility for and level of cash transfers. Prior to 1996, the financing of these transfers was in the form of a matching grant from federal government to the states. The new legislation replaced the matching grant with a block grant to the states.

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[51] Janet Musso, "Coping with Growth and Fiscal Constraint in Southern California." Draft for the Brookings Institution Center on Urban and Metropolitan Policy.

[52] Michael McGeary, "Ghetto Poverty and Federal Policies and Programs." *Inner City Poverty in the United States*, edited by Laurence Lynn, Jr. and Michael McGeary, Washington, DC: National Academy Press, 1990; Howard Chernick and Andrew Reschovsky, "Urban Fiscal Problems: Coordinating Actions Among Governments." *The Urban Crisis: Linking Research to Action*, eds. Burton Weisbrod and James Worthy, Northwestern University Press, 1997.

Due both to the current strength of the American economy and to stringent new eligibility requirements that limit the lifetime receipt of cash assistance to five years and require most welfare eligible adults to seek work, the number of welfare cases has fallen dramatically. An important question for the fiscal health of cities is the extent to which the decline in welfare caseloads has occurred in central cities, as opposed to suburbs or other parts of the state. If public assistance recipients are increasingly concentrated in central cities, then the relative fiscal need of cities will have increased. With the devolution of financing and policy control to states, the question then becomes whether states' political institutions and fiscal policies will be responsive to changes in relative need. Also, what long-term consequences will the devolution of the responsibility for the poor to state governments have for central cities' fiscal health?

A recent study published by the Brookings Institution provides evidence that the rate of decline in caseloads is more rapid in the states generally than in central cities. Allen and Kirby report that between 1994 and 1999 the share of the national welfare caseload in the 89 largest urban counties, collectively containing a third of the U.S. population, increased from 47.5 percent in 1994 to 58.1 percent in 1999. The ten largest urban counties contained nearly a third of the caseload in 1999, as opposed to less than a quarter in 1994.[53]

Between 1996 and 1999, New York, Wisconsin and California experienced caseload declines at different rates. Wisconsin, a state pioneer in welfare reform, reduced its rolls by 85 percent, while New York and California experienced much slower declines of 34 and 35 percent, respectively. Although Wisconsin's caseload declined dramatically throughout the state, those remaining on the welfare rolls became increasingly concentrated in the City of Milwaukee. The city's share of Wisconsin's total welfare caseload grew from 51 percent in July 1995 to 85 percent in July 1998. California's picture is more mixed, with caseloads falling more slowly in central cities as opposed to suburban areas, but without the concentrations seen in Milwaukee. New York City dominates the caseload story in New York, containing the vast majority of both the state and metropolitan areas' welfare cases. As in California, suburban declines were much faster than central city declines in the smaller metropolitan areas. In the New York City metropolitan area the picture is more mixed. Percentage declines in caseloads were larger than in New York City in three out of four of New York's suburban counties.

In a few states, notably, New York and California, local governments are required to provide a portion of cash assistance payments. In these (relatively rare) cases, a decline in welfare caseloads leads to immediate local budgetary savings. In most states, however, cash assistance payments are financed entirely by state governments, aided by a substantial contribution of federal funds. In these states it would appear that declining welfare caseloads have no direct financial impact on municipal budgets. We argue, however, that even though most municipal governments are not directly responsible for the payment of cash assistance, there are

[53] Katherine Allen and Maria Kirby, "Unfinished Business: Why Cities Matter to Welfare Reform." *The Survey Series*, The Brookings Institution Center on Urban and Metropolitan Policy, 2000.

a number of mechanisms through which changes in welfare caseloads can have impacts on the fiscal health of governments. The brief review of some of the issues suggests that even in those cities with large drops in caseloads, fiscal need may not drop proportionately to caseload declines.

The needs and burdens placed on the local public sector by persons with low incomes depend more on the level than on the source of income. A decline in caseloads is likely to provide little in the way of fiscal benefit to most local governments unless the loss in welfare income is more than offset by an increase in other sources of income. Therefore, a crucial question is how well those who have left the welfare rolls (and those who have decided not to apply) are doing in terms of income and health insurance coverage.[54] If welfare reduction is primarily a result of diversion, rather than a real increase in job opportunities, then the fiscal burdens on cities is not likely to decline commensurate with the decline in welfare roles. If exit from welfare is also associated with loss in other government programs, particularly Food Stamps and Medicaid, then needs may actually increase.

Both Medicaid and Food Stamp eligibility were de-coupled from TANF receipt under the new law. Despite provisions intended to allow many former welfare recipients to retain their Medicaid coverage, substantial numbers of those leaving welfare are without health insurance.[55] Most uninsured rely on charity care, typically provided by both municipal and county hospitals and clinics. Even if the county pays for charity care, competition between city and county for funds and tax base will have a fiscal impact on cities. Given that more than 60 percent of Medicaid spending comes from the federal government, the decline in Medicaid coverage represents a net increase in the fiscal burden for cities. Similar declines in the Food Stamp program suggest an increase in economic vulnerability among low-income households since welfare reform. Because cities are the service providers of last resort, this increase in vulnerability translates into increased fiscal risk for cities.

As many commentators have suggested, the real test of the impact of welfare reform will come in an economic downturn. From the point of view of cities, the issue is the extent to which cities are more vulnerable to downturns than their suburbs. Evidence on this issue is sparse. Bartik and Eberts (1999) find that employment growth or destruction is important at the metropolitan level in explaining welfare caseloads. Bartik (2000) finds that the center city

[54] Recent studies monitoring the employment and earnings history of welfare leavers have found that earnings, even for those with full-time jobs, are very modest (Meyer and Cancian, 1998; Parrott, 1988; Cancian, et al., 1999).

[55] Based on data from 13 states, Garrett and Holahan (2000) find that between 6 and 11 months after leaving welfare, 29 percent had private medical coverage, 35 percent were on Medicaid, and 37 percent were uninsured. Moreover, the number of uninsured grew steadily, so that 49 percent of former welfare recipients were uninsured one year or more after leaving welfare. Administrative complications, perhaps inadvertent, are important in explaining the drop in Medicaid coverage even among those who should continue to be eligible.

unemployment rate moves more sharply with changes in the metropolitan unemployment rate than does the suburban rate.[56]

C. Will the Relative Position of Central Cities Worsen under Devolution?

The finding that caseloads are increasingly concentrated in central cities also means that the *relative* fiscal position of central cities is deteriorating. As more and more individuals join the labor force, limited evidence suggests that those remaining on welfare have the severest problems—the least education, the highest probability of drug or alcohol dependency, and the greatest incidence of mental illness or developmental disabilities.[57] It is precisely these people who are likely to place the greatest demands on city services.

There may also be adverse fiscal implications for central cities if the reasons for leaving welfare are different for city and suburban residents. If central city recipients are more likely to be pushed from the welfare rolls by active diversion policies, while suburban recipients are more likely to leave because of enhanced employment opportunities – then the fiscal needs associated with those leaving welfare may be greater in the city than in the suburbs. To date there appears to be no available data that allows one to analyze by residential location differences in the reasons for leaving welfare and the extent of income replacement. Further research on this issue is clearly needed.

D. The Impact of Block Grants for Welfare on the Fiscal Health of Cities

Over the longer run, significant danger to central cities' fiscal health may come from the conversion of federal aid for cash assistance to the poor from an open-ended matching grant to a block grant. Because of their relatively short work histories and limited skills, individuals who have recently left welfare will be most vulnerable to unemployment when the economy slips into recession. Under a system of matching grants, the amount of federal money states receive increases if an economic downturn increases the need for welfare. The conversion of matching aid to block grants implies that state governments must now bear the full fiscal burden of any increased spending on the poor.[58] An economic recession will put further strain on the fiscal

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[56] He uses data from 25 metropolitan areas on correlations between central city and suburban unemployment rates to simulate how central city and suburban unemployment rates vary on average with metropolitan unemployment rate. His results indicate that if, for example, overall MSA unemployment drops from 6 percent to 4 percent, average center city unemployment drops from 7.9 percent to 5.0 percent, and average suburban unemployment drops from 4.9 percent to 3.4 percent. Central city and suburban unemployment rates converge when overall metropolitan unemployment is around 2 percent.

[57] Sandra Danziger, et al, "Barriers to the Employment of Welfare Recipients." *The Impact of Tight Labor Markets on Black Employment Problems*, ed. R. Cherry and W. Rodgers, New York: Russell Sage Foundation; Maria Cancian, et al, "Before and After TANF: The Economic Well-Being of Women Leaving Welfare." *Institute for Research on Poverty Report*, University of Wisconsin-Madison, 1999.

[58] The current welfare reform legislation does allow limited state borrowing (with interest) from a "rainy day" fund if a state's economy slips into recession.

health of states because state tax revenues generally decline during recessions.[59] If, as suggested by economic theory and empirical evidence, states will be less willing to commit resources to public assistance under a fiscal regime of block grants, then cities will have to bear a greater share of any recession-related cost increases (Chernick and Reschovsky, 1999; Chernick, 2000). Erosion of state government support for the poor would further cities' relative fiscal position, both because of declining capacity to raise revenue and increased costs of providing services.

[59] See Chernick and McGuire (1999) for a discussion of the empirical issues involved in estimating the impact of a recession on state welfare spending in light of the shift to a block grant for welfare.

IV. SUMMARY OF CONCLUSIONS

In this paper, we have explored the current fiscal condition of central cities in three states: California, New York, and Wisconsin. We find that for most of the 1990's both the population and the tax base of most of the central cities within these three states has grown more slowly than the population and tax base in their suburbs.

A. Impact of State Aid

The fiscal condition of a local government with low fiscal capacity and/or high costs can be significantly affected by intergovernmental policies, particularly at the state level. We investigated state responses to central city fiscal conditions in the three states. Our results were striking. We found that in the 1990s, state policies, rather than serving to compensate central cities for slower rates of growth in fiscal capacity, have tended to favor suburban communities. On a per capita basis, state intergovernmental aid has in many cases increased more rapidly in faster growing and wealthier suburban areas than in central cities. The pattern in state aid has been reinforced by tax policies that reduce city fiscal capacity, particularly in New York and California. The most glaring example is New York State's repeal in 1999 of the New York City commuter tax – a tax on non-resident income earned in New York City. The repeal will cost New York City more than $500 million dollars per year. This amount is equal to the entire annual savings New York City has been able to realize from its widely heralded decline in public assistance rolls.

The recent experiences in Wisconsin, New York, and California are not sufficient evidence to prove that state governments are *systematically* shifting state government assistance away from central cities. However, the fact that around the country the population of many central cities is growing more slowly than the population of their suburbs suggests that city governments may be losing power in state legislatures.[60] To the extent that state legislators vote for state aid primarily on the basis of the narrow fiscal interests of the communities they represent, it is perhaps not surprising that recent changes in intergovernmental aid policies are not favorable to central cities. If current population trends continue, it will become increasingly difficult to enact state government policies designed to ameliorate the structural fiscal problems faced by many central city governments.

Our findings on state aid suggest that the federal government has an important role to play in providing systematic and timely information about the impact of state policies on central cities. Since the abolition of the Advisory Commission on Intergovernmental Relations (ACIR), there is no official body that regularly evaluates state policies toward its big cities. The full Census of Governments is conducted only every five years, with several more years elapsing before data are available. The annual state aid data used in this report were

[60] Margaret Weir, "Coalition Building for Regionalism." *Reflections on Regionalism*, edited by Bruce Katz, Washington, DC: The Brookings Institution, 2000.

collected from readily available state data sources. On the basis of our research in three states, we recommend that the federal government provide for the annual collection and compilation of data on state aid to cities and suburban areas in all 50 states.

B. Federal Devolution of Welfare

Welfare caseloads are becoming increasingly concentrated in urban counties.[61] Even where the city is not directly responsible for welfare payments, this increasing concentration of welfare cases raises *relative* costs of public services in central cities. Among those who have left welfare, evidence suggests that many families have experienced quite limited increases in income. These low-income families remain heavily concentrated in central cities. Thus even though the welfare caseload in most cities has been falling rapidly, the costs of providing public services in cities will remain high relative to the suburbs, and the competitive position of central cities relative to their suburbs will remain weak.

Based on our evaluation of recent state policies towards cities, and the more general public finance literature on state spending for welfare, we argue that welfare reform is likely to exacerbate cities' structural problems. An analysis of budgetary politics in New York State is suggestive, indicating that the shift from categorical to block grants for social services has allowed the state to decrease the share of funding going to New York City. In an economic downturn, it seems unlikely that states would intervene in the financing of central cities with sufficient vigor to offset the increased needs cities would face during a recession.

[61] Allen and Kirby, 2000.

V. POLICY OPTIONS FOR IMPROVING THE FISCAL POSITION OF CENTRAL CITIES

Despite some recent indications of central city recovery, our analysis shows that the long-run fiscal health of most central cities is hardly guaranteed. To be able to compete with their suburbs, city governments must be able to provide adequate public services at *reasonable* tax rates, as compared with their suburban competitors. The ability of cities to do so depends both on their capacity to raise revenues and on the costs they face in providing public services. Fiscal capacity, however, remains low in most central cities relative to their suburbs, and primarily because of concentrations of poverty, costs tend to be substantially higher.

Finding solutions to the long-run fiscal problems of central cities will not be easy and will require a wide mix of local, state, and federal policies.[62] In the following paragraphs, we highlight three broad policy initiatives that would contribute significantly to the long-term fiscal health of central cities.

1. Return responsibility for the poor to the federal government.

It has long been accepted that programs for the poor should be paid for mainly by the central government. Lower level jurisdictions which pursue pro-poor policies risk inducing the exit of high-income individuals.[63] By shifting more responsibility for cash assistance for the poor to the states, and moving away from open-ended financing via matching grants, welfare reform has moved in the opposite direction from this centralization principle. The fiscal risk for cities comes from the fact that increasing state responsibility comes with political pressure to share those responsibilities with local governments, particularly when states are experiencing difficult economic conditions.

Given the widespread view that welfare reform has been a success, it seems unlikely that the basic principles of the law--- devolution, block grants, time limits--- will be overturned. Indeed, there is pressure to reduce the size of the TANF block grant when welfare reform comes up for reauthorization in 2002. A second best strategy for the federal government to pursue is to increase targeted grants for particular types of social services, such as health care and job training services. Because need is more concentrated in central cities, such grants could help to compensate for the loss in automatic funding under the previous entitlement programs.

2. Account for cost differences in the distribution of state aid to local governments

As long as there are differences in the fiscal conditions of local governments within a metropolitan area, both businesses and individuals have an incentive to relocate to communities in stronger fiscal health. One policy response is to establish a system of state aid with grants being targeted to local governments in the weakest fiscal health. Most existing state aid

[62] See Katz (2000) for a list of suggested policies for a "new urban agenda."
[63] Wallace Oates, *Fiscal Federalism*. New York: Harcourt Brace Jovanovich, 1972.

programs rely on formulas that only account for differences across communities in property values per capita, ignoring differences in costs and service responsibilities. Evidence suggests that central cities tend to have both higher than average costs and broader than average public service responsibilities. Thus, by ignoring cost differences among local governments, existing state aid formulas tend to under-allocate financial resources to local governments with above-average costs. The fiscal position of central cities will be strengthened if aid formulas were better targeted to those jurisdictions in the weakest fiscal health, where fiscal health is measured on the basis of both differences in fiscal capacities and costs.

3. Enhance cooperation among metropolitan-area governments

Although most metropolitan areas in the U.S. are composed of a large number of independent governments, actions by individuals, businesses, or governmental units in one community often have impacts (both positive and negative) on the rest of the metropolitan area. Many of the problems of central cities have impacts on residents of the entire region, and cooperation among governments can strengthen both the fiscal condition of the central city and the economic and fiscal prosperity of the entire metropolitan area. One form of metropolitan cooperation would be metropolitan-wide provision of specific services. Ideal candidates for metropolitan provision are public services for which scale economies exist or public services that are characterized by metropolitan-wide externalities. Alternatively, cooperation can take the form of suburban government or resident contributions to the financing of central city public services, especially those that provide direct benefits to suburban residents or that respond to problems that are arguably metropolitan in scope, such as affordable housing.

It is clearly easier to articulate policies to improve the long-run fiscal health of central cities than to develop the broad-based political support necessary for the enactment of these policies. One starting point, however, is to convince people that the fiscal health of the nation's central cities will benefit all Americans. A prerequisite for support of these policies is a clear understanding of the causes of the fiscal problems of central cities and the realization that many of these problems are largely due to factors outside the control of city residents and political leaders.

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Table 1

Changes in Wisconsin's Population by Geographic Area, 1990 to 1999

	1990 Population		1999 Population		Change in Population, 1990 to 1999			
					Central City		Suburban Ring	
Metropolitan Area	Central City	Suburban Ring	Central City	Suburban Ring	Number	Percentage	Number	Percentage
Milwaukee	628,008	894,877	608,150	996,637	-19,858	-3.2%	101,760	11.4%
Smaller metro areas	737,545	702,387	787,575	799,895	50,030	6.8%	97,508	13.9%
Madison	190,766	176,319	205,343	207,747	14,577	7.6%	31,428	17.8%
Appleton-Oshkosh	120,701	194,420	132,606	219,455	11,905	9.9%	25,035	12.9%
Green Bay	96,466	98,128	103,267	117,506	6,801	7.1%	19,378	19.7%
Beloit-Janesville	87,781	51,729	95,852	54,765	8,071	9.2%	3,036	5.9%
Racine	84,298	894,877	85,696	996,637	1,398	1.7%	101,760	11.4%
Eau Claire	56,806	80,737	61,150	85,827	4,344	7.6%	5,090	6.3%
La Crosse	51,140	46,764	52,523	53,670	1,383	2.7%	6,906	14.8%
Sheboygan	49,587	54,290	51,138	60,925	1,551	3.1%	6,635	12.2%
Rest of State	1,928,952		2,082,570		153,618	8.0%		
State Total	4,891,769		5,274,827		383,058	7.8%		

Note: Racine is part of the Milwaukee-Racine metropolitan area. The population of the suburban rings of smaller metropolitan areas does not include the population of the Milwaukee-Racine metropolitan area.

Source: Authors' calculations based on population estimates from the State of Wisconsin's Department of Administration (available at http://www.doa.state.wi.us/dhir/boir/demographic/download.asp).

Table 2

Changes in New York's Population by Geographic Area, 1990 to 1998

	1990 Population		1998 Population		Change in Population, 1990 to 1998			
					Central City		Suburban Ring	
Metropolitan Area	Central City	Suburban Ring	Central City	Suburban Ring	Number	Percentage	Number	Percentage
New York								
New York City	7,322,564		7,420,166		97,602	1.3%		
Nassau County		1,287,444		1,302,220			14,776	1.1%
Rockland County		265,475		281,338			15,863	6.0%
Suffolk County		1,321,768		1,371,269			49,501	3.7%
Westchester County		874,866		897,920			23,054	2.6%
Smaller Metro Areas								
Albany-Schenectady-Troy	219,866	376,641	207,323	383,482	-12,543	-5.7%	6,841	1.8%
Binghamton	53,008	159,152	46,760	149,785	-6,248	-11.8%	-9,367	-5.9%
Buffalo-Niagra Falls	390,015	799,325	357,485	795,016	-32,530	-8.3%	-4,309	-0.5%
Rochester	230,356	483,612	216,887	499,185	-13,469	-5.8%	15,573	3.2%
Syracuse	163,860	305,113	152,215	305,906	-11,645	-7.1%	793	0.3%
Utica-Rome	112,987	137,849	99,126	131,502	-13,861	-12.3%	-6,347	-4.6%
Westchester County*	236,800	638,066	240,097	657,823	3,297	1.4%	19,757	3.1%
Rest of State	3,486,877		3,557,716		70,839	2.0%		
State Total	17,990,778		18,175,301		184,523	1.0%		

*Westchester Central Cities are White Plains and Yonkers

Source: *Estimates of the Resident Population of New York State Governmental Units* , 1990 through 1998.
(available at http:/www.empire.state.ny.us/data_population.html#).

Table 3

Changes in California's Population by Geographic Area, 1995 to 1998

	1995 Population		1998 Population		Change in Population, 1995 to 1998			
					Central City		Suburban Ring	
Metropolitan Area	Central City	Suburban Ring	Central City	Suburban Ring	Number	Percentage	Number	Percentage
Los Angeles-Long Beach	4,062,400	5,264,900	4,168,700	5,434,600	106,300	2.6%	169,700	3.2%
San Diego	1,170,100	1,488,500	1,224,800	1,570,000	54,700	4.7%	81,500	5.5%
Smaller metro areas								
San Jose	839,300	755,500	894,000	795,900	54,700	6.5%	40,400	5.3%
San Francisco	751,900	923,600	789,600	961,300	37,700	5.0%	37,700	4.1%
Fresno	395,500	351,000	411,600	375,200	16,100	4.1%	24,200	6.9%
Oakland	381,400	1,826,100	396,300	1,912,500	14,900	3.9%	86,400	4.7%
Sacramento	384,300	1,222,700	392,800	1,289,300	8,500	2.2%	66,600	5.4%
Anaheim-Santa Ana	597,800	1,999,400	612,400	2,109,900	14,600	2.4%	110,500	5.5%
Bakersfield	207,500	405,300	221,700	418,100	14,200	6.8%	12,800	3.2%
Riverside-San Bernardino	421,800	2,506,500	433,400	2,629,700	11,600	2.8%	123,200	4.9%
Oxnard-Ventura	251,200	457,900	257,500	473,300	6,300	2.5%	15,400	3.4%
Rest of State	5,245,660		5,479,400		233,740	4.5%		
State Total	31,910,260		33,252,000		1,341,740	4.2%		

Source: Authors' calculations based on data from the Demographic Research Unit of the California Department of Finance.

Table 4

Changes in Per Capita Equalized Property Values by Geographic Area within Wisconsin, 1990 to 1997

Metropolitan Area	1990 Per Capita Property Values		1997 Per Capita Property Values		Change in Per Capita Property Values			
					Central City		Suburban Ring	
	Central City	Suburban Ring	Central City	Suburban Ring	Amount	Percentage	Amount	Percentage
Milwaukee	$20,141	$36,316	$25,316	$60,399	5,175	25.7%	24,082	66.3%
Smaller metro areas	$24,490	$27,312	$39,163	$48,376	14,673	59.9%	21,063	77.1%
Appleton-Oshkosh	$24,683	$27,895	$36,234	$47,375	11,551	46.8%	19,480	69.8%
Beloit-Janesville	$21,428	$24,521	$36,009	$45,597	14,581	68.0%	21,076	85.9%
Eau Claire	$20,582	$22,205	$35,771	$35,485	15,189	73.8%	13,280	59.8%
Green Bay	$24,537	$27,866	$38,583	$49,980	14,046	57.2%	22,113	79.4%
La Crosse	$24,290	$22,067	$33,586	$37,748	9,296	38.3%	15,681	71.1%
Madison	$29,928	$30,572	$51,204	$57,004	21,276	71.1%	26,432	86.5%
Racine	$19,173	$36,316	$28,033	$60,399	8,859	46.2%	24,082	66.3%
Sheboygan	$22,154	$28,406	$34,464	$49,842	12,310	55.6%	21,436	75.5%
Rest of State	$25,906		$44,180			18,274	70.5%	
State Total	$27,059		$44,881			17,822	65.9%	

Note: Racine is part of the Milwaukee-Racine metropolitain area. The average per capita property value in the suburban rings of *smaller metropolitan areas* does not include property value in the Milwaukee-Racine metropolitan area.

Source: Authors' calculations based on data from the Wisconsin Department of Revenue.

Table 5

Changes in Per Capita Equalized Property Values by Geographic Area within New York State, 1990 to 1995

Metropolitan Area	1990 Per Capita Property Values		1995 Per Capita Property Values		Change in Per Capita Property Values			
					Central City		Suburban Ring	
	Central City	Suburban Ring	Central City	Suburban Ring	Amount	Percentage	Amount	Percentage
New York								
New York City	$31,747		$38,039		$6,292	19.8%		
Nassau County		$71,987		$80,488			$8,501	11.8%
Rockland County		$50,687		$64,481			$13,794	27.2%
Suffolk County		$62,823		$70,016			$7,193	11.4%
Westchester County*		$68,016		$87,818			$19,802	29.1%
Smaller Metro Areas								
Albany-Schenectady-Troy	$19,111	$44,705	$30,529	$73,780	$11,418	59.7%	$29,075	65.0%
Binghamton	$28,179	$39,296	$35,773	$50,122	$7,594	26.9%	$10,826	27.5%
Buffalo-Niagra Falls	$14,462	$32,858	$21,279	$52,404	$6,817	47.1%	$19,546	59.5%
Rochester	$22,730	$45,859	$26,705	$61,958	$3,975	17.5%	$16,099	35.1%
Syracuse	$18,634	$34,081	$21,314	$48,773	$2,680	14.4%	$14,692	43.1%
Utica-Rome	$18,917	$71,206	$27,824	$111,418	$8,907	47.1%	$40,212	56.5%
Westchester County*	$39,309	$78,670	$49,214	$102,023	$9,905	25.2%	$23,353	29.7%
Rest of State	$76,501		$107,403		$30,902	40.4%		
State Total	$47,881		$62,018		$14,137	29.5%		

*Westchester Countiy appears twice so that we can compare Westchester County and New York City property values and examine property value patterns within Westchester County. The county's central cities are White Plains and Yonkers. Westchester County property values are not double counted in state totals.

Source: Authors' calculations based on data from the Office of the Comptroller of New York State.

Table 6

Changes in Per Capita Income by Geographic Area within New York State, 1990 to 1995

Metropolitan Area	1990 Per Capita Income		1995 Per Capita Income		Change in Per Capita Income			
					Central City		Suburban Ring	
	Central City	Suburban Ring	Central City	Suburban Ring	Amount	Percentage	Amount	Percentage
New York								
New York City	$12,215		$14,621		$2,406	19.7%		
Nassau County		$22,938		$27,355			$4,417	19.3%
Rockland County*		NA		NA			NA	NA
Suffolk County		$16,643		$19,755			$3,112	18.7%
Westchester County**		$26,377		$33,069			$6,692	25.4%
Smaller Metro Areas								
Albany-Schenectady-Troy	$11,104	$21,605	$10,339	$24,937	-$765	-6.9%	$3,332	15.4%
Binghamton	$14,241	$18,085	$13,273	$18,886	-$968	-6.8%	$801	4.4%
Buffalo-Niagra Falls	$7,918	$17,267	$8,314	$21,113	$396	5.0%	$3,846	22.3%
Rochester	$10,293	$21,171	$9,429	$26,352	-$864	-8.4%	$5,181	24.5%
Syracuse	$8,684	$16,833	$8,272	$19,963	-$412	-4.7%	$3,130	18.6%
Utica-Rome	$9,941	$36,371	$10,871	$42,785	$930	9.4%	$6,414	17.6%
Westchester County**	$15,380	$30,458	$16,170	$39,287	$790	5.1%	$8,829	29.0%
Rest of State	$32,512		$35,738		$3,226	9.9%		
State Total	$18,609		$21,669		$3,060	16.4%		

*Complete income data is not available for Rockland County.

**Westchester Countiy appears twice so that we can compare Westchester County and New York City property values and examine property value patterns within Westchester County. The county's central cities are White Plains and Yonkers. Westchester County property values are not double counted in state totals.

Source: Authors' calculations based on data from the Office of the Comptroller of New York State.

Table 7

Changes in the Distribution of Total State Aid in Wisconsin by Geographic Area, 1990 to 1997

Metropolitan Area	1990 Total State Aid*		1997 Total State Aid*		Change in Total State Aid			
					Central City		Suburban Ring	
	Central City	Suburban Ring	Central City	Suburban Ring	Amount	Percentage	Amount	Percentage
Milwaukee	$509,977,417	$263,055,972	$814,763,377	$623,888,875	$304,785,960	59.8%	$360,832,902	137.2%
Smaller metro areas	$325,292,859	$386,212,389	$624,985,985	$700,078,718	$299,693,127	92.1%	$313,866,328	81.3%
Appleton-Oshkosh	$46,545,405	$92,222,512	$101,938,062	$193,661,414	$55,392,656	119.0%	$101,438,902	110.0%
Beloit-Janesville	$41,668,684	$55,387,518	$108,016,725	$57,180,660	$66,348,041	159.2%	$1,793,142	3.2%
Eau Claire	$26,121,798	$56,396,140	$55,201,366	$93,606,448	$29,079,568	111.3%	$37,210,307	66.0%
Green Bay	$56,035,824	$53,668,096	$89,392,384	$91,722,569	$33,356,560	59.5%	$38,054,473	70.9%
La Crosse	$21,389,409	$23,013,934	$44,036,616	$52,544,185	$22,647,207	105.9%	$29,530,251	128.3%
Madison	$46,095,747	$77,500,517	$93,966,308	$157,959,056	$47,870,560	103.9%	$80,458,539	103.8%
Racine	$56,407,791	$263,055,972	$81,058,903	$623,888,875	$24,651,111	43.7%	$360,832,902	137.2%
Sheboygan	$31,028,198	$28,023,672	$51,375,621	$53,404,386	$20,347,423	65.6%	$25,380,714	90.6%
Rest of State	$1,243,023,116		$2,037,761,073		$794,737,957	63.9%		
State Total	$2,727,561,753		$4,801,478,027		$2,073,916,274	76.0%		

* *Total State Aid* is defined as the sum of Shared Revenues, Transportation Aids, and Elementary and Secondary Education Aid.

Source: Authors' calculations based on data from the Wisconsin Department of Revenue.

Table 8

Changes in the Distribution of State Aid Per Capita in Wisconsin by Geographic Area, Fiscal Years 1991 to 1997

	1991 State Aid Per Capita*		1997 State Aid Per Capita*		Changes in State Aid per Capita			
					Central City		Suburban Ring	
Metropolitan Area	Central City	Suburban Ring	Central City	Suburban Ring	Amount	Percentage	Amount	Percentage
Milwaukee	$812	$294	$1,330	$638	$518	63.7%	$344	117.0%
Smaller metro areas	$441	$550	$803	$906	$361	82.0%	$356	64.7%
Appleton-Oshkosh	$386	$474	$777	$917	$391	101.4%	$443	93.3%
Beloit-Janesville	$475	$1,071	$1,139	$1,060	$664	139.9%	($10)	-1.0%
Eau Claire	$460	$699	$923	$1,112	$463	100.6%	$414	59.2%
Green Bay	$581	$547	$875	$808	$294	50.6%	$261	47.7%
La Crosse	$418	$492	$842	$1,009	$423	101.2%	$517	105.0%
Madison	$242	$440	$466	$786	$224	92.7%	$347	78.9%
Racine	$669	$294	$948	$638	$278	41.6%	$344	117.0%
Sheboygan	$626	$516	$1,007	$898	$381	60.9%	$382	74.0%
Rest of State	$644		$995			$351	54.4%	
State Total	$558		$925			$367	65.8%	

*State Aid Per Capita is defined as the sum of per capita Shared Revenues, Transportation Aids, and Elementary and Secondary Aid.

Source: Authors' calculations based on data from the Wisconsin Department of Revenue.

Table 9

Changes in the Distribution of Per Capita State Aid in Wisconsin by Type of Aid and by Geographic Area, 1991 to 1997

	Change in Per Capita Shared Revenues				Change in Per Capita Transportation Aid				Changes in Per Capita School Aid			
	Central City		Suburban Ring		Central City		Suburban Ring		Central City		Suburban Ring	
Metropolitan Area	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
Milwaukee	$118	42.3%	($8)	-10.2%	$2	6.0%	$8	28.7%	$397	80.6%	$344	183.4%
Smaller metro areas	$17	10.2%	($8)	-8.0%	$15	31.6%	$9	31.6%	$330	146.7%	$355	83.8%
Appleton-Oshkosh	$28	18.6%	($6)	-5.7%	$10	23.1%	$9	34.1%	$353	186.0%	$440	131.9%
Beloit-Janesville	$30	13.8%	($6)	-5.5%	$25	109.9%	($10)	-19.4%	$610	255.9%	$5	0.6%
Eau Claire	($12)	-6.2%	$18	12.5%	$5	11.5%	$14	38.4%	$470	207.0%	$382	73.5%
Green Bay	($19)	-8.3%	($16)	-17.8%	$9	17.7%	$9	34.7%	$303	99.2%	$284	65.8%
La Crosse	$60	39.9%	($1)	-1.1%	$7	14.3%	$7	46.3%	$357	162.3%	$510	130.8%
Madison	($4)	-4.4%	($12)	-17.3%	$23	41.2%	$13	53.0%	$205	213.0%	$346	100.5%
Racine	$68	27.3%	($8)	-10.2%	$11	20.9%	$8	28.7%	$200	54.1%	$344	183.4%
Sheboygan	$34	16.3%	($20)	-21.4%	$12	29.2%	$9	37.1%	$336	88.9%	$393	97.9%
Rest of State	$17	13.7%			$20	46.4%			$314	65.9%		
State Total	$19	13.4%			$13	34.1%			$336	88.4%		

Source: Authors' calculations based on data from the Wisconsin Department of Revenue.

Table 10

Changes in the Distribution of Total State Aid in New York State by Geographic Area, 1990 to 1995

Metropolitan Area	1990 Total State Aid*		1995 Total State Aid*		Change in Total State Aid, 1990 to 1995				Change in Aid 1995-1997 New York City
					Central City		Suburban Ring		
	Central City	Suburban Ring	Central City	Suburban Ring	Amount	Percentage	Amount	Percentage	Percentage
New York									
New York City**	$6,243,400,000		$7,474,200,000		$1,230,800,000	19.7%			-0.7%
Nassau County		$575,355,135		$573,479,610			-$1,875,525	-0.3%	16.9%
Rockland County		$152,647,873		$179,753,326			$27,105,453	17.8%	-0.5%
Suffolk County		$1,077,303,275		$1,165,989,464			$88,686,189	8.2%	2.7%
Westchester County***		$561,071,251		$592,211,708			$31,140,457	5.6%	3.6%
Smaller Metro Areas									
Albany-Schenectady-Troy	$97,020,588	$312,291,108	$112,006,573	$395,259,613	$14,985,985	15.4%	$82,968,505	26.6%	
Binghamton	$33,374,322	$137,011,281	$34,646,789	$161,615,528	$1,272,467	3.8%	$24,604,247	18.0%	
Buffalo-Niagra Falls	$338,612,503	$508,544,669	$420,898,192	$675,708,818	$82,285,689	24.3%	$167,164,149	32.9%	
Rochester	$163,612,602	$246,471,946	$238,519,877	$347,213,596	$74,907,275	45.8%	$100,741,650	40.9%	
Syracuse	$123,954,690	$193,577,916	$158,423,226	$242,604,043	$34,468,536	27.8%	$49,026,127	25.3%	
Utica-Rome	$79,141,033	$332,908,670	$107,208,236	$476,986,672	$28,067,203	35.5%	$144,078,002	43.3%	
Westchester County***	$116,410,658	$247,805,386	$129,453,510	$245,905,764	$13,042,852	11.2%	-$1,899,622	-0.8%	
Rest of State	$5,889,045,062		$7,725,692,520		$1,836,647,458	31.2%			
State Total	$16,473,639,342		$20,394,183,685		$3,920,544,343	23.8%			

* With the exception of the numbers for New York City, *Total State Aid* includes city, town, village, and school district aid, but not county aid.
**New York City is both a city and county area. The total aid numbers for New York City thus include aid to all jurisdictions, including aid directly to county government.
***Westchester Countiy appears twice so that we can compare aid to Westchester County and New York City and examine aid patterns within Westchester County. The county's central cities are White Plains and Yonkers. Westchester County aid is not double counted in state totals.

Source: Authors' calculations based on data from the Office of the Comptroller of New York State.

Table 11

Changes in the Distribution of State Aid Per Capita in New York State by Geographic Area, 1990 to 1995

Metropolitan Area	1990 State Aid Per Capita*		1995 State Aid Per Capita*		Change in State Aid Per Capita			
					Central City		Suburban Ring	
	Central City	Suburban Ring	Central City	Suburban Ring	Amount	Percentage	Amount	Percentage
New York								
New York City**	$853		$1,014		$161	18.9%		
Nassau County		$447		$440			-$7	-1.6%
Rockland County		$575		$649			$74	12.9%
Suffolk County		$815		$863			$48	5.9%
Westchester County***		$641		$665			$24	3.7%
Smaller Metro Areas								
Albany-Schenectady-Troy	$441	$829	$509	$1,035	$68	15.4%	$206	24.8%
Binghamton	$630	$861	$703	$1,039	$73	11.6%	$178	20.7%
Buffalo-Niagra Falls	$868	$636	$1,129	$835	$261	30.1%	$199	31.3%
Rochester	$710	$510	$1,068	$695	$358	50.4%	$185	36.3%
Syracuse	$756	$634	$1,007	$777	$251	33.2%	$143	22.6%
Utica-Rome	$700	$2,415	$1,019	$3,486	$319	45.6%	$1,071	44.3%
Westchester County***	$492	$388	$540	$378	$48	9.8%	-$10	-2.6%
Rest of State	$1,689		$2,163		$474	28.1%		
State Total	$916		$1,121		$205	22.4%		

* With the exception of the numbers for New York City, *State Aid Per Capita* includes city, town, village, and school district aid, but not county aid.
**New York City is both a city and county area. The per capita aid numbers for New York City thus include aid to all jurisdictions, including aid directly to county government.
***Westchester Countiy appears twice so that we can compare aid to Westchester County and New York City and examine aid patterns within Westchester County. The county's central cities are White Plains and Yonkers. Westchester County aid is not double counted in state totals.

Source: Authors' calculations based on data from the Office of the Comptroller of New York State.

Table 12

Changes in the Distribution of Per Capita State Aid in New York State by Type of Aid and by Geographic Area, 1991 to 1997

	Change in Per Capita Local Government Aid				Changes in Per Capita School Aid			
	Central City		Suburban Ring		Central City		Suburban Ring	
Metropolitan Area	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
New York								
New York City*	$115	25.4%			$46	11.5%		
Nassau County			-$21	-11.1%			$14	5.3%
Rockland County			$54	22.4%			$20	6.0%
Suffolk County			$45	24.0%			$3	0.4%
Westchester County**			-$13	-3.8%			$36	12.2%
Smaller Metro Areas								
Albany-Schenectady-Troy	-$43	-30.8%	-$15	-27.0%	$110	36.5%	$220	28.4%
Binghamton	-$39	-26.5%	-$18	-36.7%	$112	23.2%	$196	24.2%
Buffalo-Niagra Falls	-$51	-20.5%	-$20	-35.6%	$312	50.4%	$219	37.7%
Rochester	$1	0.4%	-$15	-38.7%	$357	64.6%	$200	42.6%
Syracuse	$12	7.2%	-$15	-35.3%	$239	40.0%	$158	26.7%
Utica-Rome	$7	5.0%	-$18	-35.7%	$312	57.7%	$1,089	46.0%
Westchester County**	-$71	-31.4%	-$17	-21.6%	$119	44.6%	$6	1.9%
Rest of State		-$12	-18.6%			$486	29.9%	
State Total		$37	16.1%			$168	24.6%	

*New York City is both a city and county area. The per capita local government aid numbers for New York City thus include aid to all local governments, including aid directly to county government.

**Westchester Countiy appears twice so that we can compare aid to Westchester County and New York City and examine aid patterns within Westchester County. The county's central cities are White Plains and Yonkers. Westchester County aid is not double counted in state totals.

Source: Authors' calculations based on data from the Office of the Comptroller of New York State.