

A COMMISSION REPORT

FISCAL BALANCE  
IN THE  
AMERICAN FEDERAL SYSTEM

VOL. 2  
METROPOLITAN FISCAL DISPARITIES



ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS  
WASHINGTON, D. C. 20575  
OCTOBER 1967  
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The financing of this volume has been provided in part  
by the Department of Housing and Urban Development.

In every city the people are divided into three sorts; the very rich, the very poor and those who are between them. . . . The most perfect political community must be amongst those who are in the middle rank, and those states are best instituted wherein these are a large and more respectable part, if possible, than both the other; or, if that cannot be, at least than either of them separate; so that being thrown into the balance it may prevent either scale from preponderating.

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-- Aristotle, Politics, Book IV, Chapter XI,  
pp. 126-127.

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## PREFACE

The Advisory Commission on Intergovernmental Relations was established by Public Law 380, passed by the first session of the 86th Congress and approved by the President September 24, 1959. Section 2 of the Act sets forth the following declaration of purpose and specific responsibilities for the Commission:

Sec. 2. Because the complexity of modern life intensifies the need in a federal form of government for the fullest cooperation and coordination of activities between the levels of government, and because population growth and scientific developments portend an increasingly complex society in future years, it is essential that an appropriate agency be established to give continuing attention to intergovernmental problems.

It is intended that the Commission, in the performance of its duties, will--

- (1) bring together representatives of the Federal, State and local governments for the consideration of common problems;
- (2) provide a forum for discussing the administration and coordination of Federal grant and other programs requiring intergovernmental cooperation;
- (3) give critical attention to the conditions and controls involved in the administration of Federal grant programs;
- (4) make available technical assistance to the executive and legislative branches of the Federal Government in the review of proposed legislation to determine its overall effect on the Federal system;
- (5) encourage discussion and study at an early stage of emerging public problems that are likely to require intergovernmental cooperation;
- (6) recommend, within the framework of the Constitution, the most desirable allocation of governmental functions, responsibilities and revenues among the several levels of government; and
- (7) recommend methods of coordinating and simplifying tax laws and administrative practices to achieve a more orderly and less competitive fiscal relationship between the levels of government and to reduce the burden of compliance for taxpayers.

Pursuant to its statutory responsibilities, the Commission from time to time singles out for study and recommendation particular problems, the amelioration of which, in the Commission's view, would enhance cooperation among the different levels of government and thereby improve the effectiveness of the Federal system of government as established by the Constitution. One

subject so identified by the Commission concerns the broad question of fiscal balance in our Federal system.

This report was adopted by the Commission at successive meetings held on July 21 and October 6-7, 1967.

Farris Bryant  
Chairman

## ACKNOWLEDGMENTS

This report represents the combined efforts of the entire Commission staff. The major responsibility for the staff work was shared by John Shannon and David B. Walker, Assistant Directors, and their colleagues Jacob M. Jaffe, Albert J. Richter, Will S. Myers, Jr., James H. Pickford, Page L. Ingraham, Frank X. Tippett, L. Richard Gabler, Eugene R. Elkins, Hope Marindin and Thomas Hanna, all of whom relied on Sandra Osbourn for library research and reference service.

Research on fiscal disparities in the 37 largest metropolitan areas and in-depth fiscal studies in 12 of those areas was made possible through an Urban Planning Research and Demonstration contract awarded by the Department of Housing and Urban Development under the provisions of Section 701(b) of the Housing Act of 1954 as amended. Professor Seymour Sacks of Syracuse University conducted the fiscal disparities research and submitted the initial draft of detailed findings.

The work on the 12 metropolitan fiscal case studies included in Volume 2 of this report was carried out under contract with Seymour Sacks, Roy Bohl, James Banovetz, Morris Beck, Wendell Bedichek, George F. Break, Alexander Ganz, John Riew, Frederick Stocker, John A. Vieg and J. D. Wingfield. Professor Sacks of Syracuse University and Mr. Jaffe of the Commission staff coordinated the efforts of the "on-the-scene" investigators.

Throughout this project, the staff benefited from the advice and counsel of L. L. Ecker-Racz, Assistant Director at the time the study began.

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The Commission and its staff benefited from an informal review of a draft of the report by a number of individuals, including John Bebout, Andrew Bullis, George Bell, Robert Berry, Jo Bingham, Gerard Brannon, Charles Byrley, William Cassella, Arnold Diamond, Daniel Elazar, Frank Fernbach, H. R. Gallagher, Woodrow Ginsburg, Del Goldberg, Nathaniel Goldfinger, Thomas Graves, Robert Harris, Peter Harkins, Patrick Healy, Manuel Helzner, Bernard Hillenbrand, Victor Jones, Frank Keenan, Lawrence Kegan, I. M. Labovitz, Carl Madden, Allen Manvel, James Maxwell, Mary McAniff, Richard Murphy, Selma Mushkin, Richard Nathan, Tom O'Brien, Joseph Pechman, Robert Rafuse, William Robinson, George Roniger, Seymour Sacks, Harry Schieber, Charles Schwan, Charles Smith, Robert Smith, Tom Smith, Robert Steadman, E. Winslow Turner and Anita Wells.

The involvement of the entire professional staff in this report makes it fitting to separately acknowledge the vital role of those who backstopped the research effort with clerical and technical skills, specifically: Elizabeth D. Green, Frances D. Buckler, Mary R. Hamrick, Karen Haagensen, Jackie Wallace,

Ronald Ross, Sue A. Reynolds, Inez B. Rountree, Lavinia Clarke, Jean L. Dorsey, Linda Topham and Deloris Boyd.

The Commission records its appreciation for the contribution of these individuals to this report. Responsibility for content and accuracy rests, of course, with the Commission and its staff.

The Commission gratefully acknowledges the financial assistance from the Department of the Treasury for the printing of Volume 1, and from the Department of Housing and Urban Development for its financial support of the metropolitan fiscal disparities research and the printing of Volume 2.

William G. Colman  
Executive Director

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## WORKING PROCEDURES OF THE COMMISSION

This statement of the procedures followed by the Advisory Commission on Intergovernmental Relations is intended to assist the reader's consideration of this report. The Commission, made up of busy public officials and private persons occupying positions of major responsibility, must deal with diverse and specialized subjects. It is important, therefore, in evaluating reports and recommendations of the Commission to know the processes of consultation, criticism and review to which particular reports are subjected.

The duty of the Advisory Commission, under Public Law 86-380, is to give continuing attention to intergovernmental problems in Federal-State, Federal-local, and State-local, as well as interstate and interlocal relations. The Commission's approach to this broad area of responsibility is to select specific, discrete intergovernmental problems for analysis and policy recommendation. In some cases, matters proposed for study are introduced by individual members of the Commission; in other cases, public officials, professional organizations or scholars propose projects. In still others, possible subjects are suggested by the staff. Frequently, two or more subjects compete for a single "slot" on the Commission's work program. In such instances selection is by majority vote.

Once a subject is placed on the work program, a staff member is assigned to it. In limited instances the study is contracted for with an expert in the field or a research organization. The staff's job is to assemble and analyze the facts, identify the differing points of view involved and develop a range of possible, frequently alternative, policy considerations and recommendations which the Commission might wish to consider. This is all developed and set forth in a preliminary draft report containing (a) historical and factual background, (b) analysis of the issues, and (c) alternative solutions.

The preliminary draft is reviewed within the staff of the Commission and after revision is placed before an informal group of "critics" for searching review and criticism. In assembling these reviewers, care is taken to provide (a) expert knowledge, and (b) a diversity of substantive and philosophical viewpoints. Additionally, representatives of the National League of Cities, Council of State Governments, National Association of Counties, U.S. Conference of Mayors, U.S. Bureau of the Budget and any Federal agencies directly concerned with the subject matter participate, along with the other "critics" in reviewing the draft. It should be emphasized that participation by an individual or organization in the review process does not imply in any way endorsement of the draft report. Criticisms and suggestions are presented; some may be adopted, others rejected by the Commission staff.

The draft report is then revised by the staff in light of criticisms and comments received and transmitted to the members of the Commission at least two weeks in advance of the meeting at which it is to be considered.

In its formal consideration of the draft report, the Commission registers any general opinion it may have as to further staff work or other

considerations which it believes warranted. However, most of the time available is devoted to a specific and detailed examination of conclusions and possible recommendations. Differences of opinion are aired, suggested revisions discussed, amendments considered and voted upon, and finally a recommendation adopted (or modified or diluted as the case may be) with individual dissents registered. The report is then revised in the light of Commission decisions and sent to the printer, with footnotes of dissent by individual members, if any, recorded as appropriate in the copy.

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## SCOPE OF THE REPORT

The Commission's study of Fiscal Balance in the American Federal System is contained in two volumes. In Volume 1, the Commission analyzes the basic structure of fiscal federalism, isolates the major shortcomings of the present system, identifies the fiscal sources of tension, and prescribes policies designed to strengthen the fiscal foundation of our intergovernmental system. In Volume 2, the Commission concentrates on the critically urgent problems caused by the growth of fiscal disparities among jurisdictions within metropolitan areas. Specifically, the Commission probes in depth the "fiscal facts of life" in the 37 largest metropolitan areas, draws on special case studies in 12 of these areas, and sets forth a series of recommendations designed to bring metropolitan needs and resources into greater alignment. The Commission was aided in its urban fiscal research by a grant from the Department of Housing and Urban Development.

## RECOMMENDATIONS

### Volume 1. Basic Structure of Fiscal Federalism

#### A. Broadened Fiscal Mix and Greater Fiscal Flexibility in Federal Aid to States and Localities

1. The Commission concludes that to meet the needs of twentieth century America with its critical urban problems, the existing intergovernmental fiscal system needs to be significantly improved. Specifically, the Commission recommends that the Federal Government, recognizing the need for flexibility in the type of support it provides, authorize a combination of Federal categorical grants-in-aid, general functional block grants, and per capita general support payments. Each of these mechanisms is designed to, and should be used to, meet specific needs: the categorical grant-in-aid to stimulate and support programs in specific areas of national interest and promote experimentation and demonstration in such areas; block grants, through the consolidation of existing specific grants-in-aid, to give States and localities greater flexibility in meeting needs in broad functional areas; and general support payments on a per capita basis, adjusted for variations in tax effort, to allow States and localities to devise their own programs and set their own priorities to help solve their unique and most crucial problems. Such general support payments could be made to either State or major local units

of government if provision is made for insuring that the purposes for which they are spent are not in conflict with any existing comprehensive State plan.\*,\*\*,\*\*\*

2. The Commission recommends enactment of legislation by the Congress authorizing the President to submit grant consolidation plans, such consolidations to be transmitted to the Congress and to become effective unless rejected by either House within a period of 90 days.
3. The Commission recommends that Congress and the President strive toward a drastic decrease in the numerous separate authorizations for Federal grants--adopting as a general goal a reduction by at least half the number; specifically the Commission recommends as a modest beginning, the following major consolidations: (a) elimination of all categorization and earmarking from the vocational education program to provide in effect a single vocational education grant to be usable in specified fields but within the State allotment in such amounts among the fields as determined by the State; and (b) consolidation of the existing grants for water and sewer line construction into a single authorization to be administered by a single agency.
4. The Commission recommends enactment by the Congress of legislation proposed by the Administration to authorize single applications by State and local governments for interrelated projects and for joint funding of projects containing components deriving funds from several Federal sources, in order to encourage States and localities to interrelate various functional programs and to facilitate effective program administration at the national level. It is further recommended that States enact similar legislation where necessary.
5. The Commission recommends to the President that the Bureau of the Budget initiate an aggressive program to simplify and systemize the varied matching and apportionment formulas for existing Federal grant-in-aid programs.

B. Strengthening State and Local Fiscal and Tax Systems

6. The Commission concludes that the development of a more equitable, diversified, and productive State-local tax system is prerequisite to avoiding excessive local property tax burdens, proliferation of local nonproperty taxes, interlocal fiscal disparities and dependence on Federal aid. The Commission therefore recommends that the States (1) require and enforce effective local use of the property tax including, in some States, a more intensive use of this revenue source, (2)

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\* Chairman Bryant dissented.

\*\* Secretary Fowler entered a reservation and dissented in part.

\*\*\* Mayor Naftalin did not concur in the portion of the last sentence which deals with comprehensive State plans.

equip themselves with a productive and broad-based tax system capable of underwriting a major portion of the State-local expanding expenditure requirements, and (3) shield basic family income from any undue burdens imposed by sales and property taxes.

7. In order to strengthen the productivity of the sales tax, the Commission recommends action by the States to protect low income families from undue tax burdens on food and drugs under general sales taxes.
8. In order to strengthen the productivity of the local property tax, the Commission recommends action by the States to help the localities finance the cost of relieving any undue local property tax burden on low income families.
9. The Commission recommends that the States which have not done so, give serious consideration to providing more flexibility in their constitutions for long-range State financing programs.

C. Improved Federal Coordination and Management

10. The Commission recommends an elevation of attention on the part of the President and the Congress to the more general need of insuring the conduct and coordination of Federal grant and other programs in such a way as to improve the overall capability of State and local government and consequently strengthen the American federal system. Its importance warrants assignment by the President of major responsibility in this area to an appointee having status equivalent to that of a member of the Cabinet. This official should be responsible for general liaison with State and local governments and be accessible to them regarding problems encountered in the administration of Federal grants-in-aid. Also this official should report at appropriate intervals to the President, Congress and the public on the extent to which grant-in-aid programs are achieving their objectives and the extent to which State and local government is being strengthened in the process.

The Commission further recommends the strengthening of the Bureau of the Budget's capability to sustain a vigorous program of interagency coordination of Federal grants-in-aid.

11. The Commission recommends the enunciation by the President of a policy of decentralization of Federal decision-making in the administration of grant programs; among other actions, the Commission recommends decentralization to directors of Federal regional offices of most of the decisions connected with the review and approval of State or local plans developed as a condition of Federal formula-type grants and of amendments to such plans proposed by State and local governments. The Commission further recommends Presidential action to effect a major reduction in the wide variations in the regional boundaries and headquarters sites of Federal field offices.

12. The Commission believes the establishment of a field staff of the Bureau of the Budget should serve many of the purposes of field offices, appropriations for which have been sought repeatedly by the Budget Director and the President within the last few years. In addition to increased coordinative activity in the field by the Bureau, the Commission recommends the strengthening of existing Federal Executive Boards by (a) transfer of supervision of the Boards to the Bureau, and (b) provision of at least one full-time staff member for each of the major Boards.
13. The Commission recommends that the President establish within an appropriate agency of the Executive Branch a computerized system for storage and retrieval of information essential for the administration of grants-in-aid, formulation of Federal-State-local fiscal policies and other policy and management purposes. The Commission further recommends that the Congress establish a similar system to provide information for review of grant-in-aid programs and for other legislative purposes. The Commission recommends that tapes and other data resulting from these systems be made available to State and local governments.

D. Simplification of Administrative Controls  
Under Federal Grants

14. The Commission recommends the enactment of general legislation by the Congress applicable to Federal grants-in-aid to State governments, whereby the Comptroller General of the United States would study and review the accounting and auditing systems of State governments which receive Federal grants-in-aid and ascertain the general adequacy and integrity of such State auditing and accounting systems; the Commission further recommends that for those States certified by the Comptroller General as meeting standards of adequacy and integrity, the results of State audits of expenditures of Federal grant funds be accepted by the administering Federal agency in lieu of fiscal audits by agency personnel, such acceptance to cease when and if the Comptroller General finds that the accounting and auditing system of the particular State no longer meets the prescribed standards. Finally, the Commission recommends that this authorization be extended at the discretion of the Comptroller General to units of local government receiving sizeable grants directly from Federal agencies.
15. The Commission recommends the enactment of legislation pending in the Congress to authorize the modification, at the request of a State and with approval by the head of the Federal department or agency, of the single State agency requirement associated with Federal grants-in-aid to State governments.
16. The Commission recommends the enactment of general legislation by the Congress, consolidating insofar as possible into a single Congressional enactment a set of planning requirements--both functional and comprehensive--to be applicable

to Federal grant-in-aid programs, both present and future, especially those concerned with or affecting urban development.

17. The Commission recommends that Congress enact legislation which would effect an overall rather than piecemeal revision of Section 701 of the Housing Act of 1954. Specifically, such legislation should employ Federal planning assistance to strengthen comprehensive planning as an arm of elected chief executives, at State, areawide and local levels; require a closer interlinking of planning, programming and coordination at those levels; and relate all federally aided functional planning to comprehensive planning at the State, areawide and local levels. The Commission further recommends that provision be made for State planning agencies, especially in those States with on-going comprehensive State planning programs receiving Federal financial assistance under Section 701, to review and comment upon all local and areawide applications for urban planning assistance. The Commission takes no position as to the most desirable location of responsibility in the Federal Executive Branch for administering assistance to State and local comprehensive planning activities.

E. Strengthening the State Executive and Legislative Branches as Effective Partners in the Federal System

18. In order to achieve adequate intergovernmental fiscal coordination and to strengthen State government generally, the Commission recommends the amendment of many State constitutions to reduce greatly the number of separately elected State officials.
19. The Commission recommends that where needed, State constitutions be amended to permit the Governor to succeed himself.
20. The Commission recommends State constitutional and statutory action, where needed, to provide a gubernatorial budget covering all estimated income and expenditures of the State government to be submitted to each session of the State legislature.
21. The Commission recommends that each State develop a strong planning capability in the executive branch of its State government. The planning function should include: (a) formulation for the consideration of the Governor and the legislature of comprehensive policies and long range plans for the effective and orderly development of the human and material resources of the State; (b) provision of a framework for functional, departmental and regional plans; and (c) assistance to the Governor in his budget-making and program evaluation roles.
22. The Commission recommends that State constitutions be amended, where needed, to authorize the Governor to reorganize the administrative structure of State government and to shift

- functions among State departments and agencies with the exercise of such reorganization powers subject to a veto by either house of the State legislature within a specified time period.
23. In order to improve the fiscal and program coordination of Federal categorical grants going to State government the Commission recommends that the States themselves provide adequate funds and staff for this purpose; the Commission opposes the use of Federal grant funds to provide staff or facilities for the immediate office of the Governor.
  24. In order to help strengthen the position of State government generally and to afford adequate time for legislative consideration of State financial participation in Federal grant-in-aid programs, the Commission recommends State constitutional or other appropriate action, where necessary, to remove such restrictions on the length and frequency of sessions of the State legislature as may interfere with the most effective performance of its functions. Specifically the Commission recommends that the holding of annual sessions be given serious consideration in those States now holding biennial sessions. Further, in order that legislative compensation not deter the holding of annual sessions, the Commission recommends that legislators be paid on an annual basis in an amount commensurate with demands upon their time.\*
  25. In order that the legislature may keep abreast on a policy basis with Federal and State actions on cooperative programs, the Commission recommends that the States provide for year-round professional staffing of major committees of their State legislatures.
  26. In order that the State legislative voice may be heard in the formulation, financing and operation of Federal grant programs and other intergovernmental matters, the Commission recommends that State legislatures consider seriously the desirability of charging--by resolution or other appropriate means--elective presiding officers and/or chairmen and ranking members of those committees having jurisdiction in fields involving Federal-State relations with (1) following the development of proposed legislation in the Federal Executive Branch and the Congress, and (2) after appropriate consultation with State executive officials, presenting the views of legislators to congressional committees considering new or modified grant programs coming within the concern of State legislatures. The Commission further recommends that State legislatures provide adequate funding for this activity.

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\* Governor Dempsey dissented.



## Volume 2. Metropolitan Fiscal Disparities

### A. Greater Involvement of Private Enterprise in Urban Programs

1. The Commission recommends that each of the industrial or highly urbanized States remove existing constitutional and statutory barriers to involvement of private enterprise in efforts directed toward enlarging and revitalizing the economic and fiscal base of their major cities, and that after such action take positive steps to enhance private-public cooperation in these endeavors.

### B. Strengthening Local Government Organization and Neighborhood Initiative

2. The Commission recommends the enactment of State legislation empowering a State agency--or a local agency formation commission--to (a) order the dissolution or consolidation of local units of government within metropolitan areas, and (b) enjoin the use of an interlocal contract within the metropolitan area when it is found to promote fractionalization of the tax base without overriding compensating advantages; these actions should be taken pursuant to specific statutory standards, with adequate public notice and hearings, and subject to judicial review.\*

The Commission further recommends the amendment of formulas providing State aid to local governments so as to eliminate or reduce aid allotments to small units of local government not meeting statutory standards of economic, geographic and political viability.\*

3. The Commission recommends the enactment of State legislation authorizing large cities and county governments in metropolitan areas to establish neighborhood subunits of government with limited powers of taxation and of local self-government with respect to specified and restricted functions including the administration of specified portions of Federal, State and local programs. Such subunits would be dissoluble by the city or county governing body at any time.\*
4. In order to improve the fiscal and program coordination of Federal and State categorical grants going to county and city governments the Commission recommends that the counties and cities themselves provide adequate funds and staff for this purpose; the Commission opposes the use of Federal and State grant funds to provide staff or facilities for the immediate office of the Mayor or county executive.

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\* Governors Rockefeller and Rhodes dissented.

5. The Commission recommends that Congress amend Title IX of P. L. 89-754 to remove the population ceiling on local governments served by State information centers.
6. The Commission recommends the enactment of State enabling legislation where necessary and action by city governments to establish and finance neighborhood information centers and referral services to orient residents and migrants to the demands and responsibilities of an urban society and to assist them in meeting immediate social and economic needs. The Commission also recommends the inclusion in State enabling legislation of fiscal support for such centers. The Commission further recommends that Federal agencies providing assistance in city rebuilding and in combating poverty encourage the use of grant funds for establishing and manning these centers. Congress should provide incentives to States and communities to encourage them to do this, not through separate new programs, but by amending pertinent existing grants to permit Federal grant funds to be used in this manner.

C. Reducing Disparities in Educational Financing

7. The Commission recommends that States add to their school aid formulas appropriate factors reflecting higher costs per pupil among disadvantaged as compared to advantaged children, especially in areas of high population density. The Commission further recommends the amendment of the Elementary and Secondary Education Act of 1965 to authorize the utilization of otherwise available Federal funds for incentive grants to States that make such revisions in their school aid formulas.
8. The Commission recommends the enactment of State legislation, preceded by constitutional amendment where necessary, establishing or authorizing an appropriate State agency to mandate the establishment of county or regional school property taxing districts; this is suggested for those States where school financing has not already been placed on a countywide or regional basis.\*
9. The Commission recommends the enactment of State legislation, preceded by constitutional amendment where necessary, authorizing the establishment by the State educational agency of educational facilities designed to make available on a multi-district basis a specialized educational capability, including special personnel, to the children of the districts involved. The Commission further recommends that State governments provide appropriate financial incentives for the creation of such multi-district facilities.
10. The Commission recommends the amendment of the Elementary and Secondary Education Act of 1965 to authorize Federal incentive

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\* Governor Rockefeller dissented.

grants to State and metropolitan educational agencies for the establishment of (a) county or regional school taxing districts, (b) specialized multi-district facilities as recommended herein, or (c) other areawide educational arrangements to assist in equalizing fiscal resources with educational needs throughout the area.\*

D. Improved Statistics for Metropolitan Areas

11. The Commission recommends the establishment of a national system for the collection, analysis, and dissemination of social statistics, with full participation by Federal, State, and local governments, with special emphasis upon the development of such data for sub-State geographic areas (major cities, counties, and SMSA's) as well as State and national aggregates.
12. The Commission recommends that the Internal Revenue Service expand its reporting of income statistics for Standard Metropolitan Statistical Areas to provide data for the units of general local government within such areas.
13. The Commission recommends that Federal, State, and local officials work toward the establishment of data facilities for measuring for major urban functions the comparative performance levels of individual local units of government. This effort should be undertaken preferably by existing or new nongovernmental organizations and should look toward the establishment of optimal standards, the collection and analysis of data, and periodic publication of comparative figures.

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\* Congressman Fountain dissented.



## Chapter I

### INTRODUCTION

The American federal system--in which the primary responsibility for providing domestic governmental services is consigned to 50 sovereign States, where "keeping government close to the people" is a watchword and "local home rule" is a precept--fosters diversity in the philosophical, political and organizational character of State and local government across the land. Liberty and freedom of action are at the very roots of our governmental philosophy, and under such a philosophy no two State-local governmental structures, tax systems or governmental service "mixes" will be alike. Few, if any, restrictions are placed upon State legislators in shaping the structures and functions of their State-local governmental systems, in developing their State economies or in tapping their economic resources to carry out the public will.

This fostering of diversity poses a dilemma: When does diversity become disparity? Are some kinds of diversity "good" and do other kinds begin to take on the earmarks of injustice?

We have noted earlier the considerable interstate and interregional variations in socio-economic characteristics, in governmental structure, and in the level of governmental services.\* Some of these differences are a matter of preference; others reflect indigenous human and geographic attributes. The metropolitan areas in different parts of the country vary just as distinctively as do the States and the regions, in many respects taking on the social, economic and governmental characteristics of the States in which they are located. And when we look at the individual components comprising a metropolitan area--the central city on the one hand and its surrounding urban and rural communities ("outside central city")--we find similar variety.

Diversity between the central city and its neighboring communities in a metropolitan area is not necessarily undesirable per se. Indeed, some kinds of intercommunity differences are desirable. Among them are the diversities arising from variations in tastes and preferences of the local inhabitants: Not all communities prefer modern architecture; not all like university environments; some like parks while others prefer to replace them with buildings; not all want museums and other cultural institutions.

Other kinds of diversity, however, are generally considered to be undesirable: the clustering of low income families in central city (or rural) slums in such a manner as to deprive them of the possibility of breaking out of a poverty environment; the resultant "building up" of certain costs and deficiencies

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\* Volume 1, Chapter 4.

or gaps in the provision of services which impinge on local governments; and the uneven distribution of taxable resources and tax burdens which further compound the governmental problem. When these "undesirable" differences are critical, with differential effects upon the ability of neighboring communities to finance governmental services, they become "fiscal disparities."

A disparity must always be viewed in terms of the relative advantage of one community over another. This can be illustrated by classifying communities within a metropolitan area on the basis of the manner in which they bridge the gap between revenue resources and expenditure requirements. Using this response test, all communities can be placed in one of five categories:

1. Highly disadvantaged--A community that falls far short on the public service side even though it makes an extraordinary tax effort.
2. Disadvantaged--A community that must make an extraordinary tax effort to break even or provide an average level of public service.
3. Balanced--A community that can bridge the gap between resources and needs by providing an average or adequate level of service with an average tax rate effort.
4. Advantaged--A community that can provide a superior level of service with an average tax burden.
5. Highly advantaged--A community that can provide a superior level of service with a minimal tax effort.

If most or all of the communities within metropolitan areas fell in the "balanced" category there would be no cause for concern or need for State or National Government remedial or equalization action.

However, the analyses conducted by the Commission during 1966-67, including in-depth case studies of 12 metropolitan areas, underscore the fact that there are indeed fiscal disparities as between the central city and its suburban communities, that many of the largest central cities are in the "highly disadvantaged" category, and that the extent of some of these disparities is growing. In general we find:

- Much greater population growth in the suburbs than in the central cities
- Many instances of actual decline in central city population
- Increasing concentration of "high fiscal cost" citizens in the central cities, reflecting:
  - lower incomes in the central city relative to suburbs
  - poor housing in the central city relative to suburbs
  - higher unemployment in the central city relative to suburbs

- A lower level of educational expenditure and a higher level of noneducational expenditure in the central city--i.e., the "municipal overburden"
- Much larger growth of per capita taxable resources in the suburbs than in the central cities
- Indeed, many instances of absolute decline in taxable resources in the central cities
- Much higher per capita tax burdens relative to personal income in the central cities than in the suburbs.

Looking to the future, the prospect in at least 10 of the 12 large metropolitan centers subjected to intensive analysis is for central city expenditure demands to exceed yields from existing revenue sources. As this develops, continued steep increases in the local property tax and more intensive utilization of nonproperty taxes will be required, aggravating the exodus of capital and upper income residents from the central city to the suburbs. Safeguarding the traditional role of the city as the cultural and commercial center of urban America poses a formidable challenge at all levels of government. Only a forthright and imaginative response by both public and private enterprise can meet this challenge.

## Chapter 2

# TOWARD CITY-SUBURBAN PARITY—FINDINGS AND RECOMMENDATIONS

Uppermost in the mind and conscience of America today is the poverty and social unrest in the large cities. The "crisis in the cities" is the most important domestic issue of our time. It is being discussed the length and breadth of our Nation--at the grass roots and in the halls of Congress. Proposed solutions are coming from all directions; from private industry, from citizens' groups and from governmental task forces.

This study takes an analytic look at one aspect of the urban problem--the fiscal disparities between central cities and their surrounding suburban communities in the metropolitan areas. It has involved a detailed analysis of the finances of the central city government and the other local governments that serve it in each of the 37 largest Standard Metropolitan Statistical Areas (SMSA's). These central city local finance aggregates were compared with their counterparts in the remainder of the SMSA. More detailed analysis was applied in a dozen selected metropolitan areas in which local investigators conducted in-depth studies.\*

In the two decades since the end of World War II, we have witnessed a transformation in our urban way of life. In place of economically and socially balanced cities, we now find in many of our metropolitan areas a set of lopsided communities. These consist of one or more "central cities" to which have migrated an inordinate number of high cost citizens, surrounded by high, medium and low income bedroom communities, plus industrial and commercial enclaves all with tax bases that cannot be used effectively by the metropolitan community. Particularly in the older metropolitan areas of the industrial Northeast and Midwest, we are confronted with a fiscal crisis not only in the major central city, but also in some of its smaller neighboring communities. The suburbs of 25 years ago are now becoming satellite core cities with the characteristics of the large central city. Suburbia continues to grow, leaving behind it a whole set of new problems in deteriorating groups of "central cities."

The aggravation of fiscal disparities among local governmental jurisdictions in metropolitan areas has ominous implications for the future economic and social base of American society and its cities. It is apparent to the Commission that many of the current ills of our large cities are rooted in the increasing economic and fiscal disparities between central cities and suburbs. The gap between the have and have-not jurisdictions in the metropolitan areas is great

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\* See Appendix B for a detailed description of the methodology. The individual case studies appear in Appendix D.



and widening rapidly. Each new economic or social set-back triggers increased migration of higher income residents into more affluent and protected areas. Payrolls diminish, businesses move, tax rolls shrink and property values decline. Poverty begets poverty, and economic and social losses climb.

## MAJOR FINDINGS

The Commission's detailed analysis of the social, economic and fiscal disparities between the metropolitan central cities and their surrounding suburban communities reveals that:

1. Regardless of the level of the analysis, national totals or individual area, there is a growing concentration of the "high cost" citizen in the central city. There is every reason to believe this trend will continue. The concentration of high cost citizens in the central city is dramatically underscored by public welfare statistics. For example, 27 percent of Maryland's population is located in Baltimore, yet 71 percent of Maryland's AFDC case load is to be found in that city. By the same token, Boston, with 14 percent of Massachusetts' population, accounts for 38 percent of that State's AFDC case load.

2. The paradox of the poverty in the midst of plenty emerges most strikingly in the central cities of the large metropolitan areas--and especially in the older central cities of the industrial Northeast and Midwest. The decline in absolute poverty and increase in absolute affluence is overshadowed by the economic disparities between the large central cities and their suburbs.

3. The large central cities are in the throes of a deepening fiscal crisis. On the one hand, they are confronted with the need to satisfy rapidly growing expenditure requirements triggered by the rising number of "high cost" citizens. On the other hand, their tax resources are growing at a decreasing rate (and in some cases actually declining), a reflection of the exodus of middle and high income families and business firms from the central city to suburbia.

4. A clear disparity in tax burden is evident between central city and outside central city. Local taxes in the central cities average 7.6 percent of the personal income of their residents; outside the central cities they equal only 5.6 percent of income. Higher central city taxes are reinforcing the other factors that are pushing upper income families and business firms out of the central city into suburbia.

5. The central cities increased their relative tax effort during a period when their property tax base either showed a deceleration in the rate of growth, or an absolute decline. The observed changes reflected either increases in property tax rates, introduction of local nonproperty taxes (especially in the case of municipal governments), or, most generally, a combination of the two. The central city tax development contrasts sharply with trends on the outside where high income and a continuation of the growth of the property tax base mitigated tax pressures.

6. On the educational or "developmental" front, the central cities are falling farther behind their suburban neighbors with each passing year. In 1957 the per pupil expenditures in the 37 metropolitan areas favored the central city

slightly--\$312 to \$303 for the suburban jurisdictions. By 1965, the suburban jurisdictions had forged far ahead--\$574 to \$449 for the central cities. This growing disparity between the central city and suburban school districts takes on a more ominous character in light of the fact that the central city school districts must carry a disproportionately heavy share of the educational burden--the task of educating an increasing number of "high cost" underprivileged children. Children who need education the most are receiving the least!

7. To make matters worse, State aid to school districts actually aggravates this situation by favoring the rural and suburban districts.

8. On the municipal service or custodial front, the presence of "high cost" citizens, greater population density and the need to service commuters force central cities to spend far more than most of their suburban neighbors for police and fire protection and sanitation services. The 37 largest central cities had a noneducational (municipal) outlay of \$232 per capita in 1965--\$100 greater than their suburban counterparts.

9. Of growing significance are the fiscal disparities among rich and poor suburban communities in many of the metropolitan areas--disparities that often are even more dramatic than those observed between central cities and suburbia in general. Many of the older suburban communities are taking on the physical, social and economic characteristics of the central city. This type of community is especially vulnerable to fiscal distress because it lacks the diversified tax base that has enabled the central city to absorb some of the impact of extraordinary expenditure demands.

It is true, indeed, that America's great urban areas contain both most of the country's wealth and most of its social and economic problems. The 228 Standard Metropolitan Areas in the United States account for:

- 65 percent of the population
- At least three-quarters of Federal personal income tax collections
- 70 percent of taxable assessed valuation
- 80 percent of bank checking accounts

ALSO account for:

- Most of the Nation's poverty!
- Most of the Nation's crime and delinquency!
- Most of the Nation's current dissatisfaction, disarray and civil disorder!

One set of jurisdictions (usually the central city) has the problems and the other set of jurisdictions (usually the suburbs) has the resources. But it is impossible in most areas, due to State laws and political boundaries, to apply areawide resources to areawide problems. We are challenged to develop ways to deploy resources from where they are to where the problems exist.

The studies of the tax resources and public expenditure requirements of Metropolitan America just finished by the Commission all point to the same inescapable conclusion:

Regardless of actions taken by the public sector to control riots, regardless of actions taken by the private sector to protect or increase economic investment and opportunity and regardless of efforts by private and public enterprise together in combating poverty and disease among low income residents of central cities or depressed suburban areas, State, local and Federal legislative action is necessary and urgent to bring fiscal needs and resources of our urban governments into better balance.

## RECOMMENDATIONS

One key to the solution of many of the fiscal disparity problems in the metropolitan areas lies in a recognition and assumption of proper responsibility by the governments of the several States. The States have broad taxing jurisdiction, would they but use it, to begin to correct the maldistribution of fiscal resources in the metropolitan areas and to provide for an appropriate "mix" of public services in accordance with the needs that are generated by the social and economic disparities between the central city and the suburbs. Indeed, some States are taking some highly courageous steps in this direction.

From its very inception, this Commission has emphasized the indispensable role of State government in our federal system as the balance-wheel between the National Government and the local governments in the provision of domestic governmental services. We have emphasized that only through State legislative and constitutional action can local governments be made viable. Only the States can provide the necessary organizational framework and the statutory mandate to strengthen the property tax so that it can be used most effectively as a productive and equitable revenue source. Only the States can authorize the localities to levy nonproperty taxes.

Without question, the States recognize the statewide and the nationwide concern with the "metropolitan problem." Without question, the States recognize that their responsibility extends far beyond that of sending in the National Guard to quell riots. Statements by Governors, individually and collectively, attest to this. Legislative debate, both in the State capitals and in Congress add further testament. But when these debates turn to the question of fiscal solutions, they lead almost invariably to the U.S. Treasury.

Yet, many States have unused tax potential they can apply toward ameliorating the metropolitan disparities within their own borders. How far the States can go in this direction, and what the National Government can do to bolster their efforts, have been examined in Volume 1. Here the focus of our attention is the metropolitan area per se--what can be done with the resources within the metropolitan area borders?

Some of the proposals we now examine are controversial. They might be said to have only modest political feasibility under hitherto prevailing circumstances and attitudes. However, the time for palliatives is fast fading and the time for resolute action is here. The United States simply can no longer afford

the economic and social erosion now destroying the very foundations of our urban society.

- The first four proposals deal with financing and other arrangements relating to public education in metropolitan areas. Commission concern with an areawide approach to the financing of urban education stems from the fact that continued fiscal support of this critical function on an individualized jurisdictional basis can only produce further deterioration of educational opportunity in most core cities and some suburbs.
- Another five proposals are directed toward a reduction of fragmentation of the local and metropolitan tax base, the establishment of neighborhood governmental and service institutions and the strengthening of local government capability to deal with Federal and State grant programs.
- One proposal urges the removal of constitutional and statutory barriers that prevent State and local governments from joining with private enterprise in mounting efforts to meet the urban economic and fiscal crisis.
- The final three recommendations deal with ways of improving urban income and social statistics and of developing comparative performance standards for urban governmental functions.

In the Commission's view, these measures are urgent and vitally necessary if restoration of our metropolitan areas to fiscal health is to begin and if a glimmer of hope is to penetrate the deep despair and discouragement afflicting the officialdom and the citizenry of America's great municipalities.

#### **Broadening the Metropolitan Area Tax and Service Base for Major Public Functions**

Fragmentation of the property tax base in the metropolitan areas results in a gross maldistribution of this primary source of local government revenue. Our detailed analysis of the metropolitan tax base indicates a deceleration of growth, and in some instances an absolute decline, of taxable values in the central city at the same time that such values grow apace in the suburban communities. In some central cities tax burdens have become intolerable as their governments struggle to finance the additional service needs generated by the "high cost citizenry" they have attracted. Surrounded by opulence in their suburbs, the central cities have no way to tap these resources, which often lie fallow in commercial and industrial enclaves and in high income bedroom communities.

Broadening the spatial dimensions of the tax base makes possible an expansion of the public service area to assure more effective utilization of resources. This can be particularly effective in the field of education but is applicable as well to air and water pollution, mass transit and similar public needs with obvious areawide implications. Previously this Commission has recommended

the establishment of metropolitan service corporations with authority to levy taxes and service charges in order to provide such areawide services. The following recommendations go beyond this and call for areawide financing of certain services to help the central city meet the extraordinary demands on its deteriorating resources. In other respects the following proposals are modest; they do not suggest areawide administration--rather, they preserve local and neighborhood control of the operation of public services.

#### **Establishing an Areawide School Tax Base-- Recommendation No. 1**

The Commission recommends the enactment of State legislation, preceded by constitutional amendment where necessary, establishing or authorizing an appropriate State agency to mandate the establishment of county or regional school property taxing districts; this is suggested for those States where school financing has not already been placed on a countywide or regional basis.\*

Overwhelming evidence in this report points to an accelerating erosion of school finances and school facilities in major parts of many of our metropolitan areas. The gap between per pupil expenditures in the suburbs and the central cities is widening rapidly. Most observers of today's urban America agree that inadequate and deteriorating education is a paramount problem in the central city ghetto. To halt and reverse this process we must begin financing our schools from a tax base broader than that of the individual political jurisdiction. State aid can and should be increased and equalization features improved; Federal aid should and no doubt will be increased. However, if the fabric of the American federal system of government is to be preserved, our metropolitan communities, which are becoming increasingly interdependent economically, must adjust to more of an areawide approach to the financing of public services, especially education which trains much of the future manpower supply of the area as a whole.

If the exodus of high and middle income people from the central cities is to be slowed, then the schools in these cities must become places to be proud of rather than places to flee from. The Commission appreciates the emotional attachments and attractions surrounding the "neighborhood school." Opinion varies on the extent to which actual mergers or consolidations of school districts or physical transfers of pupils should be attempted in order to secure racial mixing. That issue is not basic, however, to our concern in this report with drastic

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\* Governor Rockefeller dissents from this recommendation and states that: "The recommendation fails to give sufficient recognition to the fact that, in some States, a State mandate might not be the most practical and effective means of accomplishing the objective of reducing disparities in educational financing."

improvements in intergovernmental fiscal arrangements. While not necessarily embracing all the connotations that surround the "neighborhood school," the foregoing recommendation can accomplish much in the way of increased fiscal support of the schools in greatest need while keeping school policy and school administration oriented to individual units of local general government or independent school districts. Its objective is to place school financing on an areawide basis by tapping the wealth and resources of the whole metropolitan area to enable financial resources available for public schools to be concentrated in the areas with the greatest educational needs.

We limit this recommendation to the property tax to retain in general the present primary reliance of local school financing on this source. An areawide property tax presents fewer compliance problems than sales or income taxes and since it would be levied and collected by an areawide agency--and to be effective it must be based upon a State-equalized assessment--most of the interlocal disparities in assessment and rates would be neutralized. Furthermore, in most States a considerable portion of school revenues is provided by State aid, which originates almost entirely in nonproperty taxes.

The organizational details, such as the composition of the board of directors or the manner of selecting board members, would have to be spelled out in the enabling State legislation. In general, board members should be representative of the areawide population. Members could be either appointed by the individual school boards or elected from districts with substantially equal populations, or a combination of these methods.

In North Carolina the State government finances virtually the full cost of operating elementary and secondary schools, and capital outlay is financed locally. In such cases, the State can take direct action to help meet the higher cost of educating disadvantaged children by channeling additional funds to the localities where they live via the State formula for allocating school monies.

#### **Authorizing and Encouraging Areawide Use of Specialized Educational Facilities--Recommendation No. 2**

The Commission recommends the enactment of State legislation, preceded by constitutional amendment where necessary, authorizing the establishment by the State educational agency of educational facilities designed to make available on a multi-district basis a specialized educational capability, including special personnel, to the children of the districts involved. The Commission further recommends that State governments provide appropriate financial incentives for the creation of such multi-district facilities.

The quality of education is often directly commensurate with specialization of teaching and associated personnel. Specialization of both personnel and curriculum, in turn, are directly related to the economies of scale attainable by the school system. A system or district serving a small population will not have a sufficient number of pupils enrolled in any one vocational training or college preparatory program to justify the cost of providing specialized teachers or separate classes for them. When the unit costs of specialized education are prohibitive the small district can offer only general common-denominator programs that do not adequately prepare its graduates for employment or further education; the physically and mentally handicapped are virtually abandoned.

The use of multi-district facilities or "educational parks" enables a group of school districts to give their children access to specialized educational equipment and personnel at reasonable cost. If restricted to the financial capabilities of individual districts, such facilities are overly expensive for the wealthier districts and totally out of the reach of the poorer districts.

Here again the Commission is aware of racial and other social aspects of school consolidation in the use of educational parks. We believe it necessary at the very minimum that school districts in metropolitan areas be provided with sufficient flexibility to permit voluntary arrangements for the construction and utilization of specialized educational facilities, because such arrangements will tend to lessen the educational gap between the advantaged and disadvantaged children.

It is desirable that State governments assist in the provision of specialized facilities through financial incentive grants thereby helping to bring these facilities within the reach of a greater number of children from the poorer districts.

**Federal Government Encouragement and Assistance for  
Metropolitan Educational Arrangements--  
Recommendation No. 3**

The Commission recommends the amendment of the Elementary and Secondary Education Act of 1965 to authorize Federal incentive grants to State and metropolitan educational agencies for the establishment of (a) county or regional school taxing districts, (b) specialized multi-district facilities as recommended herein or (c) other areawide educational arrangements to assist in equalizing fiscal resources with educational needs throughout the area.\*

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\* Congressman Fountain does not concur in this recommendation.

Current Federal policy governing financial assistance to States and localities in the field of elementary and secondary education is based upon the utilization of such aid to the greatest extent possible in improving the quality of education for economically and culturally disadvantaged children. However, current Federal programs conducted pursuant to the Elementary and Secondary Education Act have no impact or influence upon actions which States and localities may take in narrowing or widening disparities in the local tax bases supporting public education. The Commission believes that the education of low income children would be further improved and the objectives of Federal educational aid legislation enhanced if incentive grants were provided in those cases where the State or local educational agencies join in expanding the geographical jurisdiction of the school system so as to make scarce educational capabilities accessible to larger numbers of children from lower income families.

We have considered the objections to this proposal on the grounds that innovative metropolitan educational arrangements must be worked out within the context of varying State-local administrative and fiscal relationships and therefore should not be complicated by Federal incentive grants. However, we believe that since the purpose of ESEA grants is to improve the quality of education for disadvantaged children, the primary focus should be on fully funding the Elementary and Secondary School Act and on developing State aid formulas that reflect the higher cost of educating such youngsters.

#### **Changes in State School Aid Formulas To Reduce Educational Disparities--Recommendation No. 4**

The Commission recommends that States add to their school aid formulas appropriate factors reflecting higher costs per pupil among disadvantaged as compared to advantaged children, especially in areas of high population density. The Commission further recommends the amendment of the Elementary and Secondary Education Act of 1965 to authorize the utilization of otherwise available Federal funds for incentive grants to States that make such revisions in their school aid formulas.

We are agreed that the economic well being of the individual is today largely shaped by the level of his educational attainment. The intensity of this direct relationship increases commensurately with the increasing complexity of our technologies and our society. It is critically important, therefore, to insure that the State financial contribution is geared to equalizing educational opportunity by bringing fiscal capabilities and needs into close alignment.

It is widely recognized and documented that the per pupil cost of providing "adequate" education to children in slum areas is considerably higher than the cost of providing an equally "adequate" education to the children of middle or higher income families. Several factors contribute to these higher costs:



(a) a need for smaller classes in order to give more personalized attention; (b) a need for more remedial classes and (c) the desirability of keeping schools open evenings, weekends and summers to provide both "catch up" and enrichment instruction. In short, the school must provide additional attention to compensate partially for serious inadequacies in the home environment.

While many State aid formulas recognize differences in the fiscal capacities of school districts (usually measured by assessed valuation of property) and their relative tax efforts (usually measured by the effective property tax rate), few States, if any, take adequate account of the "third part of the equation"--namely, the higher cost of educating the disadvantaged child.

In a previous report<sup>1/\*</sup> the Commission has suggested a thoroughgoing re-evaluation of State educational aid formulas in order to reduce educational disparities between central cities and suburban jurisdictions. In draft legislation to carry out this recommendation, the Commission has suggested that as a precondition for their aid the States require the "basic" school tax rate to be applied against all property throughout the metropolitan area with any excess of collections per pupil over a designated amount to be redistributed among the poorer districts within the metropolitan area. Each school district would be free to supplement the "basic" school rate if it elected to augment the financial resources provided for its own school program.<sup>2/</sup>

The underlying purpose of the Elementary and Secondary Education Act is to provide additional support for educating disadvantaged children. The Commission believes that the amendment of that legislation to provide incentive payments to those States adopting such equalization formulas, would clearly enlarge the total amount of funds consigned to equalization purposes and stimulate more prompt State action in this critical area.

### **Local Governmental Structure and Functions**

The structure and financing of local government in the United States today is characterized by a bewildering array of local government units and taxing jurisdictions, especially in the metropolitan areas. Innumerable studies, including those of this Commission beginning in 1961, have deplored this multiplicity and fragmentation. Some recent studies, including that of the Committee for Economic Development entitled "Modernizing Local Government," have called for a drastic reduction in the number of local jurisdictions particularly in and around the large metropolitan centers. Two points merit emphasis, however. First, multiplicity of local government is a price American citizens and taxpayers are paying for the privilege of "local home rule." Secondly, it is much easier to deplore "fragmentation of local government" than to propose specific meaningful, equitable and feasible remedies. In an earlier report, this Commission has suggested increased State control over new incorporations and increased State and local control over the formation of special districts.<sup>3/</sup>

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\* See Appendix C for numbered textual footnote references.

A modest number of State statutory enactments along the lines of these Commission recommendations can be reported. Their intent, however, is to prevent further deterioration, whereas our present findings leave no doubt that unless the metropolitan tax base is consolidated at least to some degree and further fragmentation is prevented, it is but a question of time before some of our great central cities deteriorate into economic graveyards.

#### **Control Over Further Fragmentation of the Metropolitan Tax Base--Recommendation No. 5**

The Commission recommends the enactment of State legislation empowering a State agency--or a local agency formation commission--to (a) order the dissolution or consolidation of local units of government within metropolitan areas and (b) enjoin the use of an interlocal contract within the metropolitan area when it is found to promote fractionalization of the tax base without overriding compensating advantages; these actions should be taken pursuant to specific statutory standards, with adequate public notice and hearings, and subject to judicial review.\*,\*\*

The Commission further recommends the amendment of formulas providing State aid to local governments so as to eliminate or reduce aid allotments to small units of local government not meeting statutory standards of economic, geographic and political viability.\*,\*\*

The Commission believes that the States can and must come to grips in a realistic courageous fashion with problems of local government organization and structure in the metropolitan areas. Either of two principal approaches provides the State with machinery to exercise surveillance over local government boundary adjustments, incorporation and annexations--the State boundary review commission

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\* Governor Rhodes does not concur in this recommendation.

\*\* Governor Rockefeller dissents from this recommendation and states that: "While agreeing with the intent of the recommendation, it does not give sufficient recognition to the various types of steps that can be taken by a State which has a strong home rule tradition to accomplish the objective."

approach as it operates in Minnesota and the local agency formation commission approach in California. The Commission proposes to each of the urban States that it move through either of these channels to effect a reasonable reduction in the number of fragments into which the metropolitan tax base is now carved. This requires the State legislature to establish standards of economic, geographic and political viability for local governments. This Commission identified some of the factors to be considered in evaluating viability in 1962:<sup>4/</sup>

- Local governments should have broad enough jurisdiction to cope adequately with the forces that create the problems which the citizens expect them to handle;
- Local governments should be able to raise adequate revenues and do it equitably;
- There should be flexibility to adjust governmental boundaries;
- Local governments should be organized as general-purpose rather than single-purpose governments;
- Local government areas should be adequate to permit them to take advantage of the economies of scale; and
- Local governments should be accessible to and controllable by the people.

After the State legislature has established appropriate standards, the State or local regulatory agency should examine closely those units of local government that appear to be least viable under the terms of the statute. After adequate public hearings and discussions, the State or local review agency should be empowered to mandate the dissolution of some of the least justified units by consolidation or otherwise. This procedure would expose the more obvious enclaves and tax havens to public scrutiny and provide a basis for meaningful action.

Although this Commission has urged consistently the authorization and use of the interlocal contracting device as a means of effectively providing public services in metropolitan and rural areas, we recognize that under certain conditions such contracts can only further fragment unnecessarily the metropolitan tax base. The presence of nonviable "paper" communities, incorporated under highly permissive State legislation and sustained by interlocal contracting arrangements, undoubtedly creates additional extremes of fiscal capacity or incapacity within certain urban areas. The State or local agencies referred to in the foregoing proposal should have authority, in the absence of overriding compensating advantages, to enjoin the execution of an interlocal contract that fragments the tax base or otherwise is prejudicial to the public interest.

During the past 25 years, many States have encouraged the consolidation of school districts by various means, often using State aid as a persuasive lever to this end. Different States have followed different techniques, but in general State school aid policies have provided financial incentives for consolidation and have exacted financial penalties for retention of districts too small to perform the educational function effectively. These State policies have reduced the number of school districts by 80 percent--from 109,000 to 22,000 in 25 years.

In light of this spectacular progress, it is ironic that State aid policies have often operated in the opposite direction with respect to units of

general local government and noneducational special districts. They have encouraged the multiplication of local government units in and around the large metropolitan areas. States, for example, share income tax revenue with local governments or authorize local governments to impose income taxes solely on the basis of residence. Higher income citizens in such cases are given a tax incentive to leave the central city and to incorporate a suburban enclave to qualify for a share of the income tax collections. Where local supplements to State sales taxes are distributed on the basis of collections, there is a tendency to stimulate new incorporations whether or not the resulting unit hinders effective government in general and handicaps the equitable financing of governmental services in the metropolitan areas.

The Commission believes that State aid formulas should carry disincentives for the creation or continuation of small units of local government in metropolitan areas. We recognize the adverse impact on the bureaucracies of the governmental units affected. However, if the jurisdictional morass characteristic of many of the Nation's large metropolitan areas is to be improved and prevented from growing worse, the States will have to exercise a degree of leadership and courage comparable to that exhibited with regard to the school district problem. The general public and local school officials have responded, albeit with some reluctance, to State leadership respecting the schools. We believe that firm but considerate State action would elicit a comparable response from officials of general local government.

#### **Establishing Neighborhood Subunits of Government in Large Central Cities--Recommendation No. 6**

The Commission recommends the enactment of State legislation authorizing large cities and county governments in metropolitan areas to establish neighborhood subunits of government with limited powers of taxation and of local self-government with respect to specified and restricted functions including the administration of specified portions of Federal, State and local programs. Such subunits would be dissoluble by the city or county governing body at any time.\*,\*\*

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\* Governor Rhodes does not concur in this recommendation.

\*\* Governor Rockefeller dissents from this recommendation and states: "While agreeing with the goals of encouraging neighborhood initiative, I dissent from the recommendation because of the specific mechanisms included which do not appear to be necessarily the most effective way to achieve the objective."

As the Nation has debated the "crisis in the cities," a growing body of opinion has pointed to the need for a greater "involvement" of the neighborhood within the large city. The complaint is frequently voiced that the distance between the neighborhood and the city hall or the county building has lengthened continually until the distance is figuratively one of light-years rather than blocks or miles.

The "maximum feasible participation of the poor" or the establishment of "neighborhood centers" may not be a panacea for all the social ills of our large, impersonal cities, but they can be constructively useful under certain circumstances. The Commission consistently has favored maximum flexibility in State legislation governing the organization, structure and financing of local government. In 1961 we urged the States to provide "an arsenal of weapons" to enable local governments and citizens in metropolitan areas to exercise some options in arranging and paying for desired and required public services.<sup>5/</sup>

Much can be said for the need to stimulate individual neighborhoods into programs of neighborhood improvement and self-improvement. City governments should be authorized--not required--to create neighborhood subunits of government with election of the local leadership and limited powers of taxation such as a fractional millage on the property tax to be collected by the city or county as a part of the property tax bill and returned to the neighborhood for use as its governing body determines. Per capita taxation or periodic neighborhood association "dues" might be authorized.

The enabling State legislation should make it clear that such subunits as may be created by the city or county may be dissolved by them at will. The purpose here is to permit the creation of subunits of existing local governments--not the creation of new local units. It is not our intention to suggest a further fragmentation in local government structure in metropolitan areas but rather to make it possible for existing large units of local government to harness, through the neighborhood subgovernment process, some of the resources and aspirations of its inner communities. The Commission is aware that this proposal will not draw high marks from purists in the fields of political science or public finance. However, in this time of crisis, change and challenge in our congested urban areas, political leadership at the State and local levels should not shrink from experimentation but be ever ready to seek more effective institutional arrangements to encourage the active participation of citizens in the affairs of their neighborhood and their local units of government.

**Establishing Neighborhood Information Centers  
and Referral Services--Recommendation No. 7**

The Commission recommends the enactment of State enabling legislation where necessary and action by city governments to establish and finance neighborhood information centers and referral services to orient residents and migrants to the demands and responsibilities of an urban society and to assist them in meeting immediate social and economic needs. The Commission also recommends the inclusion in State enabling legislation of fiscal support for such centers. The Commission further recommends that Federal agencies providing assistance in city rebuilding and in combating poverty encourage the use of grant funds for establishing and manning these centers. Congress should provide incentives to States and communities to encourage them to do this, not through separate new programs, but by amending pertinent existing grants to permit Federal grant funds to be used in this manner.

The problems of coping with urban life may be unmanageable for the migrant from a cotton farm or Appalachia, or Puerto Rico, or for one who is native to a ghetto. He may need employment, or health services, or shoes for the children, or all of these and more. These and other services may well be available to him if he only knew where. Even if he is aware that a social service agency will help him or that there is some government office he can go to, he may not know which one to seek out. Or, he may be told that he lives in the wrong area, or he doesn't meet the qualifications for help, or the agency he calls doesn't offer that service, and he gives up. These roadblocks, particularly to one who is unaccustomed to complicated urban life, may be overwhelming.

An information and referral service, located in the neighborhood and staffed with people who are acquainted with the whole range of public and private programs available to disadvantaged and bewildered citizens, can help orient them to the demands and responsibilities of urban living, while at the same time helping them to meet their immediate economic needs. Experience with existing neighborhood centers in certain cities has demonstrated their utility.

**Local Coordination of Grant Programs--  
Recommendation No. 8**

In order to improve the fiscal and program coordination of Federal and State categorical grants going to county and city governments the Commission recommends that the counties and cities themselves provide adequate funds and staff for this purpose; the Commission opposes the use of Federal and State grant funds to provide staff or facilities for the immediate office of the Mayor or county executive.

Since World War II, the growth of direct relations between the Federal Government and cities, counties and other units of local governments has been of increasing concern to State governors, legislators and administrators. The tendency of Federal agencies and local governments to "by-pass" the States, it is argued, weakens State responsibility for coordinating areawide programs. On the other hand, the Congress and local governments, especially the larger cities, have contended that State inaction should not deprive a local government of Federal aid, if the local grant application meets all Federal requirements.

In order for the States to assume their proper responsibilities for assisting and facilitating urban development, the Commission recommended in 1964 that Federal grants-in-aid to local governments for urban development be channeled through the States in cases where a State (a) provides appropriate administrative machinery to carry out relevant responsibilities, and (b) provides significant financial contributions, and when appropriate, technical assistance to the local governments concerned.

Fortunately, at both the State and Federal levels, considerable agreement has been developing to the effect that if a State government desires to assert fully its responsibilities in a federally aided local activity with funds and administrative machinery, then the relationship should be primarily Federal-State in character. A consensus is beginning to emerge among State officials that if the State chooses to remain aloof from problems toward which the Federal aid is directed, then local units should be free to participate in the Federal program and to deal directly with Federal agencies concerned.

Wholesale involvement and participation by most of the States in the functions of urban government continues to be the exception rather than the rule. At present, 37 States are assisting financially in the Federal airport construction program, and 20 are participating financially in building local sewage treatment facilities. However, only 11 are assisting financially in programs of urban renewal; 10 in urban mass transportation; and 4 in local hospital and medical facilities construction. One of the crucial questions regarding the crisis in the cities--indeed in American federalism--is whether the States will forfeit their responsibility for financing major urban services to the National Government.

State and Federal funds have been made available to local government agencies both for the provision of specified urban services to the public and for agency overhead costs. Thus, many local functional departments and agencies have grown in size, expertise and independence.

In all of this, however, little attention or money has been devoted at any level of government to the support or improvement of the central machinery of local government. The capacity of the responsible local chief executives to deal with the increasing multiplicity of Federal and other programs has been almost totally neglected. Mayors and county officials are today faced with a proliferation and growth in the activities of their governments, rapid changes in services and responsibilities, a burgeoning of some of their organizational units and grudging recognition by local legislative bodies of the problems they face in putting all the pieces together.

The Commission believes it is urgent and necessary that mayors' and county executives' offices be provided with facilities and staff to effectuate fiscal and program coordination. The Commission is of the opinion, further, that the financial support for these activities should come from local sources. Such a program--if widely adopted and adequately funded--would be another effective way for the localities to demonstrate genuine commitment and concern for putting their own administrative house in order.

#### **Changes in Federal Financial Assistance for Urban Information Centers--Recommendation No. 9**

The Commission recommends that Congress amend Title IX of P.L. 89-754 to remove the population ceiling on local governments served by State information centers.

In its consideration of the Demonstration Cities and Metropolitan Development Act of 1966, the Congress had before it the proposal that the Federal Government assist the States and metropolitan area agencies in establishing and operating urban information and technical assistance programs. The Congress voted to authorize assistance to the States to make available information and data on urban needs and programs, and to provide technical assistance to their small communities. A small community was defined as one with a population of less than 100,000. This State program is getting off to a satisfactory start but the Commission believes that similar assistance should be provided to all communities regardless of population.

The maze of categorical assistance programs, offered by Federal departments and agencies with differing purposes and methods of operation, has often proved baffling to penetrate. A mere catalog of the programs is of very limited assistance because of the complexity of matching needs to specific programs. This information gap--as well as the need for technical assistance--are hurdles that all local governments must surmount.



**State Constitutional and Statutory Action To Encourage the  
Use of Private Enterprise in Coping with Urban Problems--  
Recommendation No. 10**

The Commission recommends that each of the industrial or highly urbanized States remove existing constitutional and statutory barriers to involvement of private enterprise in efforts directed toward enlarging and revitalizing the economic and fiscal base of their major cities, and that after such action take positive steps to enhance private-public cooperation in these endeavors.

During the past few years greatly increased attention has been directed, both in Congress and in the Federal Executive Branch, to ways by which the Federal Government and private enterprise might more effectively cooperate in meeting the crises in the Nation's cities. This attention has been prompted by the growing realization that no one level of government--nor even all segments of the public sector working in concert--can cope with manifold problems confronting local governments in our metropolitan areas.

In appreciation of this situation, this Commission was among the first to urge the use of rent supplements as an additional device for meeting the problems of adequate shelter for low-income families.<sup>6/</sup> Currently, many proposals are being discussed and others are in the making for new types of business-Federal Government partnership arrangements for the rebuilding of the cities.

The Commission deems it necessary to depart at this point from the primarily fiscal nature of this report to urge State Governors and legislators to search for ways in which private enterprise might be drawn more effectively into State-local efforts to ameliorate urban problems. The Commission makes this departure because its State-local membership places it in a position to recommend to and communicate freely and continuously with the States and the localities, and because most of the proposals now before the public involve private-Federal cooperation but ignore comparable opportunities open to State and local governments.

The Commission has no specific proposals for State-private cooperation that might be authorized by constitutional or statutory change but is confident that many potentialities exist. A number of State constitutions, for example, contain provisions prohibiting the use of the State's credit in private undertakings. The New York State Constitutional Convention proposed new language in this regard that would have enabled the State to participate with the private sector in urban rebuilding, had the proposed Constitution been adopted.

Some State and local tax policies may affect the incentive to replace obsolete structures, maintain living quarters and generally rehabilitate and upgrade neighborhoods. State and local tax policies may also affect land use and subdivision development in urban areas. Moreover, cooperative efforts between

State and local agencies and private enterprise can assist in providing training for unskilled people and subsequently affording them employment opportunities.

To put it another way, with the increasing responsibility that government at all levels is having to face in combating poverty, crime, delinquency and inadequate education in the metropolitan areas, State constitutions and statutes need to be reexamined to (a) identify barriers to public-private cooperation; (b) evaluate the reasons for the barriers; and (c) unless compelling reasons to the contrary are found, remove or lower them.

### **Improvements in Economic and Social Data**

Time and again in the course of its various studies of the fiscal and structural interrelationships among National, State and local governments, this Commission has encountered data gaps and has recommended that something be done about them. Together with others, we have pointed up the urgent need for more up-to-date detailed information on population and housing than is afforded by the Decennial Census. Our present study of metropolitan central city-suburban community disparities is especially handicapped by the fact that even the most basic demographic information essential to our analysis of fiscal disparities is now (in 1967) seven or eight years old. We are encouraged by the fact that Congress took the first step toward provision of a full-scale Census every five years when the House of Representatives passed legislation to that effect on August 10. We urge the Senate to follow suit.

Much progress has been made in the collection and analysis of economic data. The Office of Business Economics in the Department of Commerce works continually to refine its Gross National Product and National Income series, and is now beginning to produce county and metropolitan area income data on a continuing basis. These efforts should be reinforced and supported.

Emphasis in the Employment Act of 1946 upon continuous compilation and analysis of economic data has provided a set of powerful tools for economic planning. The annual Economic Reports of the President and the detailed reports of the Council of Economic Advisers have become an integral part of the President's accounting to Congress and the public as to the economic health of the Nation. The sophistication of the present state of economic accounting and reporting has caused some scholars to note the lack of a system of "social accounts" that would parallel the "economic accounts." Recent upheavals in our urban centers point up this need.

### **Expansion of IRS Income Statistics for Standard Metropolitan Statistical Areas--Recommendation No. 11**

The Commission recommends that the Internal Revenue Service expand its reporting of income statistics for Standard Metropolitan

Statistical Areas to provide data for the units of general  
local government within such areas.

The 70 million personal income tax returns filed annually with the Internal Revenue Service provide an unparalleled opportunity for accurate reporting of personal income for small geographic areas. IRS now publishes statistics of income for Standard Metropolitan Statistical Areas every two years. The use of zip codes and the requirement that they be entered on the returns with the home address will facilitate the compilation of income data for urban places. City income data in conjunction with the SMSA statistics now being provided will enhance the usefulness of the IRS statistics of income series.

**Establishment of a System of Social Accounts--  
Recommendation No. 12**

The Commission recommends the establishment of a national system for the collection, analysis and dissemination of social statistics, with full participation by Federal, State and local governments, with special emphasis upon the development of such data for sub-State geographic areas (major cities, counties and SMSA's), as well as State and national aggregates.

As the spotlight of public concern focuses more and more sharply upon our Nation's social problems the need becomes increasingly apparent for current and more detailed information on population characteristics and trends, employment and unemployment, income, housing conditions, health and the myriad of other bits and pieces of data that bear upon the interaction of people and institutions upon one another and with their physical environment. We have made great strides in the measurement and analysis of our Nation's economic well-being; we have only begun to scratch the surface in our efforts to gauge our Nation's social well being.

The National Commission on Technology, Automation and Economic Progress stated the problem in the following terms:

We have learned in recent years how to chart economic growth and identify the kinds of policies which may be necessary to stimulate growth. We have begun to perfect an economic reporting system and to establish economic indicators that measure national performance. But we do not have, as yet, a continuous charting of social changes, and we have been ill-prepared (in such matters as housing, education, or the status of the Negro) to determine our needs, establish goals and measure our performance. Lacking any systematic assessment, we have few criteria which

allow us to test the effectiveness of present policies or weigh alternatives regarding future programs.

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A system of social accounts, if it could be established, would give us a broader and more balanced reckoning of the meaning of social and economic progress and would move us toward measurement of the utilization of human resources in our society in four areas:

1. The measurement of social costs and net returns of economic innovations;
2. The measurement of social ills (e.g., crime, family disruption);
3. The creation of "performance budgets" in areas of defined social needs (e.g., housing, education);
4. Indicators of economic opportunity and social mobility.

Eventually, this might provide a "balance sheet" which could be useful in clarifying policy choices. It would allow us to record not only the gains of economic and social change but the costs as well, and to see how these costs are distributed and borne.<sup>2/</sup>

Much of the information needed for such a system of social accounts is now being collected and disseminated: by the Bureau of the Census; by the Department of Labor; by the Justice Department; and by other Federal agencies. The Department of Health, Education, and Welfare has been disseminating a large array of data, some the by-product of its operating programs, some obtained from other sources, in its monthly and annual publications. But there has been no centralized responsibility for culling out the most significant data, for looking at interrelationships, or for following trends and forecasting developments on a systematic basis. A system of social indicators that would enable policymakers to take account of national, regional, State and local trends in discharging their responsibilities for shaping the domestic future of our Nation is long overdue.

A major deficiency of the economic accounts has been their global nature. Gross National Product data are developed quarterly and annually only for national aggregates, and until very recently personal income figures were available only for national, regional and State aggregates. Now, as has been noted, the Office of Business Economics is beginning to make annual estimates of personal income for counties and for metropolitan areas. Only once in ten years have income figures been available for cities and other subcounty areas (but on a different basis from the national income accounts). As a result, such economic indicators as fiscal capacity and tax effort or burden are difficult to apply below the State level (say, in the allocation of Federal grants-in-aid).

The importance of disaggregating social indicators cannot be overemphasized. Public policymakers need detailed information, even to the neighborhood level, on a continuous, current basis, if meaningful policy decisions are to be made. Daniel P. Moynihan notes in a recent article that such social indicators

for small areas as mobility, employment and income, antisocial behavior, health and participation rates (number in school, voting participation, union membership, etc.) would be particularly useful in dealing with the urban problem.<sup>8/</sup>

There are a number of possibilities for lodging responsibility for the development and maintenance of a system of social accounts. The National Commission on Technology, Automation, and Economic Progress suggested the Council of Economic Advisers. Legislation introduced in Congress early this year (S. 843, 90th Congress, 1st Session) proposes the creation of a "Council of Social Advisers" in the Executive Office of the President, organized along the lines of the Council of Economic Advisers. A Task Force on Intergovernmental Information Systems, operating under auspices of the Bureau of the Budget, is now considering a proposal for the establishment of an "Intergovernmental Information Systems Exchange" to facilitate the flow of information among all levels of government. Such an agency would be concerned with the data needs of all governments, and might serve as a vehicle for developing a system of social accounts.

### **Establishing Comparative Standards for Performance of Urban Functions--Recommendation No. 13**

The Commission recommends that Federal, State and local officials work toward the establishment of data facilities for measuring for major urban functions the comparative performance levels of individual local units of government. This effort should be undertaken preferably by existing or new nongovernmental organizations and should look toward the establishment of optimal standards, the collection and analysis of data, and periodic publication of comparative figures.

In the course of studies underlying this report, our investigators have been confronted time and again with the lack of any meaningful measures of the quality of urban governmental services. If the Nation is concerned about what is happening to the "quality of urban life," then the Nation needs to be equally concerned with the inability of public or private agencies to measure this "quality" and to draw meaningful intercommunity comparisons with any reasonable degree of objectivity.

Cities are rated by the insurance industry as to their fire prevention capabilities. Data and techniques have been assembled over the years for the measurement of the "fiscal health" of local government; this is attempted through the municipal security rating services. One city may be rated AAA, another BB and so on. But we have not progressed far in measuring the "social health," the "educational health," or even the "economic health" of our local governments.

The crisis in the cities is apparently destined to occupy a large share of national attention for several years to come. Many billions of tax dollars

from Federal, State and local sources will be collected and deployed to shore up the quality of governmental services in our metropolitan areas. Private funds of much greater magnitude will be invested in the urban centers. Private investor, governmental legislator and executive alike need to be able to find out how one unit of government compares with another in the adequacy and cost of services being provided.

The Commission visualizes a system that ultimately would provide indices of both quality and cost for each of the principal urban services as performed by the major municipalities and counties in the United States. Consulting these evaluations, a private investor might find that in City A education is of high quality and moderately high cost, while in City B it is of moderately high quality and high cost, and while in County C it is of low quality and moderate cost, but that with regard to library services City A was of low quality and moderate cost; City B moderate quality and high cost; and County C high quality and moderate cost. While conscious of the difficulties of establishing such a system, the Commission is convinced that the availability of comparative data of this kind would constitute an increased stimulus to units of government in striving toward the highest possible quality of service at the lowest possible cost.

The Commission believes that one or more instrumentalities of a nongovernmental nature, but with encouragement from government at various levels, could begin to provide the same kind of information and evaluation on governmental services that is provided to the bond market regarding fiscal viability of communities. The Commission would hope that one or more of the private foundations could provide initiative and support to this end.

## Chapter 3

# SOCIAL AND ECONOMIC PATTERNS IN METROPOLITAN AREAS

The changing nature of the population in the central cities of metropolitan areas has a profound effect upon the social and economic characteristics of these areas. The shift in the racial, age and income distribution of central city populations significantly affects both the character of public service demands placed upon the local governments and the revenue resources available to these jurisdictions. These changing social and economic characteristics provide a backdrop for explaining the fiscal disparities among communities in the metropolitan areas.

## SOCIAL AND ECONOMIC CHARACTERISTICS

### Population Growth

The National picture.--The population explosion in metropolitan America is a striking and well-documented fact of twentieth-century life. There has been enormous growth in metropolitan areas (using 1960 definitions) in every decade of this century except the 1930's. Metropolitan population growth has also exceeded nonmetropolitan growth in every decade. As shown in Table 1, projections for 1975 indicate that this growth will continue at a rate approaching 25 percent per decade while the population growth outside the metropolitan areas is projected at 4 percent. In 1900 the metropolitan areas had 42% of the U.S. population. They now have over 64% and are expected to account for at least 68% by 1975 (Fig. 1).

During the first two decades of the twentieth century, central cities grew more rapidly than their surrounding areas (Table A-1; Fig. 2).<sup>\*</sup> This relative growth reflected the large immigration from both rural areas and foreign shores. Population in central cities continued to grow by larger absolute amounts than the outside central city regions until 1930, when the restrictions upon immigration and the spread of automobile ownership began to be felt. The Thirties foreshadowed the post World War II pattern of larger absolute and relative growth outside the central cities. As shown in Table A-2, central city growth fell to about two-thirds the amount of the outside central city growth between 1930 and

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\* See Appendix A for tables with the prefix "A."

TABLE 1.--POPULATION OF THE UNITED STATES, INSIDE AND OUTSIDE METROPOLITAN AREAS, 1900-1975

Year	United States		In SMSA's		Outside SMSA's		SMSA Population As a Percent of Total Population
	Population (thousands)	Percent Increase by Decade	Population (thousands)	Percent Increase by Decade	Population (thousands)	Percent Increase by Decade	
1900	75,995	-	31,836	-	44,159	-	41.9%
1910	91,972	21.0%	42,012	32.0%	49,960	13.1%	45.7
1920	105,711	14.9	52,508	25.0	53,203	6.5	49.7
1930	122,775	16.1	66,712	27.1	56,063	5.4	54.3
1940	131,669	7.2	72,576	8.8	59,093	5.4	55.1
1950	150,697	14.5	88,964	22.6	61,733	4.5	59.0
1960	178,464	18.4	112,385	26.3	66,079	7.0	63.0
1965	192,185	7.5 <sup>1/</sup>	123,813	10.2 <sup>1/</sup>	68,372	3.4 <sup>1/</sup>	64.4
1975	225,284 (est.)	17.2	154,286 <sup>2/</sup>	24.6	70,999 <sup>2/</sup>	3.8	68.5

<sup>1/</sup> Five-year growth.

<sup>2/</sup> Not strictly comparable with figures for prior periods because 1975 covers 224 SMSA's and prior years cover 211 SMSA's (conterminous U.S.).

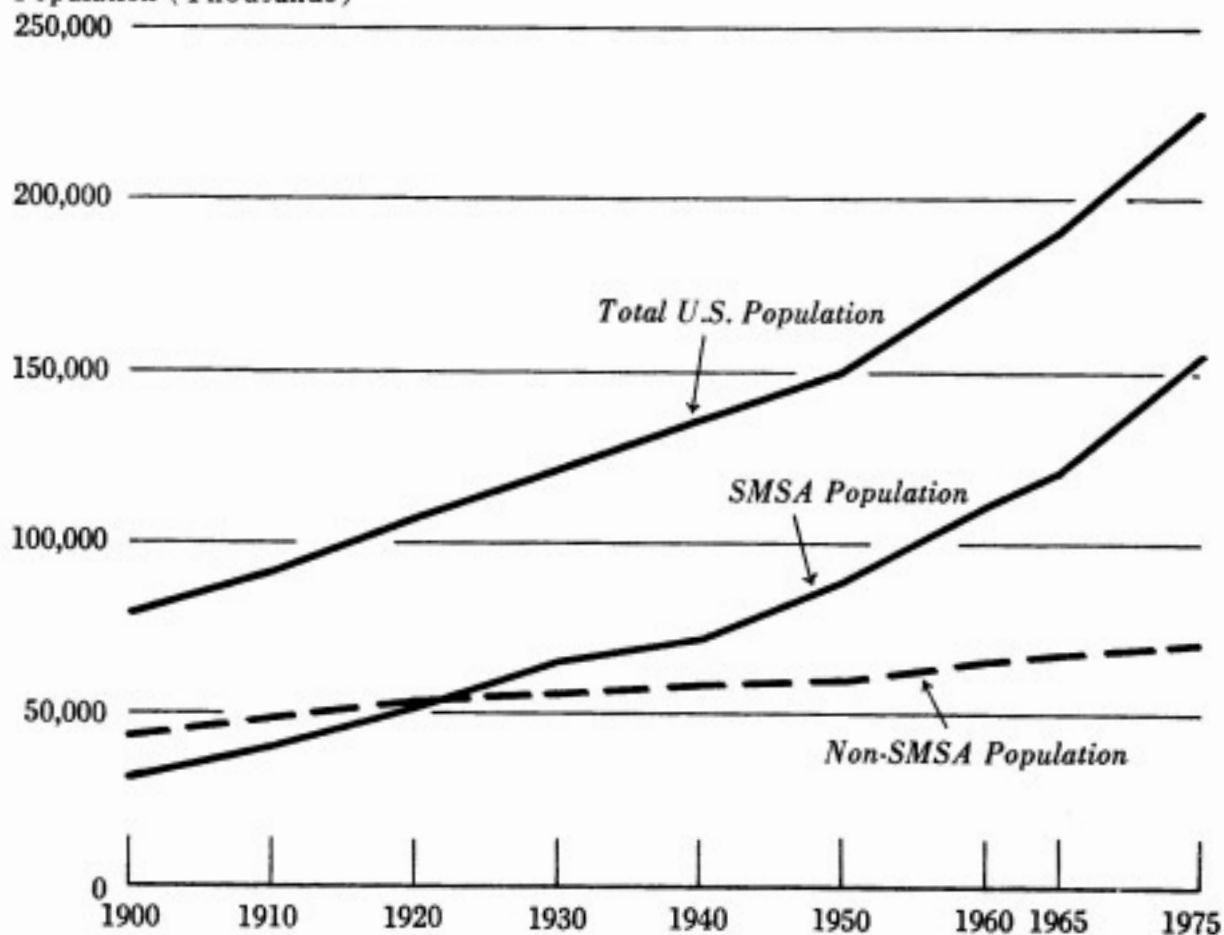
Source: U.S. Bureau of the Census, U.S. Census of Population: 1960, Selected Area Reports: Standard Metropolitan Statistical Areas, Final Report PC(3)-ID; National Planning Association, Economic and Demographic Projections for Two Hundred and Twenty-Four Metropolitan Areas, Vol. III; and Metropolitan Studies Center, Syracuse University.



Figure 1.

### THE GROWTH OF U.S. POPULATION, 1900 - 1975

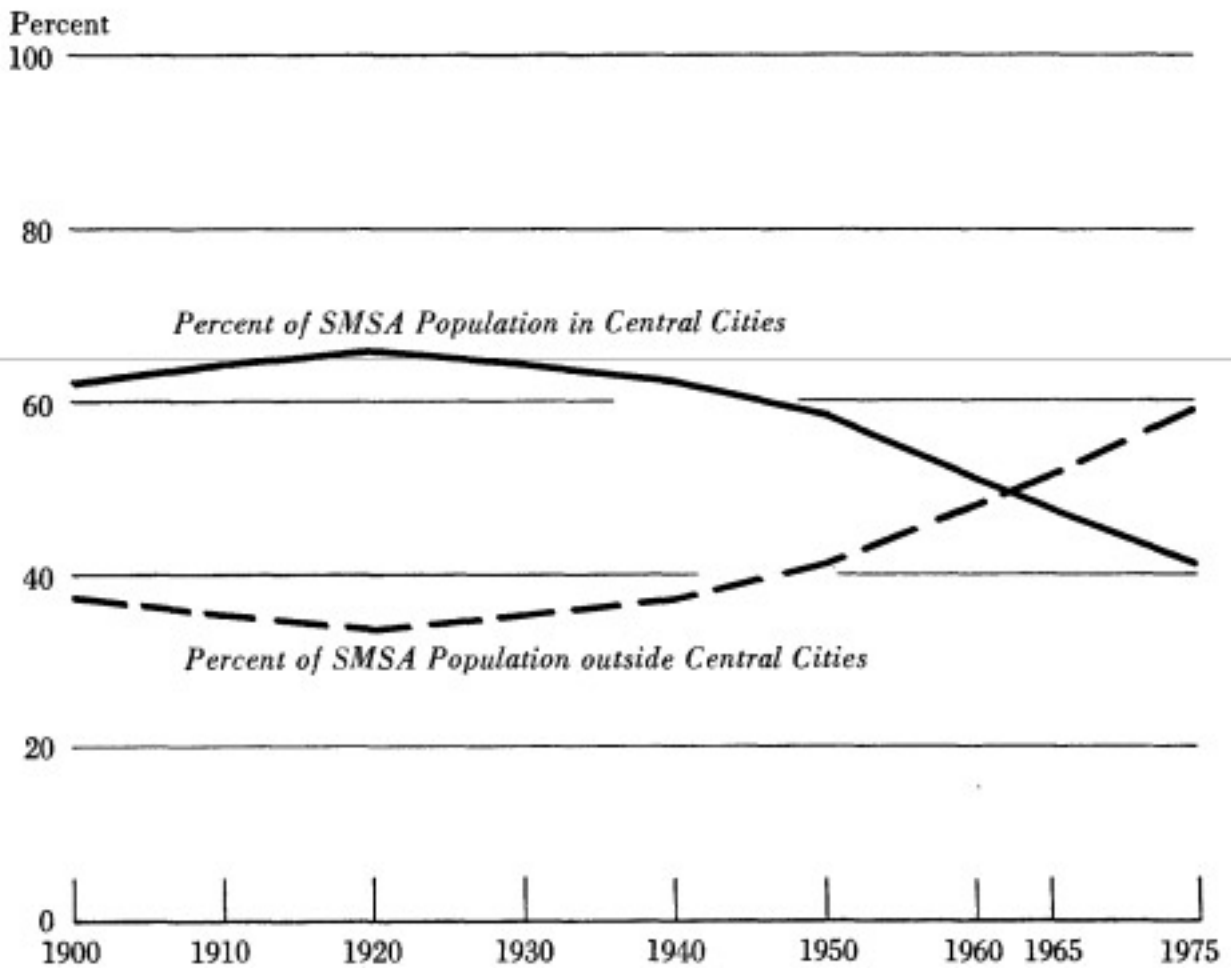
Population (Thousands)



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Figure 2.

**TREND IN DISTRIBUTION OF SMSA POPULATION BETWEEN  
CENTRAL CITIES AND OUTSIDE, 1900-1975**



ACIR

1950, to about one-third between 1950 and 1960, and it is projected to fall to about one-sixth the amount from 1965 to 1975. Figure 2 shows that SMSA population in the outskirts probably pulled abreast of the central city in mid-1962. By 1975, 58.2 percent of the population of SMSA's is expected to reside in the outer portion.

Actually, had it not been for considerable annexation activity, the central city's position in relation to suburbia would have been far worse than that depicted in Fig. 2. Annexation, which is more common than is generally realized,<sup>1/</sup> is responsible for nearly all central city population growth since 1950. Inside their 1950 boundaries the central cities in all size categories experienced a relatively small population increase or an actual decline between 1950 and 1960 (Table 2). Without annexation, the 10.8 percent increase in central city population would drop to 1.5 percent, and the outside central city growth would increase from 48.5 percent to 61.7 percent.

Annexation also explains some population growth in earlier decades. Where cities have grown without annexation, they had considerable undeveloped land within their own borders--the product of earlier annexations. These cities are primarily located in the South and West.

Differences between large and small SMSA's.--There are dramatic differences in the distribution of SMSA growth, according to size. Generally, most of the growth takes place in the central city of the small SMSA and in the suburbs of the large metropolitan areas. The outside central city regions of the large metropolitan areas have not only grown more than the outlying regions in smaller areas, but at a faster rate, and there is a sharp contrast now between the size of the central city and the much more populous outside central city region in the large SMSA's.

The general pattern of population decline in the large central cities of the industrial northeast and midwest is also evident in many of the older cities of the smaller SMSA's. New Haven, Trenton, Harrisburg, Akron, Gary, Peoria, Flint, Wilmington, Charleston and Bakersfield are examples. Other central cities in small SMSA's were beginning to show a similar pattern by 1960 and have probably now (1967) joined the above-mentioned group. Among these are Syracuse, Grand Rapids, Fort Wayne, Omaha and Sacramento.

The Commission's analysis of the four-county Cleveland SMSA shows that it had a 24.6 percent increase in population between 1950 and 1960. Yet this growth was so concentrated in the outside-central-city area that the city itself declined 4 percent in population. The city's portion of the total SMSA population declined from well over 50 percent to less than 40 percent.

The 37 largest SMSA's.--Similarities in central city and outside central city growth rates in the 37 largest SMSA's appear only in the South and West, where annexations obscured the basic growth patterns.\* The ability to annex

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<sup>1/</sup> See Appendix C for bibliographic notes.

\* According to the Commission's case study of the Houston SMSA, that city has been able to raise its social and economic status through selective annexation. Thus, it has not annexed Acres Homes or McNair, both of which border on the city, and have become suburban slum areas. But the city has also incurred additional public costs not entirely offset by the addition to its tax resources. A

(continued)

TABLE 2.--POPULATION GROWTH IN METROPOLITAN AREAS WITH AND WITHOUT  
CENTRAL CITY ANNEXATIONS, BY SIZE OF AREA, 1950-1960

<u>Size of Area As of 1960</u>	<u>Total Change</u> (percent)	<u>Change Without</u> <u>Annexations</u> (percent)
All SMSA's		
Central cities	+10.8%	+1.5%
Outside central cities	+48.5	+61.7
Total	+26.3	+26.3
SMSA's population of:		
3,000,000 or more		
Central cities	+1.0	+0.6
Outside central cities	+71.3	+72.2
Total	+23.2	+23.2
1,000,000 to 3,000,000		
Central cities	+5.6	-2.2
Outside central cities	+44.8	+52.7
Total	+25.0	+25.0
500,000 to 1,000,000		
Central cities	+21.4	+4.8
Outside central cities	+57.4	+81.1
Total	+36.0	+36.0
250,000 to 500,000		
Central cities	+16.2	+2.2
Outside central cities	+36.2	+51.9
Total	+25.6	+25.6
100,000 to 250,000		
Central cities	+24.4	+4.6
Outside central cities	+27.6	+54.5
Total	+25.8	+25.8
Under 100,000		
Central cities	+29.2	+8.6
Outside central cities	+10.9	+69.9
Total	+24.4	+24.4

Source: U.S. Bureau of the Census, U.S. Census of Population, 1960, Vol. 1, Characteristics of the Population, Part A, Number of Inhabitants.

affects, of course, the fiscal situation of the central city. The land annexed may be less densely settled; the residents may have higher income and the land may be more valuable.

Ability to annex unincorporated territory and the role of the State government in controlling new incorporations varies greatly from State to State. For example, in the report covering the Commission's Atlanta study the following comment is made:

The State of Georgia is a "non-urban policy" state. Legislation regarding consolidation of communities is strictly ad hoc, and matters dealing with annexation and other governmental affairs are usually treated through special (class) legislative act.

The patterns described above deal with population growth between 1950 and 1960 without regard to any changes since 1960. To overcome this limitation, the analysis relies upon population estimates for 1957 and 1964, the terminal years of the basic fiscal analysis. The specific population data for individual metropolitan areas and the distribution between central city and outside central city are reported in Table 3. They generally confirm the growth patterns established between 1950 and 1960 as modified by annexation.

The rural component of the outside central city area blurs all "central city-outside central city" comparisons. For all SMSA's in the United States in 1960, 24.3 percent of the population outside the central city resided in rural areas; yet there are enormous variations in the individual areas. These are summarized for the largest metropolitan areas in Table 4. The rural portion of the outside central city population ranged in 1960 from 1.2 percent in Paterson-Clifton-Passaic to 45.5 percent in San Antonio, although this involved a small absolute number of people in the latter case. In the San Bernardino-Riverside-Ontario metropolitan area, the rural portion is absolutely, as well as relatively, large. However, in all central city-outside central city comparisons certain factors must be kept in mind: (1) the proportion of the central city population which is nonwhite; (2) the nature of the area to which the central city is being compared--urban, suburban or rural; and (3) the degree to which the central city contains sections within its corporate limits that resemble suburban communities.

### **Racial Distribution**

Although the Negro population grew in all areas, it was the smaller growth and, in fact, the decline of the white population in the central cities of the largest metropolitan areas that made the impact of the Negro growth there most dramatic (Table 5). For all SMSA's the white population in the central cities rose only 4.7 percent between 1950 and 1960 while the Negro population grew 50 percent. In the five largest SMSA's white population declined almost 7 percent; Negro population rose by 56 percent.

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(Continued) particularly large annexation in 1956 included a number of water districts and private utilities for which the city paid \$10 million and assumed \$39 million of debt. This, according to the city tax department, meant an annual deficit of \$1.5 million, in addition to the cost of some improvements needed to bring the facilities up to acceptable standards.

TABLE 3.--ESTIMATED POPULATION, INSIDE (CC) AND OUTSIDE CENTRAL CITY (OCC),  
37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS,  
1957 AND 1964  
(Thousands)

Area	1964			1957		
	SMSA	CC	OCC	SMSA	CC	OCC
Los Angeles-Long Beach, California	7,715	3,063	4,652	6,031	2,643	3,388
San Bernardino-Riverside-Ontario, California	988	296	692	703	196	507
San Diego, California	1,131	636	495	891	502	389
San Francisco-Oakland, California	2,892	1,109	1,783	2,618	1,123	1,495
Denver, Colorado	1,082	495	587	834	470	364
Washington, D.C.	2,323	795	1,528	1,741	776	965
Miami, Florida	1,051	325	726	803	279	524
Tampa-St. Petersburg, Florida	860	505	355	664	409	255
Atlanta, Georgia	1,161	535	626	931	441	490
Chicago, Illinois	6,591	3,520	3,071	5,909	3,572	2,337
Indianapolis, Indiana <sup>1/</sup>	731	530	201	654	462	192
Louisville, Kentucky-Indiana	770	392	378	680	384	296
New Orleans, Louisiana <sup>1/</sup>	1,001	648	353	848	610	238
Baltimore, Maryland	1,829	943	886	1,631	943	688
Boston, Massachusetts	3,177	670	2,507	3,039	729	2,310
Detroit, Michigan	3,914	1,660	2,254	3,539	1,724	1,815
Minneapolis-St. Paul, Minnesota	1,588	773	805	1,382	807	575
Kansas City, Missouri-Kansas <sup>1,2/</sup>	1,161	530	631	1,019	441	578
St. Louis, Missouri-Illinois <sup>1/</sup>	2,203	700	1,503	2,000	782	1,218
Newark, New Jersey	1,808	395	1,413	1,623	415	1,208
Paterson-Clifton-Passaic, New Jersey	1,271	283	988	1,093	274	819
Buffalo, New York	1,318	505	813	1,242	547	695
New York, New York	11,265	7,987	3,278	10,353	7,815	2,538
Rochester, New York	625	306	319	557	323	234
Cincinnati, Ohio-Kentucky-Indiana <sup>1/</sup>	1,313	495	818	1,195	503	692
Cleveland, Ohio	1,834	811	1,023	1,698	888	810
Columbus, Ohio <sup>2/</sup>	746	540	206	629	443	186
Dayton, Ohio <sup>1/</sup>	761	260	501	672	257	415
Portland, Oregon-Washington	876	380	496	787	373	414
Philadelphia, Pennsylvania-New Jersey	4,617	2,047	2,570	4,141	2,023	2,118
Pittsburgh, Pennsylvania	2,368	560	1,808	2,398	626	1,772
Providence, Rhode Island	735	190	545	708	220	488
Dallas, Texas <sup>2/</sup>	1,256	790	466	981	606	375
Houston, Texas	1,448	1,100	348	1,112	872	240
San Antonio, Texas	755	645	110	631	553	78
Seattle-Everett, Washington	1,178	565	613	1,028	530	498
Milwaukee, Wisconsin <sup>2/</sup>	1,221	765	456	1,123	709	414

<sup>1/</sup> Definition changed between 1957 and 1964.

<sup>2/</sup> Significant annexations during the period.

Source: Metropolitan Studies Center, Syracuse University.

TABLE 4.--URBAN AND RURAL CHARACTERISTICS OF OUTSIDE CENTRAL CITY (OCC) AREAS, 37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS IN THE UNITED STATES, 1960

Area	OCC Urban As a Percent of Total SMSA (1)	OCC Rural As a Percent of Total SMSA (2)	OCC Rural As a Percent of Total OCC Population (2)÷[(1)+(2)]	Density of OCC Per Sq. Mi.
Los Angeles-Long Beach, California	56.7%	1.5%	2.6%	903
San Bernardino-Riverside-Ontario, California	44.3	28.2	38.9	22
San Diego, California	33.4	11.1	25.0	113
San Francisco-Oakland, California	56.8	4.8	7.8	522
Denver, Colorado	40.1	6.7	14.3	121
Washington, D.C.	53.5	8.4	13.6	869
Miami, Florida	64.5	4.4	6.4	318
Tampa-St. Petersburg, Florida	26.2	14.7	35.9	259
Atlanta, Georgia	34.4	17.7	34.0	332
Chicago, Illinois	38.0	4.9	11.4	765
Indianapolis, Indiana	22.9	8.8	27.8	669
Louisville, Kentucky-Indiana	31.8	14.3	31.0	393
New Orleans, Louisiana	25.1	2.7	9.7	262
Baltimore, Maryland	30.6	15.0	32.9	456
Boston, Massachusetts	67.0	9.4	12.3	1,417
Detroit, Michigan	50.3	5.3	9.5	1,146
Minneapolis-St. Paul, Minnesota	40.6	5.7	12.3	343
Kansas City, Missouri-Kansas	45.6	8.7	16.0	373
St. Louis, Missouri-Illinois	51.9	11.7	18.4	419
Newark, New Jersey	71.8	4.3	5.7	1,905
Paterson-Clifton-Passaic, New Jersey	75.5	.9	1.2	2,245
Buffalo, New York	44.3	14.9	25.2	500
New York, New York	24.6	2.6	9.6	1,588
Rochester, New York	32.3	13.3	29.2	420
Cincinnati, Ohio-Kentucky-Indiana	45.6	7.5	14.1	871
Cleveland, Ohio	49.1	2.1	4.1	1,517
Columbus, Ohio	23.1	7.8	25.2	472
Dayton, Ohio	44.3	19.6	30.7	345
Portland, Oregon-Washington	36.6	18.0	33.0	125
Philadelphia, Pennsylvania-New Jersey	43.6	10.3	19.1	685
Pittsburgh, Pennsylvania	56.7	18.2	24.3	601
Providence, Rhode Island	61.6	8.0	11.5	823
Dallas, Texas	29.4	7.9	21.2	120
Houston, Texas	19.0	5.5	22.4	220
San Antonio, Texas	7.9	6.6	45.5	91
Seattle, Washington	34.0	15.7	31.6	133
Milwaukee, Wisconsin	33.0	4.6	12.2	643
U.S. average	36.8	11.8	24.3	183

Source: U.S. Bureau of the Census, U.S. Census of Population: 1960. Vol. I, Characteristics of the Population. Part 1, United States Summary.

TABLE 5.--POPULATION CHANGE, CENTRAL CITY (CC) AND OUTSIDE CENTRAL CITY (OCC),  
STANDARD METROPOLITAN STATISTICAL AREAS, BY RACE AND BY SIZE, 1950-1960

Size Class	Number of SMSA's	Population 1960 (thousands)	Population Change, 1950-1960								
			All Classes			White			Negro		
			Total	CC	OCC	Total	CC	OCC	Total	CC	OCC
<u>Numbers (Thousands)</u>											
3,000,000 and over	5	31,763	5,975	173	5,802	4,451	-1,074	5,525	1,400	1,165	235
1,000,000 to 3,000,000	19	29,819	5,960	670	5,290	4,767	-375	5,142	1,088	980	108
500,000 to 1,000,000	29	19,215	5,089	1,786	3,303	4,372	1,236	3,136	617	502	115
250,000 to 500,000	48	15,829	3,226	1,079	2,147	2,808	760	2,048	393	303	90
100,000 to 250,000	89	14,498	2,972	1,604	1,368	2,630	1,333	1,296	315	273	42
Less than 100,000	22	1,761	346	306	40	317	276	41	25	27	-2
Total	212	112,885	23,421	5,573	17,848	19,260	2,134	17,126	3,834	3,248	586
<u>Percent Change</u>											
3,000,000 and over	5	31,763	23.2%	1.0%	71.3%	19.1%	-6.9%	70.9%	58.0%	55.7%	73.3%
1,000,000 to 3,000,000	19	29,819	25.0	5.6	44.8	22.1	-3.6	45.7	49.8	59.5	20.0
500,000 to 1,000,000	29	19,215	36.0	21.4	57.1	35.2	17.6	58.0	44.2	44.8	41.7
250,000 to 500,000	48	15,829	25.6	16.2	36.2	24.3	12.8	36.4	39.7	42.8	32.1
100,000 to 250,000	89	14,498	25.8	24.2	28.0	25.7	23.1	29.2	24.8	33.1	9.4
Less than 100,000	22	1,761	24.4	29.2	10.8	24.2	28.1	12.6	24.5	41.6	-6.7
Total	212	112,885	26.4	10.7	48.5	24.0	4.7	49.2	45.9	50.3	30.7

Source: U.S. Bureau of the Census, U.S. Census of Population, 1960, Selected Area Reports, Standard Metropolitan Statistical Areas, Final Report PC(3)-1D.



Outside those largest central cities in the five largest SMSA's, the white and Negro populations increased in similar proportions--about 70 percent each; but the Negro population rose from about 12 percent of the central city population to 18 percent, while remaining constant outside the central city--about 4 percent in both 1950 and 1960. This was similar to the trend for SMSA's as a whole: Between 1950 and 1960 the Negro proportion of the central city population rose from 12.3 to 16.7 percent but actually dropped from 5.2 to 4.5 percent of the SMSA population outside the central cities.

This trend is continuing, as indicated by the following analysis of the distribution of all nonwhite population:

Year	Central Cities	Outside Central City Areas			
		Total	Other Urban Territory	Rural Nonfarm	Rural Farm
1960	17.3%	5.1%	4.5%	6.1%	6.7%
1966	21.5	4.7	n.a.	n.a.	n.a.

Further evidence of the increasing concentration of Negroes in the central cities is revealed in Table 6. By 1965, the populations of 11 of the 30 largest cities contained more than 25 percent Negroes. The Negro population of Washington, D.C., was well over half, and that of Newark was fast approaching that mark.

As expected, the pattern of population decline in our larger cities is reinforced when examining only white families. The outside central city growth rates were large and in complete conformity with the national patterns, even apart from annexation.

Although Negro population growth was considerable throughout the country, both inside and outside the central cities, the rates can be misleading. Where the Negro population base in 1950 was very small, as in Rochester and Milwaukee (Table 7), the growth rates appear quite large. These growth rates are shown in Table A-3. Smaller growth rates appear primarily in those places where the base in 1950 was large.\*

### Age Distribution and Public Welfare Case Loads

The growing concentration of nonwhite population in the central cities has important consequences for the demand for public services in general and education in particular. For example, the nonwhite population had a larger proportion of children under the age of 15 in 1960 than did the white population.

\* In most cases where there was an absolute decline in Negro population outside the central city, it was due to annexations by the central city, as in the cases of Columbus, Dallas and San Antonio.

TABLE 6.--PROPORTION OF NEGROES IN EACH OF THE 30 LARGEST CITIES,  
1950, 1960 AND ESTIMATED 1965  
(Percent)

City	1950	1960	1965 (Est.)*
New York, New York	10%	14%	18%
Chicago, Illinois	14	23	28
Los Angeles, California	9	14	17
Philadelphia, Pennsylvania	18	26	31
Detroit, Michigan	16	29	34
Baltimore, Maryland	24	35	38
Houston, Texas	21	23	23
Cleveland, Ohio	16	29	34
Washington, D.C.	35	54	66
St. Louis, Missouri	18	29	36
Milwaukee, Wisconsin	3	8	11
San Francisco, California	6	10	12
Boston, Massachusetts	5	9	13
Dallas, Texas	13	19	21
New Orleans, Louisiana	32	37	41
Pittsburgh, Pennsylvania	12	17	20
San Antonio, Texas	7	7	8
San Diego, California	5	6	7
Seattle, Washington	3	5	7
Buffalo, New York	6	13	17
Cincinnati, Ohio	16	22	24
Memphis, Tennessee	37	37	40
Denver, Colorado	4	6	9
Atlanta, Georgia	37	38	44
Minneapolis, Minnesota	1	2	4
Indianapolis, Indiana	15	21	23
Kansas City, Missouri	12	18	22
Columbus, Ohio	12	16	18
Phoenix, Arizona	5	5	5
Newark, New Jersey	17	34	47

\*Except for Cleveland, Buffalo, Memphis and Phoenix, for which a special census has been made in recent years, these are very rough estimations computed on the basis of the change in relative proportions of Negro births and deaths since 1960.

Source: United States Department of Labor, Bureau of Labor Statistics, and United States Department of Commerce, Bureau of the Census, Social and Economic Conditions of Negroes in the United States, Current Population Reports, Series P-23, No. 24, October, 1967.

TABLE 7.--NEGRO PERCENTAGE OF POPULATION INSIDE (CC) AND OUTSIDE CENTRAL CITY (OCC), 37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS IN THE UNITED STATES, 1950 AND 1960

Area	1960		1950	
	CC	OCC	CC	OCC
Los Angeles-Long Beach, California	12.2%	3.1%	7.9%	2.0%
San Bernardino-Riverside-Ontario, California	5.6	2.9	3.0	2.8
San Diego, California	6.0	1.1	4.5	1.0
San Francisco-Oakland, California	14.3	4.8	7.9	5.2
Denver, Colorado	6.1	0.3	3.6	0.5
Washington, D.C.	53.9	6.1	35.0	8.6
Miami, Florida	22.4	11.2	16.2	10.0
Tampa-St. Petersburg, Florida	15.4	5.8	18.7	8.3
Atlanta, Georgia	38.3	8.5	36.6	12.9
Chicago, Illinois	22.9	2.9	13.6	2.8
Indianapolis, Indiana	20.6	0.8	15.0	0.9
Louisville, Kentucky-Indiana	17.9	3.9	15.6	4.1
New Orleans, Louisiana	37.2	14.1	31.9	15.4
Baltimore, Maryland	34.7	6.7	23.7	10.1
Boston, Massachusetts	9.1	0.8	5.0	0.7
Detroit, Michigan	28.9	3.7	16.2	4.9
Minneapolis-St. Paul, Minnesota	2.5	0.1	1.5	0.1
Kansas City, Missouri-Kansas	17.5	5.9	12.2	8.9
St. Louis, Missouri-Illinois	28.6	6.1	17.9	7.2
Newark, New Jersey	34.1	6.7	17.1	5.7
Paterson-Clifton-Passaic, New Jersey	9.3	1.9	4.3	1.9
Buffalo, New York	13.3	1.6	6.3	1.5
New York, New York	14.0	4.8	9.5	4.4
Rochester, New York	7.4	0.2	2.3	0.2
Cincinnati, Ohio-Kentucky-Indiana	21.6	3.4	15.5	4.2
Cleveland, Ohio	28.6	0.7	16.2	0.8
Columbus, Ohio	16.4	1.5	12.4	3.9
Dayton, Ohio	21.8	2.9	14.0	3.5
Portland, Oregon-Washington	4.2	0.2	2.6	0.4
Philadelphia, Pennsylvania-New Jersey	26.4	6.1	18.2	6.5
Pittsburgh, Pennsylvania	16.7	3.4	12.2	3.5
Providence, Rhode Island	4.0	0.5	2.6	0.5
Dallas, Texas	19.0	6.5	13.1	13.9
Houston, Texas	22.9	10.3	20.9	11.6
San Antonio, Texas	7.1	3.7	7.0	4.2
Seattle, Washington	4.8	0.2	3.4	0.3
Milwaukee, Wisconsin	8.4	0.2	3.4	0.2
U.S. average	16.7	4.5	12.3	5.2

Source: U.S. Bureau of the Census, U.S. Census of Population, 1960, Selected Area Reports, Standard Metropolitan Statistical Areas, Final Report PC(3)-1D.

Age Group	Central City	Outside Central City Areas			
		Total	Other Urban Territory	Rural Nonfarm	Rural Farm
Total population	100.0%	100.0%	100.0%	100.0%	100.0%
Under 15	28.1	32.9	32.7	34.3	31.0
15-60	57.6	56.5	56.6	55.8	54.0
60 and over	14.3	10.6	10.7	9.9	15.0
White	100.0	100.0	100.0	100.0	100.0
Under 15	26.7	33.5	33.6	34.1	31.0
15-60	57.7	55.9	55.6	55.9	53.8
60 and over	15.6	10.6	10.8	10.0	15.2
Nonwhite	100.0	100.0	100.0	100.0	100.0
Under 15	35.5	38.1	37.0	39.0	40.6
15-60	56.6	53.8	55.4	51.9	49.4
60 and over	7.9	8.1	7.6	9.1	10.0

One manifestation of the shifting racial and age distribution in the central city is a high public assistance case load (Table 8.). With only one exception among the cities for which such data could be developed, the city's share of its State's welfare case load is dramatically larger than its share of the State's population. Baltimore, with only about one-fourth of Maryland's population in 1966, contained almost three-fourths of the State's recipients of aid to families with dependent children.

In 1960 the proportion of young children was still larger outside the central cities than inside, but this is beginning to change. But, even where this relationship (more children in suburbia) still holds, the fact remains that the high proportion of children under age 15 in the urban areas is associated with higher incomes than exist in the central cities. And, rural areas with a high percentage of children are not confronted with urban problems; moreover, they generally receive higher State aid for educational purposes.

There is a larger concentration of the elderly in both central cities and rural farm areas than in the higher income suburbs, but the most acute social, economic and fiscal problems of the elderly are in the central city environment.

### Income Pattern

The great disparities between the central city and outside central city are most evident in the case of income and these differences reflect a variety of underlying factors.

In national aggregates, the stereotype of the high income suburb and the low income central city emerges (Table 9). Yet these numbers obscure more than they reveal. It is clear that the proportion of all families with incomes less than \$3,000 declines as the size of the metropolitan area increases. Yet this decline takes place primarily outside the central city. The proportion of families in the smallest central cities with an income under \$3,000 is 18.8 percent, while in the largest central cities the proportion is 15.4 percent. By contrast, outside the central city in the smallest SMSA's 27.2 percent of the families have incomes below \$3,000, compared to only 8.9 percent in the outlying regions of the

TABLE 8.--CITY SHARE OF STATE POPULATION AND PUBLIC ASSISTANCE RECIPIENTS FOR SELECTED CITIES, 1956 AND 1966<sup>1/</sup>

<u>City and Item</u>	<u>1956</u>	<u>1966</u>	<u>Percent Change 1956-1966</u>	<u>City and Item</u>	<u>1956</u>	<u>1966</u>	<u>Percent Change 1956-1966</u>
New York City				Denver			
Population	49.6%	44.2%	-10.9%	Population	29.7%	25.1%	-15.5%
Total PA recipients	67.3	70.2	+4.3	Total PA recipients	35.8	34.5	-3.6
AFDC recipients	74.0	71.7	-3.1	AFDC recipients	41.2	43.2	+4.9
Philadelphia				Norfolk			
Population	18.6	17.8	-4.3	Population	7.1	7.0	-1.4
Total PA recipients	26.1	29.6	+13.4	Total PA recipients	8.4	10.2	+21.4
AFDC recipients	29.4	32.8	+11.6	AFDC recipients	9.5	11.6	+22.1
Baltimore				Richmond			
Population	35.1	26.8	-23.6	Population	7.6	4.9	-35.5
Total PA recipients	64.3	66.4	+3.3	Total PA recipients	14.6	15.2	+4.1
AFDC recipients	68.4	71.2	+4.1	AFDC recipients	17.2	17.1	-0.6
Boston				Alexandria			
Population	17.2	13.6	-20.9	Population	2.1	2.4	+14.3
Total PA recipients	28.3	32.0	+13.1	Total PA recipients	1.1	0.7	-36.4
AFDC recipients	36.4	38.4	+5.5	AFDC recipients	1.0	0.5	-50.0
San Francisco				Roanoke			
Population	5.9	3.9	-33.9	Population	2.6	2.2	-15.4
Total PA recipients	5.4	4.9	-9.3	Total PA recipients	4.1	3.9	-4.9
AFDC recipients	5.0	4.6	-8.0	AFDC recipients	4.7	4.4	-6.4
St. Louis							
Population	19.4	15.5	-20.1				
Total PA recipients	16.4	25.5	+55.5				
AFDC recipients	24.6	37.1	+50.8				

<sup>1/</sup> Population data are for July 1955 and July 1965; recipient data are for June 1956 and June 1966.

Source: U.S. Bureau of the Census, Current Population Reports, Series P-25; and Department of Health, Education, and Welfare, Welfare Administration; various issues of Welfare in Review, and unpublished data.

TABLE 9.--PERCENT OF FAMILIES WITH INCOMES UNDER \$3,000 AND OVER \$10,000 BY COLOR OF HEAD AND SIZE OF SMSA FOR CENTRAL CITIES (CC) AND OUTSIDE CENTRAL CITIES (OCC), 1959

Size of Area	All Classes			White			Nonwhite		
	Total	CC	OCC	Total	CC	OCC	Total	CC	OCC
<u>Percent Under \$3,000</u>									
3,000,000 and over	12.6%	15.4%	8.9%	10.6%	12.7%	8.3%	27.9%	28.6%	24.0%
1,000,000 to 3,000,000	13.0	17.1	10.0	10.8	13.4	9.2	32.6	32.6	32.5
500,000 to 1,000,000	17.2	19.8	14.2	14.7	16.4	13.1	37.9	37.8	38.3
250,000 to 500,000	17.6	18.7	16.6	15.3	15.3	15.2	46.1	44.4	51.0
100,000 to 250,000	19.5	19.6	19.3	16.1	15.6	16.6	52.3	49.5	59.3
Less than 100,000	20.7	18.8	27.2	18.2	16.6	24.1	57.2	54.5	64.5
Total	15.2	17.6	12.5	12.8	14.4	11.4	36.7	35.8	40.4
<u>Percent Over \$10,000</u>									
3,000,000 and over	23.0	19.5	27.6	24.9	21.9	28.3	7.4	7.2	9.1
1,000,000 to 3,000,000	20.8	16.6	23.9	22.5	19.2	24.5	6.2	6.0	6.9
500,000 to 1,000,000	16.4	14.6	18.4	17.6	16.3	19.0	6.0	5.9	6.5
250,000 to 500,000	14.6	14.7	14.5	15.6	16.2	15.0	2.8	2.8	2.8
100,000 to 250,000	13.7	14.3	12.9	14.9	15.9	13.6	2.3	2.4	1.9
Less than 100,000	13.8	14.4	12.0	14.7	15.2	12.8	1.6	1.6	1.7
Total	18.8	16.5	21.2	20.3	18.5	21.9	5.3	5.2	5.3
<u>Ratio: Number Over \$10,000 Per 100 Under \$3,000</u>									
3,000,000 and over	183.0	126.7	311.5	234.1	172.8	340.4	26.6	25.1	37.7
1,000,000 to 3,000,000	160.5	97.3	238.9	208.5	143.3	265.9	19.0	18.4	21.3
500,000 to 1,000,000	95.6	73.8	129.3	120.0	99.6	144.9	15.9	15.7	16.9
250,000 to 500,000	82.8	78.6	87.4	101.8	105.7	98.3	6.1	6.3	5.6
100,000 to 250,000	70.3	73.1	66.6	92.5	101.5	82.0	4.3	4.9	3.2
Less than 100,000	67.0	76.3	44.0	80.5	91.4	53.2	2.8	2.9	2.7
Total	123.9	93.5	169.4	157.9	128.9	191.9	14.3	14.6	13.1

Source: U.S. Bureau of the Census, U.S. Census of Population, 1960, Selected Area Reports, Standard Metropolitan Statistical Areas, Final Report PC(3)-1D.

largest metropolitan areas. A similar pattern exists for both the white and non-white classifications.

A like phenomenon in reverse exists for the families with incomes over \$10,000--as the size of the metropolitan area increases, the proportion of families with \$10,000 plus income increases from 13.8 percent to 23.0 percent; however, the increase is from 14.4 to 19.5 percent in the central cities, and from 12.0 to 27.6 percent outside the central cities. Again, the income patterns are similar, but at different levels, for white and nonwhite families.

When size of place is considered, a crucial disparity emerges between the central city and the outside central city areas. In the smallest SMSA's the central city has a slightly higher proportion of well-off families than do its environs, and a lower proportion of poor. But in the largest central cities, even though the proportion of well-to-do is higher than that of the smallest (19.5% as compared to 14.4%), it is low compared to their suburban areas. The largest central cities also have nearly twice as high a proportion of poor as do their suburbs. These facts are summarized below:

	Income in Smallest SMSA's		Income in Largest SMSA's	
	Above \$10,000	Below \$3,000	Above \$10,000	Below \$3,000
Central city	14.4%	18.8%	19.5%	15.4%
Outside central city	12.0	27.2	27.6	8.9
Total	13.8	20.7	23.0	12.6

Detailed national aggregates for the outside central city area clearly demonstrate a central city income lag relative to its suburban neighbors. Data on median family income illustrate the emerging disparities:

Year	Central Cities	Outside Central City Areas			
		Total	Other Urban Territory	Rural Nonfarm	Rural Farm
1959	\$5,940	\$6,707	\$7,002	\$5,830	\$4,543
1964	6,697	7,772	n.a.	n.a.	n.a.

The disparity between central city and outside central city family income grew by \$308 from 1959 to 1964. An analysis of the 1959 data reveals the deflating effect of the lower incomes in the rural farm and rural nonfarm areas. The disparity is not a function of distance, because there is clear indication that distance from the central city is associated with higher and not lower incomes. Rather, in this case the difference reflects the industrial-occupational mix of the component areas.

37 largest SMSA's--The income patterns of the central city and outside central city areas in the 37 largest metropolitan centers are evaluated in two ways--either by a direct comparison of the central city to the entire outside

area in the SMSA (Table A-4), or by a comparison of the central city to its outside central city region adjusted for the rural component (Table A-5).\*

Once the deflating effect of the lower income of the "rural" population of the SMSA is offset or stripped out, then metropolitan areas across the Nation exhibit the classical income disparity pattern--a clear-cut income differential situation that favors suburbia. As might be expected, the suburban income advantage over the central city becomes even more dramatic for many of the Northeastern and Midwestern metropolitan areas. For many Southern and Western metropolitan areas, this rural adjustment has a highly significant "turn around" effect--instead of the income differential favoring the central city it now clearly favors suburbia.\*\* To put the issue in another way, once the rural adjustment is made, suburbia enjoys a clear-cut advantage over the central city in every section of the land with regional variation simply one of degree--i.e., a greater suburban advantage in the Northeastern and Midwestern areas than in the South and the West.

While the use of an admittedly arbitrary rural adjustment factor may overstate the 1964 household income of suburbanites in some metropolitan areas, it is absolutely necessary to make every effort to offset the deflating effect that inclusion of the lower household income of rural families has on income levels for the outside central city areas. The true central city-suburban income disparity undoubtedly falls somewhere between the 1959 Census bench mark figures and the 1964 estimates based on the rural component adjustment. Without this adjustment, the relationship between central city and suburbia income levels is highly distorted in those metropolitan areas (particularly in the South and West) with large rural components. Looking at unadjusted income data (Table 10), one would come to the conclusion that most of the major cities in the South and West enjoyed higher income levels than their suburban neighbors. Yet this would be at complete variance with the last Census finding--that by 1959 the urban fringe had already forged ahead in every major metropolitan area except San Bernardino (Table 10).

The reasons for the persistence of these income disparities and some of the problems they create are explained in the Commission's study of the two New Jersey metropolitan areas:

The major cities of New Jersey have long been a haven for immigrants from the rural South as well as from abroad. Acculturation of newcomers presented no financial problems to city governments so long as fiscal resources remained adequate.

\* \* \*

Under present [zoning] law the affluent suburbs are able to exclude low-income families and minimize tax burdens which are then transferred to the over-burdened central cities.

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\* To offset the deflating effect of the lower incomes of rural families living in the outside central city section of the SMSA, the average household income is raised by an adjustment factor which is based on the rural proportion of the population that lived outside the central city area in 1959. For a detailed discussion of this adjustment procedure see Appendix B.

\*\* This "turn around" effect is seen in Los Angeles; San Bernardino; San Diego; Tampa; Atlanta; Portland, Oregon; Dallas; Houston and Seattle (Table 10).



TABLE 10.--RELATIONSHIP BETWEEN CENTRAL CITY (CC) AND OUTSIDE CENTRAL CITY (OCC)  
 AVERAGE HOUSEHOLD INCOME, UNADJUSTED AND ADJUSTED FOR RURAL COMPONENTS,  
 37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS, 1964

Area	OCC As a Percent of CC, 1964		Exhibit: Urban Fringe As a Percent of CC, 1959
	Unadjusted	Adjusted	
Los Angeles-Long Beach, California	99.4%	100.3%	105.5%
San Bernardino-Riverside-Ontario, California	87.4	101.3	92.5
San Diego, California	92.7	101.7	104.0
San Francisco-Oakland, California	117.5	120.9	113.8
Denver, Colorado	101.3	106.7	109.1
Washington, D.C.	122.0	128.1	141.4
Miami, Florida	136.2	139.3	131.6
Tampa-St. Petersburg, Florida	94.9	108.6	111.3
Atlanta, Georgia	98.0	111.2	139.1
Chicago, Illinois	131.7	137.2	124.5
Indianapolis, Indiana	134.3	148.8	126.8
Louisville, Kentucky-Indiana	134.6	151.0	123.1
New Orleans, Louisiana	104.2	107.9	128.1
Baltimore, Maryland	119.9	135.6	125.1
Boston, Massachusetts	126.8	132.5	121.1
Detroit, Michigan	123.5	127.7	123.1
Minneapolis-St. Paul, Minnesota	115.5	120.7	115.5
Kansas City, Missouri-Kansas	104.4	110.6	115.6
St. Louis, Missouri-Illinois	138.1	147.7	132.2
Newark, New Jersey	164.6	168.0	141.8
Paterson-Clifton-Passaic, New Jersey	140.5	141.1	126.8
Buffalo, New York	121.0	132.7	123.0
New York, New York	150.8	156.0	127.9
Rochester, New York	138.3	154.1	132.1
Cincinnati, Ohio-Kentucky-Indiana	114.4	120.4	120.4
Cleveland, Ohio	177.9	180.5	134.6
Columbus, Ohio	143.8	157.7	130.6
Dayton, Ohio	118.8	133.1	118.6
Portland, Oregon-Washington	98.1	110.9	106.4
Philadelphia, Pennsylvania-New Jersey	131.5	141.0	125.0
Pittsburgh, Pennsylvania	104.0	113.7	113.5
Providence, Rhode Island	102.9	107.2	115.9
Dallas, Texas	94.7	102.3	112.9
Houston, Texas	97.8	106.2	113.3
San Antonio, Texas	198.2	NC	164.0
Seattle-Everett, Washington	94.8	106.6	108.0
Milwaukee, Wisconsin	143.4	149.8	116.8

NC = Not computed.

Source: Appendix Tables A-4 and A-5.

## Educational Attainment

The major educational problems of the central cities are reflected in the enrollment ratios and the educational attainment of the population. For the population over 25 years of age in 1960 the educational attainment was as follows:

Item	Central City	Outside Central City Areas			
		Total	Other Urban Territory	Rural Nonfarm	Rural Farm
Median school years	10.7	11.8	12.0	10.6	9.2
Percent less than five years	8.4%	n.a.	4.8%	7.4%	8.7%
Percent four years of college or more	8.0%	n.a.	10.7%	7.0%	4.5%

Once again there is a significant disparity between the central city and outside central city areas. However, as in the case of income, the disparity is reduced by the advantage that the central city enjoys over at least a part of the rural area. As the rural portion of the outside central city is reduced, the disparity increases.

The impact of the rural component is seen not only in terms of the educational attainment, which is so closely related to present income, but also in the enrollment ratio, which is related to potential income. The proportion of population 16-17 not enrolled in any school, a good measure of the "drop-out" rate, was as follows for 1960:

Central city	20.6%
Outside central city areas, total	17.0
Other urban territory	14.7
Rural nonfarm	20.8
Rural farm	16.8

The data show a higher dropout rate in the central cities than in the urban or rural farm areas, but a central city rate almost identical to that in the rural nonfarm areas. It should be noted here that the low dropout rate in the rural farm areas reflects the later age for beginning school; where only 44.5 percent of children aged 5-6 are enrolled in school in rural farm areas, 71.9 percent of such children are enrolled in the central city areas.

While dropouts form a smaller proportion of the entire population of the largest SMSA's than they do of all smaller SMSA's, there is a significantly sharp contrast in dropout rates between the central city and the outside central city in the largest SMSA's. The central city averages 13.5 percent of persons 14-17 years old not in school, compared to 9.0 percent in the urban fringe (Table A-6).\*

\* The percent of dropouts ranges from 10.9 in the city to 3.8 in the urban fringe in Rochester, or nearly 3 to 1. A similar range is shown for Columbus.

(continued)

## Housing

While data deficiencies frustrate suburban-rural housing comparisons for the areas outside the central city, some clear-cut disparities between the central cities and their environs do emerge, and the direction, if not the magnitude, of the rural impact can be ascertained.

The following disparities appear to be of greatest consequence. First, a significantly larger proportion of the population lives in single family dwellings outside the central city than inside--84.7 percent compared to 53.1 percent. The relationship for owner-occupied housing is roughly the same as for single family dwellings--72.7 percent to 47.4 percent. Further, and as expected, the housing outside the central city areas is considerably newer than that of the central city. As of 1960, only 19.8 percent of central city housing had been built during the fifties compared with 41.5 percent outside central city.

Finally, the proportion of housing which is unsound is significantly higher in the central city. Once again the rural component distorts the national totals, but even in this case the proportion of owner-and-renter-occupied unsound housing in 1960 was 20.4 percent in the central cities and 15.6 percent in the "outside central city" areas. The close relation between housing and income implies that a considerable proportion of the unsound housing outside the central city, both renter and owner-occupied, is rural in character. Yet, as is pointed out in the Commission's study of the Chicago area, some of the central city's older neighboring communities look as bad as the central city. Thus, the Chicago suburb of Chicago Heights had 21.7 percent of its dwelling units listed as unsound in the 1960 Census, and Summit had 19.5 percent unsound dwelling units.

Table A-7 shows that the ownership role everywhere in the "outside central city" is sixty percent or above, whereas in the central cities with only a few exceptions it never reaches that rate. In all cases the central city has a lower proportion of owner-occupied housing than does its surrounding area. The central city--outside city ratios of substandard housing are nearly 4 to 1 in Newark, 3 to 1 in New York City and 2 to 1 in Indianapolis. Among the 37 largest SMSA's, only San Bernardino-Riverside and the Dallas metropolitan areas exhibit ratios favorable to the central cities.

## Unemployment

Unemployment rates reveal another aspect of the central city fiscal problem. With few exceptions, rates of unemployment are higher in the central city than in the urban fringe areas--frequently substantially so. During 1960, a year of relatively high joblessness overall, 55 out of every thousand central

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(Continued) The figures are 17.7 in the city and 9.0 in the urban fringe in the St. Louis area. This is a ratio of about 2 to 1. Disparities of similar magnitude are noted for New York City, Cleveland, Washington, D.C., Indianapolis and Boston.

With regard to school years completed, the median ranges from 9.0 years in New Orleans to 11.1 years in its environs; 9 years in Newark and 11.8 in its suburbs; 8.8 in St. Louis to 10.9 in the suburbs. On the other hand, for several SMSA's, disparities in terms of school years completed are insignificant or run in the other direction.

city residents in the large SMSA's were unemployed on the average whereas the comparable figure for the urban fringe area was 41 (Table A-8).\*

Despite the reduction in overall unemployment since 1960, fragmentary evidence would seem to indicate that the disparity in unemployment rates between central cities and their outlying areas persists. This is indicated by Table 11, which compares unemployment rates as of 1966 in certain slum areas with such rates in the metropolitan areas as a whole. Though not strictly comparable with the 1960 data in terms of area coverage, it is clear enough that the disparity in unemployment continues to strike with particular emphasis in the central cities.

### Crime and Delinquency

Social and economic disparities directly affect the incidence of crime and delinquency, a fact made clear by the President's Commission on Law Enforcement and Administration of Justice.<sup>2/</sup> Among the factors the Federal Bureau of Investigation lists as contributing to the incidence of crime are:

- Density and size of the community population and the metropolitan area of which it is a part;
- Composition of the population with reference particularly to age, sex, and race;
- Economic status and mores of the population; and
- Relative stability of population, including commuters, seasonal, and other transient types.

It is not surprising, therefore, that the large central cities are particularly beset by the ravages of crime. This is illustrated by the following tabulation of 1965 robbery rates per 100,000 population for several cities, comparing the central city rate with that for its metropolitan area as a whole:<sup>3/</sup>

<u>Area</u>	<u>Central City</u>	<u>Metropolitan Area</u>
Chicago	420.8	244.3
Newark	379.8	109.4
Washington	358.8	153.2
Miami	241.2	164.2
Los Angeles	293.4	189.1
Cleveland	213.4	101.1
Houston	135.3	95.5
Dayton	129.6	55.2

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\* For certain areas, however, the disparity was far greater; central city unemployment rates were more than double the urban fringe rates in Washington, D.C., Chicago, Indianapolis, Newark, Rochester, Cleveland and Columbus. Only in the San Bernardino-Riverside-Ontario, California and St. Petersburg, Florida areas, were the unemployment rates relatively lower in the central cities.

TABLE 11.--UNEMPLOYMENT RATES FOR SLUM AREAS AND FOR METROPOLITAN AREAS  
AS A WHOLE, SELECTED SMSA'S, 1966

<u>Metropolitan Area and Slum Area</u>	<u>Unemployment Rate</u>	
	<u>Slum Area, November 1966</u>	<u>Metropolitan Area, Average for Year Ending August 1966</u>
Boston Roxbury area	6.9%	3.7%
Cleveland Hough and surrounding neighborhood	15.6	3.5
Detroit Central Woodward area	10.1	4.3
Los Angeles South Los Angeles	12.0	6.0
New Orleans Several contiguous areas	10.0	n.a.
New York Harlem East Harlem Bedford-Stuyvesant	8.1 9.0 6.2	4.6
Philadelphia North Philadelphia	11.0	4.3
Phoenix Salt River Bed area	13.2	n.a.
St. Louis North Side	12.9	4.5
San Antonio East and West sides	8.1	n.a.
San Francisco-Oakland San Francisco, Mission-Fillmore Oakland, Bayside	11.1 13.0	5.2

n.a. = Data not available.

Source: U.S. Department of Labor Manpower Report of the President (U.S. Government Printing Office: April, 1967), p. 75.

The Commission's case studies underscore this fact--"The central city is where a majority of crimes take place. Atlanta had a crime index almost four times that of DeKalb County." In the "model city" or core area of Louisville, "comparisons of per capita total and juvenile arrests yield results which are hardly surprising--the crime rate in the model city area is 75 to 100 percent greater than that in the central city, and 3 to 6 times greater than that outside the central city."

### **Business and Industry**

The period 1950 to 1960 provides only a rough guide to recent developments in the economic status of central cities. Data drawn from the 1958 and 1963 Censuses of Business and Manufactures provide a more definitive impression of the deterioration of central city economic bases. For the 37 largest metropolitan areas, the picture is clearly one of decline in the relative economic position of the central cities and in a significant number of instances, an absolute decline, particularly for the older cities in the Northeast and Midwest.

As shown in Table 12, retail sales increased in 24 of the 37 largest central city areas and declined in 13 areas, for an overall increase of 4.8 percent.\* Outside areas increased on the average 45.5 percent, substantially in excess of the increase in population and income. The large increase outside the central cities represented a shift in the location of retail activity. This is indicated by the fact that in only one case out of 37 was there a decline in the outside area and that was due to the annexation policies of the city of Houston during this period. In only one other instance (Kansas City) did the outside area grow at a slower rate than the central city.

The 1958-1963 period represented a decline in the importance of the central cities as retail centers when compared either to the suburban areas or to the rest of the Nation. In 1958, 27 percent of all retail transactions were in these central cities and 17.7 percent in their outlying areas. As a result of the differential growth rates, the central cities in 1963 carried on 24.1 percent of the retail sales and the suburbs 21.2 percent, almost eradicating the previous enormous balance in favor of central cities.

This slow growth and relative decline were reflected in the decline in the central city tax base and an increase or strengthening of the suburban tax base.

Central Business Districts.--Of even greater importance has been the behavior of the central business districts (CBD's) during this period.

The central business district had underpinned the central city's tax base. By 1963, however, it was a rare CBD in the largest SMSA's that showed an increase--only eight in fact (Table 13).\*\* By contrast, none of the 116 major

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\* The largest decline occurred in the city of Buffalo, where sales declined 15.5 percent between 1958 and 1963. The largest increase occurred in the quasi-central cities of San Bernardino-Riverside-Ontario, but that increase of 33.4 percent was less than the average increase of all outside central city areas.

\*\* San Francisco, Oakland, Atlanta, Kansas City (Kan.), Boston, Rochester, Columbus and Washington, D.C. The largest increase was 7.6 percent in San Francisco.

TABLE 12.--RETAIL SALES, INSIDE (CC) AND OUTSIDE CENTRAL CITY (OCC) AREAS,  
37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS, 1958 AND 1963

Area	1958			1963			1963 As a Percent of 1958	
	SMSA	CC	OCC	SMSA	CC	OCC	CC	OCC
	(millions)							
Los Angeles-Long Beach, California	\$ 9,060	\$ 4,413	\$ 4,627	\$ 12,149	\$ 5,022	\$ 7,127	113.8%	154.0%
San Bernardino-Riverside-Ontario, California	913	410	503	1,300	547	753	133.4	149.7
San Diego, California	1,132	725	407	1,408	794	614	109.5	150.9
San Francisco-Oakland, California	3,440	1,875	1,565	4,511	2,165	2,346	115.5	149.9
Denver, Colorado	1,182	833	349	1,533	857	676	102.9	193.7
Washington, D.C.	2,502	1,304	1,198	3,367	1,418	1,949	108.7	162.7
Miami, Florida	1,369	752	617	1,618	655	963	87.1	156.1
Tampa-St. Petersburg, Florida	919	693	226	1,152	767	385	110.7	170.4
Atlanta, Georgia	1,230	879	351	1,619	1,016	603	115.6	171.8
Chicago, Illinois	8,398	5,486	2,912	9,889	5,630	4,259	102.6	146.3
Indianapolis, Indiana	1,127	866	261	1,401	917	484	105.9	185.4
Louisville, Kentucky-Indiana	820	578	242	977	625	352	108.1	145.5
New Orleans, Louisiana	968	765	203	1,123	801	322	104.7	158.6
Baltimore, Maryland	1,956	1,396	560	2,266	1,317	949	94.3	169.5
Boston, Massachusetts	3,443	1,341	2,102	3,973	1,240	2,733	92.4	130.0
Detroit, Michigan	4,448	2,274	2,174	5,393	2,303	3,090	101.3	142.1
Minneapolis-St. Paul, Minnesota	1,871	1,373	498	2,194	1,350	844	98.3	169.3
Kansas City, Missouri-Kansas	1,486	890	396	1,683	1,066	617	119.8	103.5
St. Louis, Missouri-Illinois	2,427	1,168	1,259	2,847	1,068	1,779	91.4	141.3
Newark, New Jersey	2,243	674	1,569	2,582	665	1,917	98.7	122.2
Paterson-Clifton-Passaic, New Jersey	1,451	523	928	1,871	447	1,424	85.5	153.4
Buffalo, New York	1,521	794	727	1,675	671	1,004	84.5	138.1
New York, New York	13,362	9,898	3,684	15,646	10,493	5,153	106.0	139.9
Rochester, New York	913	551	362	1,138	602	536	109.3	148.1
Cincinnati, Ohio-Kentucky-Indiana	1,269	815	454	1,404	800	604	98.2	133.0
Cleveland, Ohio	1,909	1,413	496	2,331	1,278	1,053	90.4	212.3
Columbus, Ohio	915	734	181	1,145	790	355	107.6	196.1
Dayton, Ohio	792	479	313	994	471	523	98.3	167.1
Portland, Oregon-Washington	903	689	214	1,279	752	527	109.1	246.3
Philadelphia, Pennsylvania-New Jersey	4,943	2,528	2,415	5,737	2,490	3,247	98.5	134.5
Pittsburgh, Pennsylvania	2,638	990	1,648	2,878	980	1,898	99.0	115.2
Providence, Rhode Island	903	503	400	1,100	554	546	110.1	136.5
Dallas, Texas	1,473	1,144	329	1,809	1,288	521	112.6	158.4
Houston, Texas	1,717	1,299	418	1,962	1,616	346	124.4	82.8
San Antonio, Texas	703	646	57	807	726	81	112.4	142.1
Seattle-Everett, Washington	1,444	1,036	408	1,748	1,110	638	107.1	156.4
Milwaukee, Wisconsin	1,459	1,067	392	1,706	1,076	630	100.8	160.7
37 SMSA total	89,649	53,804	35,645	108,215	56,367	51,848	104.8	145.5

Source: U.S. Bureau of the Census, U.S. Census of Business, 1958, Vol. II; and U.S. Census of Business, 1963, Vol. II.

TABLE 13.--PERCENT CHANGE IN RETAIL SALES, BETWEEN 1958 AND 1963, IN THE 37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS IN THE UNITED STATES<sup>1/</sup>

Area	SMSA	Central City	Central Business District
Los Angeles, California	29.6%	16.5%	-12.9%
Long Beach, California	29.6	7.4	-12.1
San Bernardino-Riverside-Ontario, California	n.a.	n.a.	n.a.
San Diego, California	24.4	9.7	-33.0
San Francisco, California	32.3	18.2	7.6
Oakland, California	32.3	13.8	2.2
Denver, Colorado	32.0	4.7	-5.1
Washington, D.C.	34.5	8.0	4.4
Miami, Florida	18.0	-13.4	-5.9
Tampa, Florida	25.7	15.6	-7.0
St. Petersburg, Florida	25.7	5.0	-2.3
Atlanta, Georgia	38.2	23.5	1.4
Chicago, Illinois	17.0	0.5	-3.3
Indianapolis, Indiana	23.9	5.3	-13.9
Louisville, Kentucky-Indiana	18.8	8.3	-1.5
New Orleans, Louisiana	13.6	1.3	-2.3
Baltimore, Maryland	17.9	-3.9	-18.6
Boston, Massachusetts	17.6	-4.0	0.9
Detroit, Michigan	20.9	0.9	-13.3
Minneapolis, Minnesota	20.5	0.7	-9.6
St. Paul, Minnesota	20.5	3.5	-10.9
Kansas City, Missouri-Kansas	18.1	12.1	-17.3
Kansas City, Kansas	18.1	-5.8	6.5
St. Louis, Missouri-Illinois	17.4	-8.0	-17.7
Newark, New Jersey	16.5	0.2	-1.1
Paterson-Clifton-Passaic, New Jersey	29.2	-1.4	-11.6
Buffalo, New York	10.2	-15.6	-23.5
New York, New York (Manhattan)	15.2	6.1	-2.2 <sup>2/</sup>
Rochester, New York	27.8	9.4	5.6
Cincinnati, Ohio-Kentucky-Indiana	18.8	0.2	-17.1
Cleveland, Ohio	16.7	-9.6	-14.6
Columbus, Ohio	24.6	7.7	3.3
Dayton, Ohio	24.4	-3.3	-6.0
Portland, Oregon	25.1	11.8	-15.2
Philadelphia, Pennsylvania	18.8	2.5	-6.7
Pittsburgh, Pennsylvania	8.9	-1.1	-9.7
Providence, Rhode Island	21.2	-3.8	-4.1
Dallas, Texas	27.3	17.8	-17.3
Houston, Texas	27.0	24.5	-0.1
San Antonio, Texas	14.9	12.5	-1.8
Seattle-Everett, Washington	23.2	8.1	-0.8
Milwaukee, Wisconsin	15.5	0.6	-8.2

n.a. = Data not available.

<sup>1/</sup> Excludes nonstore retailers (i.e., mail order, direct selling, merchandise vending machine operators), which are included in Table 12.

<sup>2/</sup> Manhattan only.

Source: U.S. Bureau of the Census, U.S. Census of Business, 1963, Vol. III.



retailing areas elsewhere in the country declined, and all but seven recorded increases in excess of 10 percent.

Retail activity moved generally to suburban areas at a greatly faster pace than population. Table 13 shows the decline in Central Business District activity over the period 1958 to 1963. It demonstrates that retail sales grew far more in the SMSA's as a whole in the central cities.

The flight of industry from the city.--Manufacturing also shows a general shift out of the city. In the aggregate, manufacturing employment in central cities declined 6 percent and outside those cities increased by 15.6 percent (Table 14). Special circumstances brought about increases in only a few cities.\*

There was no increase over 10 percent in any older city except for San Bernardino, Columbus and Houston. Only in Louisville, Cincinnati and Providence did central cities show a better performance than did their outside areas.

The tendency for industrial plants to locate outside the central cities in recent years has been a significant factor in the central city-outside central city employment disparity noted earlier. This outward movement of industry is pointed up in a recent Commission study of the effect of State and local taxes on industrial location.<sup>4/</sup> The Bureau of Labor Statistics found that in the period 1960-1965, 62 percent of the valuation of permits for new industrial building in SMSA's was issued for construction outside the central cities.<sup>5/</sup> The percentage was considerably higher in most of the large SMSA's for which the Bureau of Labor Statistics developed such information:

Atlanta	71%
Boston	81
Chicago	77
Dayton	56
Detroit	70
Indianapolis	52
Los Angeles	85
New Orleans	58
New York	61
Philadelphia	75
St. Louis	67
San Francisco	84
Washington, D.C.	96

A recent poll found that almost half of all union members now live in the suburbs, and that "suburbanites account for about three-fourths of unionists under age 40."<sup>6/</sup> Thus, many of the industrial employees have been able to follow the plants to the suburbs. But the flight of industry from the central city has made it increasingly difficult for the disadvantaged citizens who are forced to remain in the city to find employment.

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\* For example, Houston and Columbus undertook annexation and Providence included suburban areas.

TABLE 14.--MANUFACTURING EMPLOYMENT, INSIDE (CC) AND OUTSIDE CENTRAL CITY (OCC),  
37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS, 1958 AND 1963  
(Thousands)

Area	1958			1963			1963 As a Per- cent of 1958	
	SMSA	CC	OCC	SMSA	CC	OCC	CC	OCC
Los Angeles-Long Beach, California	729.0	327.2	401.8	842.9	304.0	538.9	92.9%	134.1%
San Bernardino-Riverside-Ontario, California	29.2	11.7	17.5	37.5	14.0	23.5	119.7	134.3
San Diego, California	71.4	56.8	14.6	60.3	48.7	11.6	85.7	79.5
San Francisco-Oakland, California	190.3	58.4	131.9	196.1	51.7	144.4	88.5	109.5
Denver, Colorado	53.7	37.9	15.8	69.5	36.1	33.4	95.3	211.4
Washington, D.C.	34.7	21.3	13.4	50.1	22.1	28.0	103.8	209.0
Miami, Florida	36.9	19.4	17.5	43.2	19.2	24.0	99.0	137.1
Tampa-St. Petersburg, Florida	32.2	23.7	8.5	36.7	23.8	12.9	100.4	151.8
Atlanta, Georgia	83.5	49.6	33.9	95.7	52.4	43.3	105.6	127.7
Chicago, Illinois	857.2	569.4	287.8	860.6	508.4	352.2	89.3	122.4
Indianapolis, Indiana	105.6	70.1	35.5	115.8	70.2	45.6	100.1	128.5
Louisville, Kentucky-Indiana	86.7	55.7	31.0	87.6	58.0	29.6	104.1	95.5
New Orleans, Louisiana	46.9	30.1	16.8	49.1	31.1	18.0	103.3	107.1
Baltimore, Maryland	197.8	113.4	84.4	190.5	103.9	86.6	91.6	102.6
Boston, Massachusetts	301.0	90.2	210.8	293.4	82.5	210.9	91.5	100.0
Detroit, Michigan	467.4	213.5	253.9	493.9	200.6	293.3	94.0	115.5
Minneapolis-St. Paul, Minnesota	146.0	113.5	32.5	163.8	110.3	53.5	97.2	164.6
Kansas City, Missouri-Kansas	103.1	64.9	38.2	111.1	62.1	49.0	95.7	128.3
St. Louis, Missouri-Illinois	262.5	146.8	115.7	259.7	129.1	130.6	87.9	112.9
Newark, New Jersey	245.6	78.8	166.8	250.2	73.7	176.5	93.5	105.8
Peterson-Clifton-Passaic, New Jersey	158.5	62.9	95.6	176.5	62.8	113.7	99.8	118.9
Buffalo, New York	173.9	68.0	105.9	162.9	57.0	105.9	83.8	100.0
New York, New York	1,184.0	998.6	185.4	1,147.2	927.4	219.8	92.9	118.6
Rochester, New York	116.7	96.5	20.2	121.3	97.3	24.0	100.8	118.8
Cincinnati, Ohio-Kentucky-Indiana	156.5	76.4	80.1	153.9	76.6	77.3	100.3	96.5
Cleveland, Ohio	273.7	180.8	92.9	280.3	168.9	111.4	93.4	119.9
Columbus, Ohio	73.0	55.4	17.6	80.2	65.9	14.3	119.0	81.3
Dayton, Ohio	97.2	78.2	19.0	104.2	81.2	23.0	103.8	121.1
Portland, Oregon-Washington	58.3	35.2	23.1	65.3	35.6	29.7	101.1	128.6
Philadelphia, Pennsylvania-New Jersey	536.9	298.5	238.4	535.8	264.9	270.9	88.7	113.6
Pittsburgh, Pennsylvania	305.7	99.3	206.4	272.2	81.7	190.5	82.3	92.3
Providence, Rhode Island	127.2	62.6	64.6	125.9	65.0	60.9	103.8	94.3
Dallas, Texas	95.2	79.7	15.5	109.5	86.3	23.2	108.3	149.7
Houston, Texas	104.5	68.8	35.7	108.6	77.3	31.3	112.4	87.7
San Antonio, Texas	20.9	19.3	1.6	23.6	21.4	2.2	110.9	137.5
Seattle-Everett, Washington	114.9	86.5	28.4	121.6	84.1	37.5	97.2	132.0
Milwaukee, Wisconsin	189.5	126.6	63.9	193.8	119.3	74.5	94.2	118.4
37 SMSA total	7,867.3	4,651.5	3,215.8	8,090.5	4,374.6	3,715.9	94.0	115.6

Source: 1963 Census of Manufacturing.

In some areas the movement of industry has served as a salutary shock treatment for the central city as well as for the metropolitan area as a whole. Boston is a case in point. For generations it was known as a center of low wage, low productivity textile and leather factories, and the textile towns of Lowell and Lynn are part of American economic and social history. The draining off of these industries to the low cost labor areas of the South is a familiar story. Less well known is their replacement by the dynamic industries of the future--electronics and research--and by the expansion of the already established high income service industries including insurance, medicine, education, recreation and finance. Seeking space, transportation linkages and customers, many of these new activities ring the center city at some distance, but for the area as a whole they have brought one of the highest rates of income growth in the country. By 1962 Boston exhibited half of the national rate of population increase, but its per capita income was one-fifth higher than the U.S. average.

### IMPLICATIONS OF SOCIAL AND ECONOMIC DISPARITIES

After assessing relative levels of various social and economic indicators in central cities and suburbs, it is clear that the Nation's central cities are becoming inhabited to an increasing extent by "high cost" citizens. The central city has a concentration of the nonwhite, the elderly and the low income population often living in unsound housing, without an adequate education for today's world and without hope for the future (Table 15).

The areas where these high cost citizens live have higher densities than the other urban territory within the metropolitan area as well as an increasingly obsolescent private and public infrastructure.

The confluence of all these forces has placed enormous burdens on the central cities. At the turn of the century the large cities were viewed as the most qualified government to handle social problems by virtue of their income and wealth. It was the cities that were providing high quality education, not the suburban and rural areas, and the cities had the resources to do so. This fact was recorded in no uncertain terms by an observer of the scene at that time, and eventually led to State school equalization programs that have favored suburban and rural school systems over urban schools:<sup>7/</sup>

In two-thirds of the states of the Union no adequate provision is made for the maintenance of the smaller schools of the state, and usually these are maintained in a most unsatisfactory manner and at a sacrifice entirely out of proportion to the local benefits received. On the other hand, the cities with their aggregations of people and wealth, are able to maintain excellent school systems on a relatively small expenditure.<sup>\*</sup> Justice and equity demand a rearrangement of the apportionment plan so as to place a larger proportion of aid where it is most needed. There is little excuse for a system of state taxation for education if the income from such taxation is to be distributed

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\* Italics added.

TABLE 15.--SUMMARY OF SIGNIFICANT NATIONAL DISPARITIES, CENTRAL CITY AND OUTSIDE  
CENTRAL CITY AREAS, ALL STANDARD METROPOLITAN STATISTICAL AREAS, 1960  
(Percent, except where noted)

Item	Central City	Outside Central City Area			
		Total	Other Urban Territory	Rural Nonfarm	Rural Farm
<b>Population</b>					
Percent distribution	51.4%	48.6%	36.8%	10.3%	1.5%
Percent increase, 1950-1960					
Total population	10.7	48.5	n.a.	n.a.	n.a.
White	4.7	49.2	n.a.	n.a.	n.a.
Negro	50.3	30.7	n.a.	n.a.	n.a.
Percent nonwhite	17.3	5.1	4.5	6.1	6.1
<b>Percent under age 15</b>					
Total population	28.1	32.9	32.7	34.3	31.0
White	26.7	33.5	33.6	34.1	31.0
Nonwhite	35.5	38.1	37.0	39.0	40.6
<b>Percent over age 60</b>					
Total population	14.3	10.6	10.7	9.9	15.0
White	15.6	10.6	10.8	10.0	15.2
Nonwhite	7.9	8.1	7.6	9.1	10.0
<b>Educational attainment</b>					
Percent of population 16-17 not enrolled in school	20.6	16.3	14.7	20.8	16.8
Percent of population over age 25 with less than 5 years of school	8.4	5.4	4.8	7.4	8.7
Percent of population over age 25 with 4 years of college or more	8.0	9.8	10.7	7.0	4.5
Median school years completed	10.7 Yrs.	11.8 Yrs.	12.8 Yrs.	10.6 Yrs.	9.2 Yrs.
<b>Income and employment</b>					
Median family income	\$ 5,940	\$ 6,707	\$7,002	\$5,830	\$4,543
Unemployed as percent civilian labor force	5.6%	4.2%	4.3%	5.2%	2.8%
Percent employed in					
Agriculture	.5	3.4	1.1	5.0	50.2
Mining	.3	.6	.5	1.4	.6
Manufacturing	26.9	31.4	31.9	32.0	15.4
<b>Housing</b>					
Living in single family units	53.1	84.7	n.a.	n.a.	n.a.
Proportion owner-occupied	47.4	72.7	n.a.	n.a.	n.a.
Living in housing built before 1950	80.2	58.5	n.a.	n.a.	n.a.
Living in unsound housing	20.4	15.6	n.a.	n.a.	n.a.
Median value owner-occupied housing	\$12,300	\$14,400	n.a.	n.a.	n.a.

n.a. = Data not available.

in a larger proportion of the communities best able to care for themselves. Such a statement does not imply hostility to the cities. On the contrary, I have repeatedly pointed out that cities do not receive any proper recognition for the longer term or the many additional educational advantages which they now provide. Under such a thoroughly unjust apportionment basis as the school census, however, the cities now receive the lion's share, and many are paid in an amount out of all proportion to their relative needs or efforts made.

In summary, the Commission's analysis of social and economic disparities between central cities and their environs reinforces several major conclusions of an earlier study of the same subject. The central cities in the largest SMSA's upon which the present study concentrates, especially the older industrialized cities in the Northeast and the Midwest, are the jurisdictions with the most serious social and economic problems; they are also the cities experiencing the most severe fiscal tensions. By comparison, the picture in the South and West is mixed. Because of vigorous annexation activity in a number of SMCA's there, the central city-suburban disparities are not nearly as well defined.

At this time, however, it is quite clear that, with some outstanding exceptions, even the most heroic efforts of many of the central cities of the country fall far short of their requirements. Suburban areas are surely not without their problems, but they are not without their resources, either, in the form of significantly higher incomes, better education, lower unemployment and new housing. The suburbs are the primary beneficiaries of the economic growth of the last twenty years. This growth has by-passed some rural areas whose social and economic problems approach or even surpass those of the central cities. From a fiscal point of view, however, if not a social one, those two areas place quite different demands on local government. We turn next to the effects of these developments on local government and their implications for fiscal policy at all levels of government.

## Chapter 4

# LOCAL GOVERNMENT FINANCES—THE METROPOLITAN FISCAL DISPARITIES

The political fragmentation of the metropolitan economic community creates serious tax and expenditure disparities among its local governments. The extent and character of these disparities highlights the profound influence of State policies on the fragmentation process, through the assignment of program and financial responsibilities and the allocation of revenue resources. The State's rôle in shaping local government structure cannot be overstressed, for its constitution and statutes prescribe the framework for local government, each State in its own particular way.

## LOCAL GOVERNMENT SYSTEMS

An examination of local government finances in a particular area must necessarily take account of the government structure, for the way in which local government is organized directly affects the nature and magnitude of fiscal disparities among the jurisdictions involved.

Local governments are organized in a variety of ways to perform their service functions. One central city model is the fairly inclusive system (Washington, D.C., New York, Boston and Baltimore) where the municipal government provides all county, city and school district functions. Another is exemplified by the Philadelphia, St. Louis, San Francisco, Denver and New Orleans areas, where the city and county are coterminous but where public education is furnished by independent school districts.

But these rather simple patterns are not typical. The more general metropolitan area is characterized by a maze of governmental units: counties and overlapping, noncoterminous school districts, municipalities, townships and special districts. The number of such governments ranges from only 27 in the Baltimore SMSA to more than one thousand in the Chicago area (Table A-9), posing significant problems in the allocation of responsibility for performance of functions and in the distribution of financial responsibility.

Aside from the multiplicity of local governments, there is considerable variation within metropolitan areas in the nature of local government systems. In some, the area outside the central city contains no municipal government; school districts and counties are the principal jurisdictions. In others, the

landscape surrounding the central city is dotted with numerous incorporated municipalities. The existence of special districts, or the lack thereof, depends upon State laws and local opportunities.

## METROPOLITAN AND NONMETROPOLITAN LOCAL FINANCE PATTERNS

The drift of governmental responsibilities to higher levels noted earlier\* has not been sufficient to offset the increasing financial obligations of local governments, particularly those located in metropolitan areas. National aggregates for 1957 and 1962 and more restricted data for 1964-65 indicate that local government in the metropolitan areas spends more and taxes more per person than in the remainder of the country (Table 16).\*\* In 1962 per capita local direct general expenditures were 33.6 percent higher in metropolitan than in non-metropolitan areas and 42.3 percent greater in the 37 largest SMSA's than in the rest of the Nation.

For the Nation, per capita educational expenditures are roughly the same in metropolitan and nonmetropolitan areas (Table 17). However, there is a striking contrast in noneducational expenditures--which include all the public welfare, health, hospital, public safety and other public services essential to the well-being of citizens. These general governmental costs are two-thirds higher in the metropolitan areas than they are in the rest of the country. This difference is accentuated when highway expenditures are excluded; then, the metropolitan area expenditures are almost double the nonmetropolitan expenditures. By the same token, per capita tax revenues are almost two-thirds higher in metropolitan areas than in the rest of the country.

### Expenditures Disparities in the Large Metropolitan Areas

Historically, per capita expenditures in the central cities have exceeded those of the outlying areas and the rest of the Nation. This was true not only for total expenditures, but for the individual components as well. Cities were able to spend more on their educational and noneducational services than their surrounding areas or the Nation as a whole. Although the occasional high income suburb surpassed the educational expenditures of the central city, fiscal disparities were not as critical as today in the sense that central city demands exceeded available resources.

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\* See Volume 1, Chapters 3 and 4.

\*\* The figures in Table 16 and in subsequent tables dealing with local finances in metropolitan areas reflect all local government fiscal activity in a given local area. See Appendix B.

TABLE 16.--SELECTED PER CAPITA LOCAL GOVERNMENT FINANCE DATA FOR METROPOLITAN AND NONMETROPOLITAN AREAS, 1957, 1962 AND 1964-1965

Area	Direct General Expenditure			Taxes			State and Federal Aid		
	1957	1962	1964-1965	1957	1962	1964-1965	1957	1962	1964-1965
All metropolitan areas	\$175.49	\$235.92	n.a.	\$ 98.88	\$131.44	n.a.	\$39.90	\$55.87	n.a.
Nonmetropolitan areas	126.88	176.65	n.a.	57.18	80.68	n.a.	46.92	63.20	n.a.
Metro/nonmetro	138.3%	133.6%	n.a.	172.9%	162.9%	n.a.	85.0%	88.4%	n.a.
37 largest SMSA's	\$193.23	\$264.46	\$301.20	\$113.48	\$152.94	\$172.61	\$46.04	\$65.54	\$83.22
Smaller SMSA's plus nonmetro areas	134.07	185.87	218.31	63.20	81.36	103.36	40.27	62.36	75.44
37 SMSA's/remaining areas	140.0%	142.3%	138.8%	179.6%	188.0%	167.0%	114.3%	105.4%	110.3%

n.a. = Data not available.

Source: Compiled from various reports of the Governments Division, U.S. Bureau of the Census.



TABLE 17.--PER CAPITA LOCAL DIRECT GENERAL EXPENDITURES BY FUNCTION FOR METROPOLITAN AND NONMETROPOLITAN AREAS, 1962<sup>1/</sup>

<u>Expenditure Category</u>	<u>United States</u>	<u>SMSA</u>	<u>Non-SMSA</u>	<u>SMSA As a Percent of Non-SMSA</u>
Total expenditures	\$243.67	\$269.72	\$198.13	136.1%
Direct general expenditures	214.35	235.92	176.65	133.6
Capital outlay	43.57	51.37	29.92	171.7
Other than capital outlay	170.78	184.55	146.73	125.8
Education	96.57	98.24	93.64	104.9
Capital outlay	16.26	17.56	13.98	125.6
Other than capital outlay	80.31	80.68	79.66	101.3
Noneducation	117.78	137.68	83.01	165.9
Capital outlay	27.31	33.81	15.94	212.1
Other than capital outlay	90.47	103.87	67.07	154.8
Noneducation-nonhighway	97.75	119.04	60.56	196.6
Highways	20.03	18.64	22.45	83.0
Capital outlay	8.48	9.49	6.71	141.5
Other than capital outlay	11.55	9.17	15.71	58.4
Public Welfare	13.86	16.30	9.59	169.9
Hospitals	9.66	10.60	8.01	132.3
Health	2.08	2.45	1.42	172.6
Police protection	9.98	12.72	5.18	245.6
Fire protection	6.05	7.87	2.86	275.5
Sewerage	6.85	8.53	3.91	217.9
Sanitation other than sewerage	3.69	4.96	1.47	337.5
Parks and recreation	4.77	6.50	1.74	373.0
Natural resources	2.14	1.99	2.40	82.7
Housing-urban renewal	6.16	8.77	1.59	551.7
Correction	1.54	2.05	.66	312.2
Libraries	1.72	2.07	1.11	186.3
Financial administration	2.98	3.19	2.62	121.6
Exhibit:				
Local school per student	471.08	513.85	409.58	125.5
Capital outlay	78.61	91.13	60.58	150.4
Other than capital outlay	392.48	422.72	348.99	121.1

<sup>1/</sup> Population allocated on the basis of 1963 metropolitan/nonmetropolitan residence; 63.6% in metropolitan areas and 36.4% in nonmetropolitan areas (U.S. Bureau of the Census, Current Population Reports, Series P-20, No. 131, September 4, 1964).

Source: U.S. Bureau of the Census, Census of Governments, 1962, Vol. V, Local Government in Metropolitan Areas, U.S. Government Printing Office, Washington, D.C.

By 1964-65 the clear-cut distinction between the level of total fiscal activity in the central city and outside the central city had vanished. By this time in 13 of the 36 largest metropolises, the outer areas spent more than the central city.\* This emerging pattern does not represent a reduction in the burdens of the central city; rather it represents the impact of the central city's diminished resource base on one hand and the expanding expenditure gap between central cities and outer areas on the other.

Clearly, the central cities of the 36 largest metropolitan areas bore a disproportionately large share of local government expenditure in 1964-65 relative to their share of the population. As Fig. 3 depicts, those central cities contained 18.6 percent of the population, but accounted for almost 25 percent of all local expenditure. In per capita terms, local government expenditure in the central cities of the 36 large SMSA's was 21 percent higher than in their outside regions, and almost two-thirds above that for the rest of the Nation.

Individual areas reveal considerable variation in the level of expenditure. During 1964-65, the range in per capita general expenditures for all functions in the central cities extended from a low of \$201 in Kansas City to \$446 in San Bernardino-Riverside-Ontario.\*\* The range outside the central city was similar, from \$163 in the Louisville area to \$410 in the San Francisco-Oakland complex (Table A-10).

A somewhat more refined measure of variability, which avoids relying upon the "extreme" observations--that is, the semi-interquartile range--reveals a wider range of variation in the outside central city regions than among central cities. The comparable measures of variation derived by this method are 17.8 percent for central cities and 22.7 percent for the outside areas. Nonetheless, a comparison of expenditure levels for the 36 central cities and their outlying areas further substantiates the higher spending requirements in the central cities; and this is evident not only in the extreme cases but for each of the quartile divisions, as shown below for 1964-65:

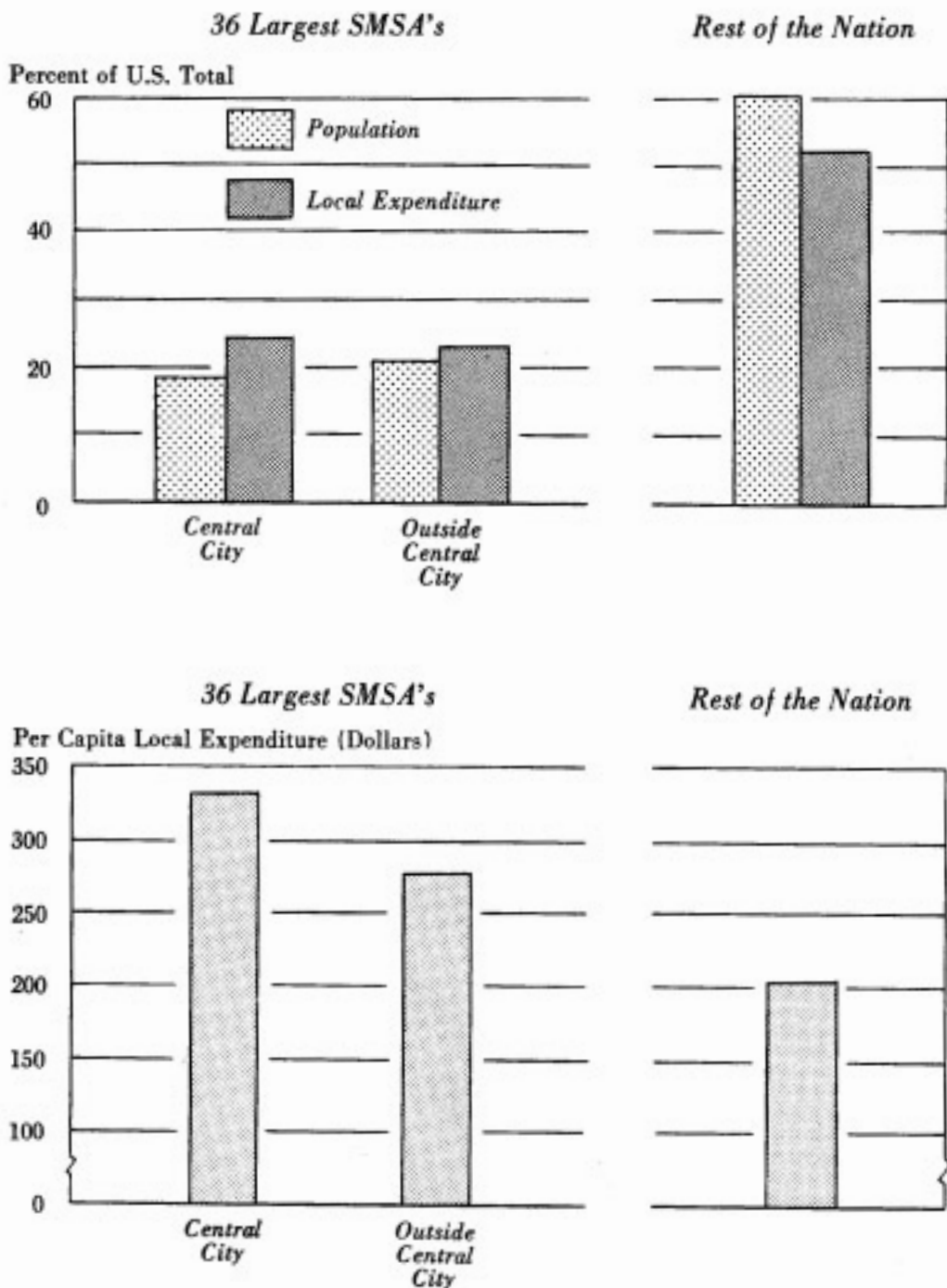
<u>Measure</u>	<u>Central City</u>	<u>Outside Central City</u>
High	\$477	\$410
Low	201	163
Range	288	247
Q1	241	214
Q2	292	247
Q3	345	326
$1/2(Q3 - Q1) \div Q2$	17.8%	22.7%

\* Our analysis of local government finances in metropolitan areas is based on data developed by the Bureau of the Census for the 37 largest SMSA's. However, San Antonio is omitted from the analysis because the data are incomplete.

\*\* Per capita general expenditure was somewhat higher in Washington, D.C., but that city performs "State" as well as local functions.

Figure 3.

**POPULATION AND LOCAL GOVERNMENT EXPENDITURE  
COMPARISONS, 36 LARGEST SMSA's AND  
THE REST OF THE NATION, 1965**



There are numerous examples of suburban communities in which per capita expenditures exceed those of the central city. They include such wealthy urban communities as Hunting Valley, Gates Mills and Shaker Heights in the Cleveland area; Beverly Hills in the Los Angeles area; Winnetka and Wilmette in the Chicago area; and their counterparts in other sections of the country. High per capita expenditures, representing a high level of services, are found also in industrial and commercial enclaves--Vernon, Commerce and Industry in the Los Angeles area; Emeryville in the San Francisco area; Cuyahoga Heights in the Cleveland area; Lackawanna in the Buffalo area; and Teterboro in the Paterson-Clifton-Passaic area.

At the other extreme are the rural areas or communities in which service levels are minimal and which receive little or no State aid. They can be as large as some counties or as small as a rural hamlet.

Detailed studies of the individual areas indicate that not only is there considerable social and economic variation among the communities which make up the outside central city areas, but there is a marked variation in finances as well. The extent of the variation depends on the size of the unit analyzed; it is less for county areas than for individual communities. Further, it depends on the allocation of functional responsibilities between the county and the individual local jurisdiction. The range of variation for either expenditures or revenues cannot be predicted unless the entire range of responsibilities is taken into account.

### **Educational Expenditures**

Per capita educational expenditures, including local expenditures for higher education, were conspicuously higher outside the central cities in 1964-65 than inside:

<u>Area</u>	<u>Weighted Average</u>	<u>Unweighted Average</u>
36 large SMSA central cities	\$ 99.07	\$ 98.75
36 large SMSA "outside central city" areas	145.86	140.77
Remainder of the Nation	106.92	n.a.

Both the weighted and unweighted averages place the educational expenditures of the central cities well below those of their surrounding areas.\*

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\* The "weighted average" favors neither the large nor the small SMSA's while the "unweighted average" takes on the characteristics of the more numerous smaller SMSA's. See Appendix B.

In fact, the per capita gap between central city and outside central city educational expenditure grew from \$19 in 1957 to \$42 in 1964-65 (Table A-11).\* And, as is indicated by the weighted average, the central city spends less than all the rest of the Nation. This is a perverse expenditure pattern if it be true, as we believe it to be, that children from underprivileged families require a greater educational outlay to compensate for the educational deficiencies of their home environment.

In 32 of the 36 large metropolitan areas, the "outside central city" educational expenditures exceeded those of the central city, sometimes by more than \$100 per capita.\*\* The generally low per capita educational expenditures in the central city are all the more inequitable in view of the fact that such expenditures usually include more items than those of school systems outside the central city. Such "extra" costs often include higher education programs and contributions to teacher retirement systems which the State often absorbs outside the central city borders.

Table 18 excludes the capital and higher education costs from total educational outlays, but still shows an alarming disparity in public educational expenditures.\*\*\* The figures understate the seriousness of the situation because far more needs to be spent in educating the child in the slums than in the affluent suburb.

The Commission's analysis shows clear-cut disparities in the resources devoted to education on a per capita basis. But perhaps of even greater significance are the higher per pupil expenditures in all outside central city areas except Boston, Providence and Denver.\*\*\*\*

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\* This pattern is confirmed by regression analysis which indicated that for each \$1.00 of central city educational expenditures in 1957 there was \$1.24 spent in 1964-65, while the expenditure of \$1.00 outside the central city in 1957 had grown to \$1.38 by 1964-65.

\*\* In the two Florida areas (Miami and Tampa-St. Petersburg) the expenditure levels are identical because the school systems are countywide. The higher central city expenditures in Cincinnati reflect a contribution to higher education through the municipal university, while in San Bernardino and Riverside there are large junior college systems in the central cities which are surrounded by a relatively low income area.

\*\*\* There is a distinct difference in the current elementary and secondary per capita school costs between the central and other cities in all areas except the two cases in Florida, where differences could not exist by definition, and in San Bernardino. The large higher education component of the Cincinnati totals has vanished, although the impact of the outside central city region operating under three different State aid systems is still present. In San Bernardino a suburban area is surrounded by extremely low income rural territory.

\*\*\*\* Boston and Providence are surrounded by a variety of communities, such as Lawrence, Lowell and Haverhill, which display central city characteristics and could, in fact, be central cities of individual SMSA's. These cities dilute the impact of individual school districts in Newton, Wellesley and Brookline where expenditures far exceed those of their central city. But the general model of greater resources devoted to education outside the central city is unmistakable.

TABLE 18.--PER CAPITA AND PER PUPIL CURRENT EXPENDITURE FOR LOCAL SCHOOLS, CENTRAL CITY (CC)  
AND OUTSIDE CENTRAL CITY (OCC) AREAS, 37 LARGEST STANDARD  
METROPOLITAN STATISTICAL AREAS, 1964-1965

Area	Per Capita			Per Pupil		
	SMSA	CC	OCC	SMSA	CC	OCC
Los Angeles-Long Beach, California	\$118	\$ 94	\$134	\$558	\$424	\$654
San Bernardino-Riverside-Ontario, California	123	142	115	578	498	631
San Diego, California	107	89	129	549	485	621
San Francisco-Oakland, California	127	79	158	701	565	758
Denver, Colorado	111	95	124	471	493	457
Washington, D.C.	107	90	117	545	508	562
Miami, Florida	94	94	94	503	503	503
Tampa-St. Petersburg, Florida	67	67	67	362	362	362
Atlanta, Georgia	86	69	100	378	342	403
Chicago, Illinois	86	67	109	508	433	578
Indianapolis, Indiana	106	79	176	471	407	579
Louisville, Kentucky-Indiana	71	45	97	416	350	455
New Orleans, Louisiana	57	50	71	333	310	369
Baltimore, Maryland	85	81	90	429	407	452
Boston, Massachusetts	84	68	88	493	490	499
Detroit, Michigan	108	81	129	509	454	539
Minneapolis-St. Paul, Minnesota	108	80	135	564	527	587
Kansas City, Missouri-Kansas	91	59	117	494	425	531
St. Louis, Missouri-Illinois	82	68	88	532	411	594
Newark, New Jersey	106	96	109	595	515	619
Paterson-Clifton-Passaic, New Jersey	95	76	101	557	477	579
Buffalo, New York	125	74	157	694	507	777
New York, New York	121	96	181	790	728	889
Rochester, New York	138	104	172	807	700	885
Cincinnati, Ohio-Kentucky-Indiana	79	78	79	472	439	494
Cleveland, Ohio	94	81	105	528	433	609
Columbus, Ohio	82	70	115	410	368	500
Dayton, Ohio	101	100	102	431	431	432
Portland, Oregon-Washington	115	92	133	543	444	616
Philadelphia, Pennsylvania-New Jersey	88	63	108	586	477	656
Pittsburgh, Pennsylvania	90	58	100	521	419	544
Providence, Rhode Island	70	64	72	430	436	427
Dallas, Texas	73	60	93	422	334	597
Houston, Texas	86	62	164	430	311	794
San Antonio, Texas	65	n.a.	n.a.	310	n.a.	n.a.
Seattle-Everett, Washington	119	74	169	527	476	556
Milwaukee, Wisconsin	85	66	116	485	421	568
Unweighted average	97	82	113	514	449	573

Source: Compiled from various reports of the Governments Division, U.S. Bureau of the Census and from the Office of Education, Department of Health, Education, and Welfare.

Fig. 4 shows how educational expenditures in the central city have dropped behind those of the outskirts in recent years. A slight central-city advantage of \$9 per pupil in 1957<sup>1)</sup> was transformed to a central-city disadvantage of \$62 by 1962<sup>2)</sup> and \$124 by 1964-65.

The growth of this central city-outside central city educational gap is caused partly by the outward movement of higher income families. Moreover, after raising the adequacy and quality of their school plants by the late 1950's and early 1960's, the suburbs were able to concentrate more of their resources on enriching instructional programs and improving teacher pay scales.

Many of the central cities, on the other hand, are faced with a gigantic school building replacement need now. A survey of the public school plant in 15 large cities in 1965 showed that, except in Houston and Los Angeles, at least one-third of each city's public school buildings were at least 45 years old (Table 19).

School population.--In the most recent past the proportion of total population attending public schools has increased in the central city while it declined somewhat outside the central city area:

<u>Year</u>	<u>Central City</u>	<u>Outside Central City</u>
1957	16.1%	20.8%
1962	17.2	22.6
1964-65	17.4	20.4

In many of the central cities enrollment in parochial (mainly Catholic) schools has been declining--a reflection of both the flight of the affluent to the suburbs and the increasing difficulty in financing parochial education.\* The lower income families either remain in, or move into, the central city and send their children to public rather than to parochial schools. Buffalo and Cleveland are extreme examples of this situation--both cities have experienced 25 percent increases in public enrollment concurrently with 10 percent declines in total population. Chicago has experienced a similar situation as have other central cities, adding to their educational financing problems. The pressures on many suburban public school systems, on the other hand, are lightened as many of their residents are willing and able to support a high level of public school education, especially where they are not faced with heavy general government costs.

Cleveland exemplifies the central city-suburban fiscal problem in the education field. First, the city uses its property tax base so intensively that schools must take a smaller share than that available to other school districts. About 43 percent of the total property tax levy goes for schools in Cleveland,

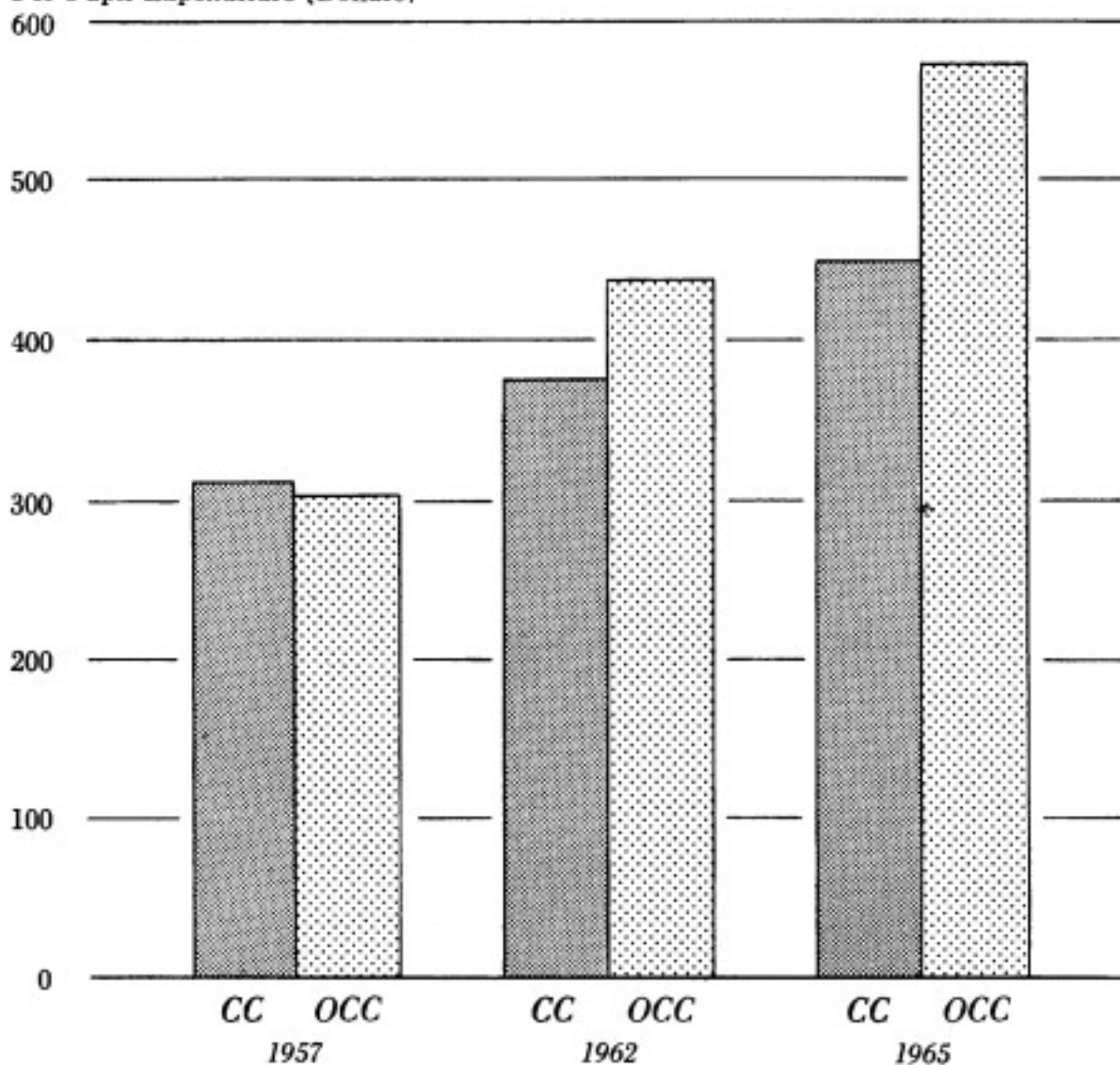
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\* Total enrollment in private (including parochial) elementary and high schools fell off almost 300,000 between October 1965 and October 1966, from 6,831 thousand to 6,553 thousand, while such enrollment in public schools increased by 1.2 million during the same period (U.S. Bureau of the Census, Reports P.20, No. 162 and P.20, No. 167).

Figure 4.

**EDUCATIONAL EXPENDITURES PER PUPIL, INSIDE (CC)  
AND OUTSIDE (OCC) CENTRAL CITIES OF  
METROPOLITAN AREAS, 1957, 1962 AND 1965**

Per Pupil Expenditure (Dollars)



*Note: The figures for 1957 and 1962 are based on a slightly different sample of SMSA's than those for 1965. However, the three sets of data are comparable.*

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TABLE 19.--PERCENTAGE OF PUBLIC SCHOOL BUILDINGS OVER 45 YEARS OLD,  
15 SELECTED LARGE CITIES, AS OF JUNE 1965<sup>1/</sup>

<u>City</u>	<u>Elementary Schools</u>	<u>Junior and Senior High Schools<sup>2/</sup></u>	<u>All Schools<sup>3/</sup></u>
Baltimore	47.3%	41.5%	46.1%
Boston	64.0	38.9	53.7
Buffalo	35.2	47.1	36.6
Chicago	46.9	46.4	46.9
Cleveland	61.6	44.4	58.0
Detroit	38.0	27.1	35.8
Houston	23.3	13.2	20.8
Los Angeles	9.0	6.3	8.4
Milwaukee	49.6	22.2	44.6
New York	36.8	26.9	34.0
Philadelphia	46.9	11.1	39.6
Pittsburgh	54.3	46.2	52.3
St. Louis	55.7	41.7	54.7
San Francisco	38.0	12.5	33.1
Washington, D.C.	<u>46.6</u>	<u>20.9</u>	<u>40.3</u>
15 City Total	39.6	25.5	36.7

<sup>1/</sup> Excludes additions.

<sup>2/</sup> Includes vocational schools.

<sup>3/</sup> Excludes 13 junior colleges.

Source: School Construction, Hearings Before the General Subcommittee on Education of the Committee on Education and Labor, House of Representatives, 89th Congress, 1st Session, July and August, 1965 (Washington, D.C.: U.S. Government Printing Office, 1966), p. 357.

compared with an average of over 60 percent in the suburbs, with the figure running near 80 percent in some communities.

Secondly, the central city contains a concentration of "disadvantaged" children who, because of their home environments, range of experiences and presumably their state of health, are less prepared for schoolwork than suburban children. This puts an extra load on the central city school system. Although salaries are competitive, Cleveland has both a higher proportion of teachers without certificates, and a lower proportion of guidance counsellors and other professionals than do the suburbs--a telling, if intangible, cost of socially-troubled areas.

Emerging trends are even more telling than the current picture. The gap between central city and outside central city educational expenditures was narrowed in only four areas between 1957 and 1965, and in the two Florida localities and St. Louis the relative expenditures were unchanged.

In the remaining cases, the gap between central city and outside central city educational resources widened. In five such instances, an initial though small central city advantage was eliminated. The amounts by which the central city relative position deteriorated varied considerably, as can be derived from Table A-11. In some cases, the movement against the central city was small--less than \$9 per capita. In others, the deterioration was startling; the most dramatic example being Indianapolis, where the 1957 differential of \$13 per capita in favor of the outside areas grew to \$122 per capita by 1965--a net change of \$109 per capita against the central city.

In part, these movements may reflect the erratic pattern of capital construction projects for the base years 1957 and 1965. This element of uncertainty, however, cannot erase the unmistakable impression of the general deterioration of the central city educational position relative to the suburbs.

### **Noneducational Expenditures**

Unlike the educational "package," the content of local noneducational expenditures varies from State to State and also within States. Although some functions are common to all local governments (for example, overhead and financial administration) and other functions such as fire protection are local by definition, the provision of certain critical functions, particularly public welfare and highways, depends on the State-local system for assigning expenditure responsibilities. In addition the distinction between functions is not always clear. It is often difficult to determine, for example, where hospital costs end and welfare costs begin. These problems are compounded when the outlying portions of a metropolitan area fall into more than one State, while the entire area must be analyzed as a single unit.

Of the forces that determine the level of local noneducational expenditures, none is more important than the decision of State policymakers concerning the allocation of responsibility for the underwriting of public welfare expenditures. This function may be assigned to the State, the locality, or some combination peculiar to the individual area.<sup>3/</sup> Where welfare is a local function, the level of total expenditures for that area is higher. There are also differences within a State. Thus, New York City (which performs both city and county functions) assumes responsibility for public welfare in each of its boroughs (counties), whereas the cities of Buffalo and Rochester share the local cost of

public welfare with their counties of Erie and Monroe. Similarly, San Francisco (which like New York, provides both city and county services) assumes the entire local welfare burden, while in neighboring Oakland the responsibility for public welfare rests with Alameda County. Similar patterns exist for other functions which are assumed by localities because of some combination of legal, physical and socioeconomic characteristics.

The central cities of the 36 large metropolitan areas spent, on the average, \$232 per capita for noneducation purposes in 1964-65 (Table A-12; Fig. 5). Outside those cities, local governments spent only \$132 per capita, 75.9 percent less than was expended in the central cities. These statistics are all the more remarkable because the outside areas represent the Nation's great concentration of high income residents, a concentration expected to be associated with a high level of expenditure. And, local government noneducational expenditure in the remainder of the Nation was even smaller--\$96 per capita.

The growing disparity.--Not only is there a gap in noneducational spending inside and outside the city, but the gap has grown in absolute dollar amounts. The difference was \$61 per capita in 1957 and had risen to \$81 by 1964-65. A reduction of the disparity occurred only in those areas where the tax base was very small.\*

The size of the noneducational disparity in any particular SMSA is the result of a combination of factors. Public assistance case loads are concentrated in the central city. Therefore, the way the responsibility for administering and financing public welfare is divided between the State and the localities is an extremely important determinant.

Table A-13 makes clear the extreme differences that arise among local governments in welfare expenditures, reflecting differing State-local policies for administering and financing that function. Per capita local public welfare expenditure in the Seattle metropolitan area was only 8c in 1964-65, while it was \$62.37 in the San Bernardino area. The table further indicates the diverse expenditures which arise when the central city does not share the costs of public welfare with an overlying county. Within the New York SMSA the central city (which is also the central county) spent \$58.39 per capita, while Nassau County spent only \$15.70 and no other surrounding county exceeded \$24.01. The noneducational disparity between the central city and outside central city areas is notably accentuated when the central city bears the total welfare responsibility itself. The policy implications of this assignment of the public welfare function can assume immense importance, as is indicated by the finding of the Commission's case study of the Cleveland SMSA:

Most of the welfare load in Cuyahoga County occurs in the City of Cleveland. Levies are voted on, however, in the county at large. Up to the present, welfare levies are reported to have received general support throughout the county in referenda. Some officials, however, are concerned at the decline in support evident in some suburban areas, attributing it to preoccupation of suburbanites over the fiscal

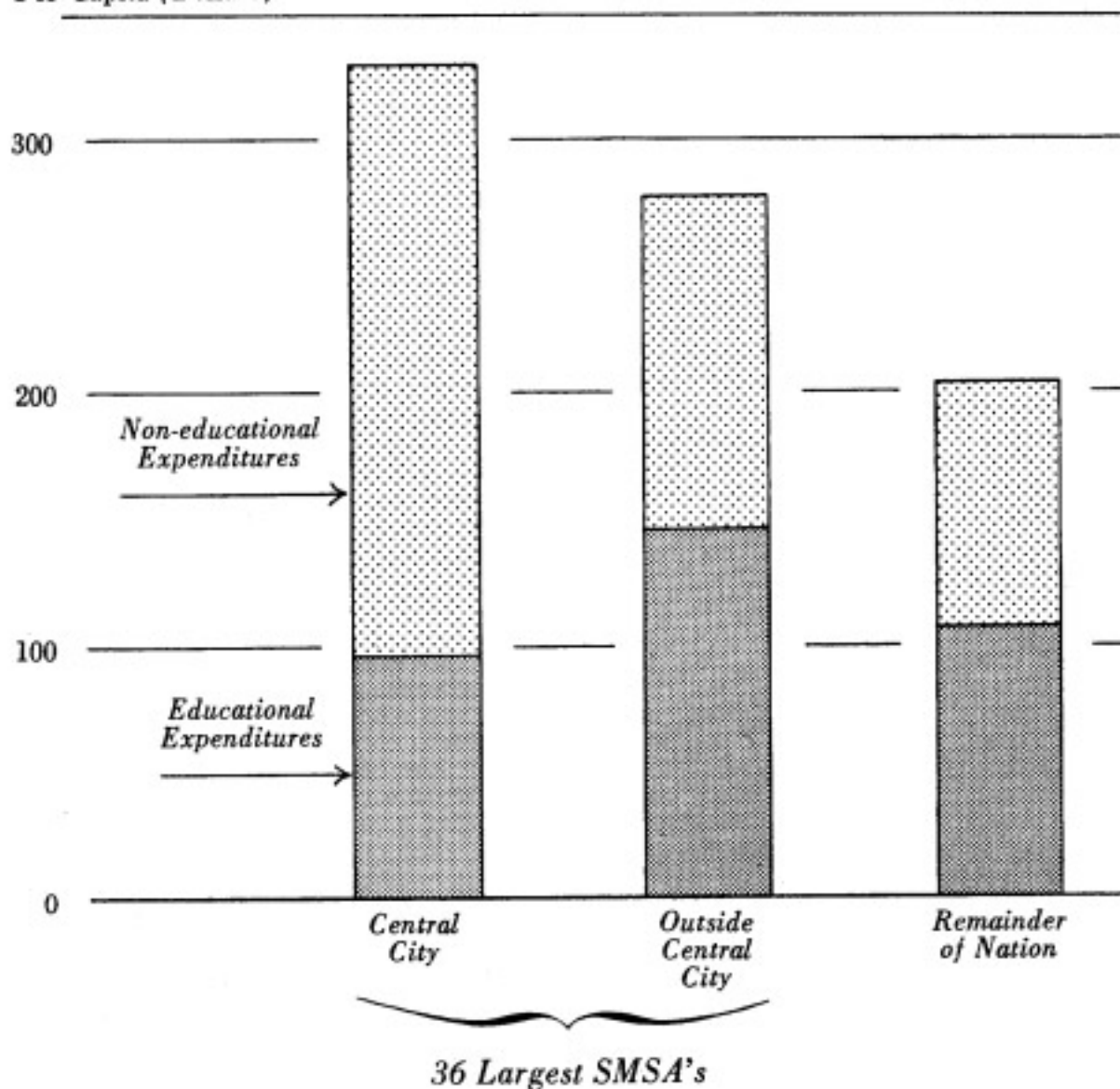
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\* Comparison of weighted and unweighted averages indicates that the gap is understated for the largest areas. It should be noted also that these figures exclude expenditures for utilities and mass transit, which bear most heavily on the largest cities.

Figure 5.

**PER CAPITA LOCAL EDUCATIONAL AND NON-EDUCATIONAL  
EXPENDITURES, 36 LARGEST SMSA's  
AND REMAINDER OF NATION, 1965**

Per Capita (Dollars)



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problems of their home community, mixed perhaps with some antipathy or even hostility toward the central city and its residents.

Unlike other noneducational expenditures, local highway costs do not show any distinct pattern (Table A-14). The level depends on the role of State aid, the extent to which the State has assumed the highway function, and other variables shaped by each State's history. Moreover, detailed studies indicate that some counties also service the central city.

Tables A-15 and A-16 point up the relatively high police and fire expenditures that are generally associated with central cities. In no case, except San Antonio (police) and Oakland (fire), are per capita expenditures in the central city for either of these functions less than those for the SMSA as a whole.\*

Community concern with police and fire services was evidenced by a recent Kraft poll in Houston. As described in the Commission's case study of the Houston SMSA:

The poll also showed that 77% of the citizens favored a one percent sales tax if tied to police and fire improvements. Other crucial services include water supply, housing, water pollution control and health-welfare services. Houston's public safety services are of major concern, as well as the services supplied to minority groups and concern over racial tensions in the city. . . .

Since the period of urbanization began a century ago, cities and their suburbs have undergone great changes. However, on the whole, the division of expenditure between educational and noneducational functions has hardly changed over time, in either the central city or its suburban environs. As Table 20 shows, on average about 30 percent of the local expenditure in the larger central cities was devoted to education in 1957 and 1965; outside those cities the proportion was around 50 percent. Similar relationships would have been noted in 1880, 1902 and 1913.

Although the roughly 20 percent gap between central and outside central cities in the portion of total expenditures devoted to education is widening only slightly, in absolute dollar terms the difference between the two areas is growing. Local effort is a major factor in the level of educational expenditures, but the role of State aid is also important, as will be demonstrated.

Historically, cities have played a significant role in raising the level of social amenities of our population, for they represented centers of important power and public wealth. Early in the century, the cities provided more adequate education and noneducational services than did their outlying areas. Policy was designed to redress this imbalance: State aid and State services were furnished to rural and suburban areas to ease the transition into urban

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\* In Washington, Boston, St. Louis, Newark, Rochester and Pittsburgh central city police expenditure approached twice that of the total SMSA. Similar situations existed for fire protection in San Bernardino, Washington, Miami, St. Paul, Paterson, Passaic, Rochester, Cincinnati, Dayton and Pittsburgh.

TABLE 20.--EDUCATIONAL EXPENDITURE AS A PERCENTAGE OF TOTAL GENERAL EXPENDITURES  
INSIDE (CC) AND OUTSIDE CENTRAL CITY (OCC), 37 LARGEST STANDARD METROPOLITAN  
STATISTICAL AREAS, 1957 AND 1964-1965

Area	1957		1964-1965	
	CC	OCC	CC	OCC
Los Angeles-Long Beach, California	36.7%	45.8%	34.1%	47.6%
San Bernardino-Riverside-Ontario, California	49.7	41.7	47.5	46.5
San Diego, California	37.7	47.6	36.2	46.4
San Francisco-Oakland, California	29.1	48.7	26.3	47.8
Denver, Colorado	34.1	50.3	34.8	64.7
Washington, D.C.	20.9	64.1	21.8	58.1
Miami, Florida	31.0	41.4	36.8	45.9
Tampa-St. Petersburg, Florida	30.2	56.2	32.6	57.8
Atlanta, Georgia	34.8	53.0	24.8	51.9
Chicago, Illinois	23.8	60.6	28.7	59.9
Indianapolis, Indiana	34.8	70.1	43.5	76.0
Louisville, Kentucky-Indiana	38.3	62.3	43.6	62.6
New Orleans, Louisiana	28.2	32.5	28.8	33.9
Baltimore, Maryland	29.6	50.0	30.8	55.6
Boston, Massachusetts	18.7	37.4	19.8	41.7
Detroit, Michigan	30.1	57.0	34.3	53.3
Minneapolis-St. Paul, Minnesota	29.7	51.1	28.0	57.5
Kansas City, Missouri-Kansas	33.9	49.1	33.0	57.3
St. Louis, Missouri-Illinois	30.9	57.3	29.9	60.8
Newark, New Jersey	31.3	48.6	27.6	48.2
Paterson-Clifton-Passaic, New Jersey	36.1	51.6	37.7	52.2
Buffalo, New York	26.9	47.1	28.4	51.3
New York, New York	24.5	53.8	25.3	55.2
Rochester, New York	26.5	46.9	35.5	56.4
Cincinnati, Ohio-Kentucky-Indiana	32.9	47.0	42.1	47.9
Cleveland, Ohio	27.3	44.0	33.3	49.8
Columbus, Ohio	31.3	60.3	33.6	62.7
Dayton, Ohio	28.1	60.5	36.2	57.3
Portland, Oregon-Washington	36.9	61.1	42.8	62.9
Philadelphia, Pennsylvania-New Jersey	29.7	52.2	30.7	60.7
Pittsburgh, Pennsylvania	21.8	50.0	27.9	55.6
Providence, Rhode Island	37.9	60.0	39.2	59.9
Dallas, Texas	35.3	59.3	36.7	56.3
Houston, Texas	41.9	67.4	39.5	73.1
San Antonio, Texas	42.5	83.7	n.a.	n.a.
Seattle, Washington	32.8	61.3	35.2	35.5
Milwaukee, Wisconsin	22.3	40.5	28.4	39.6
Unweighted average	31.0	51.3	32.6	53.2
Weighted average	n.a.	n.a.	29.9	52.5

n.a. = Data not available.

Source: Compiled from various reports of the Governments Division, U.S. Bureau of the Census.

society. Rural education was the special beneficiary of this policy.\* However, recent developments have changed the requirements of the local expenditure equation. The new summons to conquer poverty has placed additional burdens on those jurisdictions which house the poor, not only for direct assistance but also for education and the related police, housing and fire functions. It has become increasingly difficult for the central cities to supply these services out of the resources now available to them.

## Resources Disparities

### Tax Revenue

Although total Federal-State aid varies only slightly as between metropolitan and nonmetropolitan areas across the Nation, per capita taxes increase steadily with size and density of the areas. In the nonmetropolitan areas (which now account for only about 36 percent of the population) per capita local taxes were \$81 in 1962. In metropolitan areas (which contain the other 64 percent of the people) the per capita tax take was \$131. And, in the 37 largest SMSA's (which contain roughly 40 percent of the population) per capita local tax collections amounted to \$153 in 1962.\*\*

By 1964-65, per capita local taxes in the 37 largest SMSA's had risen to \$174, but in the central cities of those SMSA's the tax take was \$200 per capita. This average actually conceals a considerable interstate difference in the level of taxes (Table 21).\*\*\*

A high tax level affects both the center and the outskirts.\*\*\*\* Where taxes in the central city are high, the outside central city taxes also tend to be high, and conversely, low central city taxes are associated with low taxes

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\* See Chapter 3, page 55.

\*\* These figures are weighted averages.

\*\*\* In 1965, per capita taxes in the central city areas ranged from a low of \$84 in New Orleans to a high of \$291 in Washington, D.C., with New York City and Newark only slightly below at \$279 and \$273, respectively.

\*\*\*\*The correlation between the tax levels of the central city and outside central city segments of a metropolitan area is +.5930.

TABLE 21.--PER CAPITA TOTAL LOCAL TAXES, CENTRAL CITY (CC) AND OUTSIDE CENTRAL CITY (OCC) AREAS, 37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS, 1957 AND 1964-1965

Area	1957			1964-1965		
	SMSA	CC	OCC	SMSA	CC	OCC
Los Angeles-Long Beach, California	\$126	\$155	\$102	\$207	\$227	\$194
San Bernardino-Riverside-Ontario, California	98	141	81	188	203	181
San Diego, California	86	93	76	149	151	146
San Francisco-Oakland, California	124	140	111	224	248	217
Denver, Colorado	104	131	68	166	192	143
Washington, D.C.	124	185	75	184	291	129
Miami, Florida	107	132	94	143	169	131
Tampa-St. Petersburg, Florida	66	78	47	111	131	84
Atlanta, Georgia	68	98	44	107	128	89
Chicago, Illinois	123	138	99	166	203	123
Indianapolis, Indiana	97	106	68	158	155	168
Louisville, Kentucky-Indiana	78	92	59	97	113	79
New Orleans, Louisiana	56	62	38	71	84	47
Baltimore, Maryland	87	105	62	123	143	102
Boston, Massachusetts	127	161	116	179	223	167
Detroit, Michigan	111	127	95	154	171	141
Minneapolis-St. Paul, Minnesota	98	115	75	162	172	152
Kansas City, Missouri-Kansas	85	105	69	132	135	131
St. Louis, Missouri-Illinois	84	98	75	128	167	110
Newark, New Jersey	146	178	139	220	273	205
Paterson-Clifton-Passaic, New Jersey	116	118	116	183	177	185
Buffalo, New York	114	116	112	176	170	179
New York, New York	164	167	153	262	279	221
Rochester, New York	121	122	119	181	179	180
Cincinnati, Ohio-Kentucky-Indiana	101	137	65	139	190	108
Cleveland, Ohio	103	106	98	161	151	169
Columbus, Ohio	78	80	72	120	113	138
Dayton, Ohio	81	126	52	138	180	116
Portland, Oregon-Washington	99	135	66	149	189	119
Philadelphia, Pennsylvania-New Jersey	94	115	74	135	147	126
Pittsburgh, Pennsylvania	82	113	68	123	164	110
Providence, Rhode Island	84	109	73	118	160	103
Dallas, Texas	78	101	43	105	122	77
Houston, Texas	84	85	70	118	114	132
San Antonio, Texas	51	54	26	63	n.a.	n.a.
Seattle-Everett, Washington	66	81	48	122	128	116
Milwaukee, Wisconsin	118	126	104	167	193	122
Unweighted average	99	119	81	152	173	137
Weighted average	113	132	94	174	200	152

n.a. = Data not available.

Source: Compiled from various reports of the Governments Division, U.S. Bureau of the Census.



outside the central city.\* The similarity comes about partly because of the interaction between the central and the outside central city, and partly because of the particular State pattern that assigns taxes to the State or the local level, or even to a special kind of governmental unit.

Interstate differences in per capita taxation come about partly because of differences in density, income, proportion of the population in urban areas and State-Federal aid. But the most important variable, again, is the pattern of State assignment of responsibility for administering and financing public services.\*\* The decision of a State to support the costs of public welfare completely or to leave a substantial part of the non-Federal share to be financed by its localities changes significantly local revenue requirements.

The heaviest "volume" of local tax flows is concentrated in the largest metropolitan areas, and more specifically in the central cities of these areas. Although they represent but two-fifths of the Nation's population, the local governments in these 37 metropolitan areas raise over half of all local taxes. The central cities in those areas pay about 28 percent of the Nation's local taxes, while their surrounding areas contribute about 24 percent.\*\*\*

Even more important than the magnitude of these taxes is their relation to the income of the taxpayer. Table 22 confirms the pattern of relative deprivation for the large central cities. The average per capita income in the 37 central cities is lower, while their taxes are higher, than in their outskirts. Thus, central city residents paid 7 percent of their income in taxes to the

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\* The area outside New Orleans had the lowest per capita tax level of the 36 outside central city areas at \$47, while the areas outside New York and Newark had the highest levels of \$221 and \$205, respectively.

\*\* Density, income, proportion of the population in urban areas, State aid and Federal aid statistically "explain" only 58.8 percent of the variance in per capita local taxes. When the tax assignment variable is introduced the explanatory power is raised to 94.8 percent.<sup>4/</sup>

\*\*\* The disparity in local tax levels between the central city and "outside central city" areas weighted for population size is \$48 per capita, with the central cities collecting \$200 per capita in taxes and the outside central city areas collecting \$152. These totals contrast sharply with the \$103 in per capita taxes raised in the remainder of the nation. The lower unweighted per capita tax totals for both central city and outside central city areas (\$173 and \$137, respectively) indicate the effect of size: The large central city and "outside central city" areas have higher per capita tax collections than other areas. It should be emphasized that when we speak of central cities "paying" or "collecting" taxes we are in fact speaking of the taxes paid primarily by taxpayers in these central cities not only to the municipal government, but also to the county, school district and any other local governmental units that serve them. However, this qualification regarding county taxes does not apply to Virginia with its city-county separation or to other areas where the city and county are either separate or consolidated.

TABLE 22.--PER CAPITA INCOME, INSIDE (CC) AND OUTSIDE CENTRAL CITY (OCC), 37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS IN THE UNITED STATES, 1964

Area	SMSA	CC	OCC
Los Angeles-Long Beach, California	\$2,889	\$3,147	\$2,722
San Bernardino-Riverside-Ontario, California	2,156	2,469	2,056
San Diego, California	2,494	2,666	2,288
San Francisco-Oakland, California	2,953	3,175	2,816
Denver, Colorado	2,576	2,829	2,336
Washington, D.C.	3,023	3,003	3,033
Miami, Florida	2,280	2,067	2,372
Tampa-St. Petersburg, Florida	2,004	2,075	1,913
Atlanta, Georgia	2,337	2,473	2,226
Chicago, Illinois	2,903	2,755	3,072
Indianapolis, Indiana	2,507	2,465	2,785
Louisville, Kentucky-Indiana	2,221	2,166	2,274
New Orleans, Louisiana	2,021	2,084	1,904
Baltimore, Maryland	2,447	2,348	2,549
Boston, Massachusetts	2,690	2,421	2,756
Detroit, Michigan	2,568	2,453	2,646
Minneapolis-St. Paul, Minnesota	2,590	2,743	2,443
Kansas City, Missouri-Kansas	2,620	2,777	2,492
St. Louis, Missouri-Illinois	2,515	2,292	2,634
Newark, New Jersey	2,931	2,049	3,171
Paterson-Clifton-Passaic, New Jersey	2,884	2,359	3,029
Buffalo, New York	2,467	2,364	2,523
New York, New York	2,908	2,732	3,314
Rochester, New York	2,732	2,620	2,802
Cincinnati, Ohio-Kentucky-Indiana	2,386	2,462	2,345
Cleveland, Ohio	2,610	2,074	3,010
Columbus, Ohio	2,361	2,195	2,629
Dayton, Ohio	2,342	2,261	2,382
Portland, Oregon-Washington	2,492	2,804	2,258
Philadelphia, Pennsylvania-New Jersey	2,485	2,248	2,668
Pittsburgh, Pennsylvania	2,301	2,365	2,282
Providence, Rhode Island	2,204	2,298	2,174
Dallas, Texas	2,410	2,532	2,212
Houston, Texas	2,210	2,346	1,943
San Antonio, Texas	1,719	1,615	2,254
Seattle-Everett, Washington	2,630	2,948	2,304
Milwaukee, Wisconsin	2,544	2,349	2,803
Unweighted average	NC	2,482	2,552
Weighted average	NC	2,607	2,732

NC - Not computed.

Source: "Survey of Buying Power," Sales Management, Vol. 94, No. 12, June 10, 1965.

local governments that serve them, while suburbanites paid 5.4 percent--substantially less (Table 23).\*

The above was calculated from the unweighted averages in Table 23 which come closer to the pattern of the (more numerous) smaller of the 37 SMSA's. The situation deteriorates as the SMSA gets bigger, as can be demonstrated by using "weighted" averaged. Then the income gap between the central and the outside-central city rises to \$125, taxes in the central city rise to 7.6 percent of income and those outside the central city become 5.55 percent of income. Central city taxes as a proportion of income are more than one-third higher than the tax burden in outlying areas (Table 23).\*\*

<u>Item</u>	<u>Weighted Average</u>	<u>Unweighted Average</u>
In central cities		
Per capita taxes	\$ 199.53	\$ 173.15
Per capita income	2,607.00	2,482.00
Taxes as a percent of income	7.63%	7.00%
Outside central city areas		
Per capita taxes	\$ 152.21	\$ 136.96
Per capita income	2,732.00	2,552.00
Taxes as a percent of income	5.55%	5.36%
CC/OCC (percent of income)	137.5%	130.6%

It should be underscored that these are averages. Actually in 7 out of 36 SMSA's central city taxes are lower than those levied by their suburban neighbors (Table 23). Three of those seven areas are located in California.

The averages also conceal some great disparities and some startlingly high tax rates, most of them in the Northeast. In New York City, local taxes take 10.2 percent of income; residents in the outskirts pay 6.7 percent. But the highest city taxes of all are paid in Newark: 13.3 percent of income. Outside

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\* Per capita income figures are used here because they can be related to the per capita tax collection data. The central city-suburban area comparison is even more striking when household income is considered, as was done in Chapter 3, pages 40 ff.

\*\* These tax burden comparisons must be qualified by the fact that tax collection data do not distinguish between taxes paid by residents (for example, residential property taxes) and taxes "exported" to other communities via the business tax route (for example, business property taxes included in the price of merchandise purchased by nonresidents or local sales taxes paid by nonresidents). Nevertheless, there is no question that the tax burden position of many central cities is higher than that of their suburban neighbors and that it is in fact deteriorating.

TABLE 23.--PER CAPITA TAXES AS A PERCENTAGE OF PER CAPITA INCOME INSIDE (CC) AND OUTSIDE CENTRAL CITY (OCC), 37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS, 1965

Area	CC (1)	OCC (2)	CC Minus OCC (1)-(2)
Los Angeles-Long Beach, California	7.2%	9.4%	-2.2%
San Bernardino-Riverside-Ontario, California	8.1	8.8	-.7
San Diego, California	5.7	6.4	-.7
San Francisco-Oakland, California	7.8	7.7	+.1
Denver, Colorado	6.8	6.1	+.7
Washington, D.C.	9.7	4.2	+5.5
Miami, Florida	8.2	5.5	+2.7
Tampa-St. Petersburg, Florida	6.3	4.4	+1.9
Atlanta, Georgia	5.2	4.0	+1.2
Chicago, Illinois	7.4	4.0	+3.4
Indianapolis, Indiana	6.3	6.0	+.3
Louisville, Kentucky-Indiana	5.2	3.5	+1.7
New Orleans, Louisiana	4.0	2.5	+1.5
Baltimore, Maryland	6.1	4.0	+2.1
Boston, Massachusetts	9.2	6.1	+3.1
Detroit, Michigan	7.0	5.3	+1.7
Minneapolis-St. Paul, Minnesota	6.3	6.2	+.1
Kansas City, Missouri-Kansas	4.9	5.2	-.3
St. Louis, Missouri-Illinois	7.3	4.2	+3.1
Newark, New Jersey	13.3	6.5	+6.8
Paterson-Clifton-Passaic, New Jersey	7.5	6.1	+1.4
Buffalo, New York	7.2	7.1	+.1
New York, New York	10.2	6.7	+3.5
Rochester, New York	6.8	6.4	+.4
Cincinnati, Ohio-Kentucky-Indiana	7.7	4.6	+3.1
Cleveland, Ohio	7.3	5.6	+1.7
Columbus, Ohio	5.1	5.2	-.1
Dayton, Ohio	8.0	4.9	+3.1
Portland, Oregon-Washington	6.7	5.3	+1.4
Philadelphia, Pennsylvania-New Jersey	6.5	4.7	+1.8
Pittsburgh, Pennsylvania	6.9	4.8	+2.1
Providence, Rhode Island	7.0	4.7	+2.3
Dallas, Texas	4.8	3.5	+1.3
Houston, Texas	4.8	6.8	-2.0
San Antonio, Texas	n.a.	n.a.	n.a.
Seattle-Everett, Washington	4.3	5.0	-.7
Milwaukee, Wisconsin	8.2	4.4	+3.8
Unweighted average	7.0	5.4	+1.6
Weighted average	7.6	5.6	+2.0

n.a. - Data not available.

Source: Tables 21 and 22.

Newark the taxpayer pays his local governments 6.5 percent of his income. Certainly this situation creates no incentive for a suburban resident to move into town.\*

These proportions indicate that many large cities and some outside central city areas face an unprecedented dilemma in providing a tax base strong enough to support the burdens placed upon them. While the specific problem of the property tax base will be discussed below, the general contours of the dilemma are directly apparent. Local taxes could not approach 13 percent of income, as they have in Newark, without enormous effort. There are two possibilities: either property taxes on commercial or industrial property make up a considerable part of revenue, or taxes are being levied on nonresidents, such as commuters. However, it is precisely the relative decline of the nonresidential component of the property tax base, together with a decline in the income level, which is making the central city fiscal problems so acute.

At any point in time the effective level of property taxation in a particular community contends with a political ceiling. This "ceiling" is the product of a combination of factors, including legal rate limitations, the rate level in "competing" jurisdictions, public attitudes and the frequency of recent rate increases. It is not surprising, therefore, that many cities, especially the bigger ones, have been turning to nonproperty taxes. Nevertheless, although New York City collects almost \$1 billion in nonproperty taxes, the property tax still accounts for almost 60 percent of that city's tax collections.\*\*

The recent expansion of nonproperty taxes in New York and Cleveland affirms the continuing pressure on the central city. Wisconsin, Minnesota and New Jersey have also made basic changes in their tax assignment and State aid systems, illustrating the complex set of governmental relations that must be evaluated before a complete analysis of a local area can even be contemplated.

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\* In looking at local tax burdens in the Jersey City and Paterson-Clifton-Passaic areas, the Commission's investigator stressed the importance of the property tax, as New Jersey communities make particularly heavy use of that source. Regarding property tax burdens in the Jersey City SMSA (in terms of effective rates -- property tax collections as a percent of full value of property) he notes that not only does Jersey City (the central city) bear an extraordinary property tax burden, but some of its surrounding cities have similar or more extreme problems: "The Jersey City SMSA has some of the highest property tax rates in the country. For the entire SMSA the 1967 rate on real property will average 4.00% (arithmetic mean of effective rates in the 12 taxing jurisdictions). The central-city rate (5.35%) is significantly higher than the average rate outside the central city (3.88%), but below that of Hoboken (8.07%) and Union City (5.85%). The effective rate falls below 3.00% in only three municipalities: Secaucus (2.50%), Kearny (2.38%), and Harrison (2.72%)."

\*\* The property tax contributes a somewhat smaller proportion of tax revenue for municipal purposes of a number of municipalities: Los Angeles, Long Beach, San Bernardino, Riverside, Ontario, Washington, D.C., Tampa, St. Petersburg, Louisville, New Orleans, Kansas City (Mo.), St. Louis, Cincinnati, Columbus, Dayton, Philadelphia and Seattle.

Property tax base.--The declining fiscal position of the property tax base has complicated the central city's fiscal problems and made them more acute. Only a limited number of central city areas depend heavily on nonproperty taxes to finance all local governments serving them.\*

Looking at only the locally assessed real property values, the extraordinary dependence of central cities on the nonresidential portion of the tax base is evidenced by the material drawn from 1961 property tax values as reported in the 1962 Census of Governments.

More than half of the locally assessed base was in the commercial and industrial category in the cities of Cleveland and Boston, and in 23 of the other 30 large cities for which data were available, the proportion ranged from one-third to one-half (Table A-17). State-assessed, locally-taxed property (largely utility property) is almost exclusively nonresidential in nature. Insofar as the real property was supplemented by business personalty, the commercial and industrial proportion would be increased.

Generally speaking, the areas outside the central cities depend much more on residential property; but this, in turn, reflects higher income and higher housing values. The current movement of industry and commerce to the areas outside the central cities improves the fiscal position of the outlying areas and reduces the relative resources in the central city.

A problem for most cities outside of the West and South is the slowing down in the rate of growth of the property tax base in recent years. Table 24 shows a definite retardation in the growth of the tax base of most large central cities. Of the 27 central cities for which comparable Census assessed-value data are available for 1961 and 1966, only Los Angeles and New York experienced increases in their property tax bases that were greater than those of their environs. The extraordinary commercial building boom in midtown and lower Manhattan contributed to New York's superior growth. However, the growth in New York's tax base was quite small compared with that in many of the outside areas in other SMSA's. The property tax base actually declined in Buffalo, Rochester, Cleveland and Portland while, except in the latter, their surrounding jurisdictions experienced substantial increases.

### **State and Federal Aid**

While local taxes were increasing inside and outside the city, aid to the localities from both the Federal and State governments also grew rapidly during the period 1957 to 1965. Although debate is likely to continue over the distribution of functional and fiscal responsibility among the three levels of government, we are now witnessing significant upward shifts in the financial support of education, public welfare and a number of urban functions, with little or no change in the assignment of administrative responsibility for carrying them out.

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\* Counties and the school districts that serve the central cities draw on the central city tax base, and those governmental units rely almost exclusively on property taxes. Washington, D.C., with its special circumstances, New York City and Philadelphia are the only central city areas which show a significant overall dependence on nonproperty taxes.

TABLE 24.--ASSESSED VALUATIONS, SELECTED LARGE CITIES AND THEIR ENVIRONS, 1961 AND 1966

City and County	Gross Assessed Value			Locally-assessed Real Property		
	Including State-assessed Property		Percent Increase or Decrease (-)	Amount		Percent Increase or Decrease (-)
	1966	1961		1966	1961	
----- (thousands) -----				----- (thousands) -----		
Los Angeles (Los Angeles county)	\$6,602,518	\$5,133,469	28.6%	\$5,493,997	\$3,842,755	43.0%
Remainder of county	9,305,428	7,628,555	22.0	7,296,636	5,504,740	32.6
San Diego (San Diego county)	1,132,097	959,617	18.0	896,312	710,294	26.2
Remainder of county	963,864	769,006	25.3	755,154	592,281	27.5
San Francisco (city-county)	1,783,052	1,509,095	18.3	1,225,167	1,041,073	17.7
Alameda county	1,953,958	1,549,987	26.1	1,409,571	1,067,938	32.0
Denver (city-county)	1,190,546	1,132,313	5.1	894,913	805,252	11.1
Jefferson county	370,183	248,236	49.1	310,170	202,201	53.4
Washington, D.C.	3,538,066	2,735,548	29.3	3,027,939	2,324,612	30.3
Montgomery and Prince Georges counties, Maryland and Arlington county, Virginia	4,875,381	2,735,322	78.2	4,073,511	2,267,394	79.7
Atlanta (DeKalb and Fulton counties)	1,206,429	880,950	36.9	627,286	502,975	24.7
Remainder of counties	1,074,584	732,978	46.6	803,205	508,009	58.1
Chicago (Cook county)	11,213,002	10,456,136	7.2	8,426,107	8,065,138	4.5
Remainder of county	6,985,946	5,718,397	22.2	6,209,218	4,862,052	27.7
Indianapolis (Marion county)	964,833	885,657	8.9	633,656	556,208	13.9
Remainder of county	658,469	448,257	46.9	451,254	279,524	61.4
Louisville (Jefferson county)	2,099,577	678,654	209.4	1,596,739	488,018	227.2
Remainder of county	2,116,328	556,040	280.6	1,526,994	387,205	294.4
Baltimore city	2,902,421	2,787,318	4.1	2,060,059	1,976,041	4.3
Baltimore county	2,277,957	1,743,854	30.6	1,819,785	1,416,464	28.5
Boston (Suffolk county)	1,507,495	1,467,907	2.7	1,368,025	1,337,254	2.3
Remainder of county	207,577	147,789	40.5	196,302	137,392	42.9
Detroit (Wayne county)	4,991,122	4,778,022	4.5	3,792,941	3,341,301	13.5
Remainder of county	4,208,820	2,750,705	53.0	3,070,459	1,842,737	66.6
Minneapolis (Hennepin county)	403,518	n.a.	n.a.	325,008	318,574	2.0
Remainder of county	329,013	n.a.	n.a.	290,956	182,127	59.8
St. Paul (Ramsey county)	240,656	n.a.	n.a.	184,670	182,048	1.4
Remainder of county	98,417	n.a.	n.a.	82,948	57,948	43.1
Kansas City, Missouri <sup>1/</sup> (Clay and Jackson counties)	1,127,177	1,000,085	12.7	719,479	631,345	14.0
Remainder of counties	395,076	334,098	18.3	312,857	252,220	24.0
St. Louis city	1,796,987	1,669,461	7.6	1,297,009	1,226,740	5.7
St. Louis county	2,151,191	1,662,272	29.4	1,674,184	1,298,345	28.9
Newark (Essex county)	1,403,888	750,505	87.1	1,248,045	596,598	109.2
Remainder of county	3,164,647	1,208,872	161.8	3,046,296	1,091,317	179.1
New York City	33,283,403	28,036,640	18.7	31,886,954	26,948,094	18.3
Nassau and Westchester counties	6,658,595	5,995,761	11.1	6,405,660	5,773,641	10.9
Buffalo (Erie county)	1,121,422	1,129,087	-0.7	1,075,723	1,086,733	-1.0
Remainder of county	1,000,611	906,819	10.3	966,174	876,391	10.2
Rochester (Monroe county)	718,258	727,049	-1.2	684,288	695,667	-1.6
Remainder of county	708,924	524,167	35.2	687,841	508,141	35.4
Cincinnati (Hamilton county)	1,630,813	1,605,985	1.5	1,086,580	1,078,093	0.8
Remainder of county	1,748,127	1,406,024	24.3	1,237,908	983,217	25.9
Cleveland (Cuyahoga county)	2,851,240	2,917,808	-2.3	1,685,817	1,774,596	-5.0
Remainder of county	3,327,474	2,736,223	21.6	2,577,276	2,117,539	21.7
Columbus (Franklin county)	1,497,959	1,219,387	22.8	1,014,636	832,441	21.9
Remainder of county	865,979	639,758	35.4	646,922	478,397	35.2
Portland, Oregon <sup>2/</sup> (Multnomah county)	660,877	874,956	-24.5	477,461	624,230	-23.5
Remainder of county	251,379	273,026	-7.9	195,030	208,242	-6.3
Pittsburgh (Allegheny county)	1,228,615	1,201,638	2.2	1,228,615	1,201,638	2.2
Remainder of county	2,350,539	2,039,511	15.3	2,350,539	2,039,511	15.3
Seattle (King county)	959,082	799,981	19.9	714,807	590,418	21.1
Remainder of county	876,351	487,364	79.8	626,322	358,332	74.8
Milwaukee (Milwaukee county)	2,251,917	1,985,697	13.4	1,820,657	1,659,925	9.7
Remainder of county	1,176,825	956,656	23.0	962,528	805,192	19.5

n.a. = data not available.

<sup>1/</sup> Excluding the minor portion of Kansas City, Missouri located in Platte county.<sup>2/</sup> Excluding the minor portion of Portland, Oregon located in Clackamas county.Source: Bureau of the Census, Taxable Property Values (1962 Census of Governments, Vol. II), and Assessed Valuations for General Property Taxation (1967 Census of Governments, Preliminary Report, February 1968, CG-P4).

In 1965, total State and Federal aid was identical in central city and outside central city areas of the large SMSA's, with an average of \$78 per capita throughout (Table 25).<sup>\*</sup> While this finding clearly indicates that, when viewed in the aggregate, total Federal and State aid scores rather low marks from an equalization standpoint, the situation would have been much worse were it not for the equalizing impact of a number of direct Federal-local programs that by their very nature favor the central city (for example, urban renewal and public housing). The fact must also be underscored that the 1965 data could not reflect the equalizing power of Title I of the Elementary and Secondary Education Act. Adequate funding of the Model Cities program would also work in behalf of equalization. Even without these two new programs, 19 of the central cities came out somewhat better than their suburban communities, due in no small measure to this direct Federal aid factor.

Considered in relation to expenditures, State and Federal aid supports 27 percent of central city expenditures, 29 percent of outside central city expenditures and 37 percent of the local expenditures in the remainder of the Nation (Table 26).<sup>\*\*</sup> The lower the aid contribution, of course, the more must be made up from the city's own revenue sources.

Relative to local taxes, the other major source of local revenue, Federal and State aid represents 44 percent of central city taxes, 53 percent of outside central city taxes and 74 percent of the local taxes collected in the rest of the country.

Support for education.--The level of total Federal and State aid conceals the specific aid for the crucial function of education, which constitutes the largest single portion of total aid in both central cities and outlying areas. In many central cities aid to education is of primary importance. In 1957 it represented 47 percent of all central city aid. Outside the central cities it was even more important, constituting almost 72 percent of aid that year.<sup>3/</sup>

Per capita aid to education reached \$16.12 in the central cities and \$28.43 outside in 1957.<sup>\*\*\*</sup> In the ensuing five years this relative neglect of the central cities was aggravated. By 1962, per capita education aid in the central cities was \$20.73, but it had risen to \$37.66 outside.<sup>4/</sup> Even on a per pupil basis, the central cities received less aid than the outside central city areas and this gap was aggravated by the perverse effect of many State educational aid "equalization" formulas. Although Federal aid for education may reduce this gap subsequent to 1964-65, the dollar magnitude of the disparity is enormous.

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\* Unweighted basis, which adheres more to the pattern of the smaller of the 37 largest SMSA's.

\*\* Noneducation aid reversed this pattern, reaching \$18.60 per capita in the central cities but only \$11.83 outside the central city areas.

\*\*\* On a weighted basis.



TABLE 25.--PER CAPITA STATE AND FEDERAL AID, CENTRAL CITY (CC) AND OUTSIDE CENTRAL CITY (OCC) AREAS, 37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS, 1957 AND 1964-1965

Area	1957			1964-1965		
	SMSA	CC	OCC	SMSA	CC	OCC
Los Angeles-Long Beach, California	\$78	\$ 75	\$80	\$126	\$116	\$133
San Bernardino-Riverside-Ontario, California	82	105	73	140	173	127
San Diego, California	61	58	64	134	123	147
San Francisco-Oakland, California	73	66	79	143	133	150
Denver, Colorado	49	52	46	69	74	64
Washington, D.C.	44	45	42	91	123	74
Miami, Florida	21	21	21	58	61	56
Tampa-St. Petersburg, Florida	24	27	23	55	62	47
Atlanta, Georgia	23	22	24	58	53	63
Chicago, Illinois	25	29	19	56	65	47
Indianapolis, Indiana	31	33	26	57	45	89
Louisville, Kentucky-Indiana	22	18	27	46	41	51
New Orleans, Louisiana	52	51	53	76	62	102
Baltimore, Maryland	51	64	44	108	137	76
Boston, Massachusetts	52	77	43	88	190	61
Detroit, Michigan	59	61	57	86	80	90
Minneapolis-St. Paul, Minnesota	41	39	43	87	68	104
Kansas City, Missouri-Kansas	23	18	26	48	49	47
St. Louis, Missouri-Illinois	20	17	22	36	38	35
Newark, New Jersey	21	25	19	48	82	39
Paterson-Clifton-Passaic, New Jersey	18	18	18	27	38	24
Buffalo, New York	52	45	57	112	94	123
New York, New York	54	56	50	115	117	112
Rochester, New York	47	42	55	119	99	140
Cincinnati, Ohio-Kentucky-Indiana	34	43	25	59	87	42
Cleveland, Ohio	34	34	32	55	58	53
Columbus, Ohio	39	39	39	62	58	72
Dayton, Ohio	41	40	42	60	66	56
Portland, Oregon-Washington	40	38	42	63	50	72
Philadelphia, Pennsylvania-New Jersey	21	19	24	39	45	34
Pittsburgh, Pennsylvania	27	17	30	46	66	40
Providence, Rhode Island	21	22	18	43	57	38
Dallas, Texas	25	20	32	39	29	55
Houston, Texas	23	18	41	45	35	76
San Antonio, Texas	22	18	33	53	n.a.	n.a.
Seattle-Everett, Washington	51	48	54	97	69	128
Milwaukee, Wisconsin	63	64	61	124	108	152
Unweighted average	40	40	40	78	78	78
Weighted average	46	44	48	84	88	80

Source: Compiled from various reports of the Governments Division, U.S. Bureau of the Census.

TABLE 26.--SUMMARY OF FISCAL DISPARITIES INSIDE AND OUTSIDE CENTRAL CITY,  
37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS, 1964-1965

Item	37 Largest SMSA's				Remainder of Nation (Weighted Average)
	In Central City		Outside Central City		
	Weighted Average	Unweighted Average	Weighted Average	Unweighted Average	
Per capita total general expenditures	\$ 332	\$ 304	\$ 278	\$ 265	\$ 203
Per capita educational expenditures	100	99	146	141	107
Per pupil current expenditures	n.a.	449	n.a.	573	n.a.
Per capita general non- educational expenditures	232	205	132	124	96
Per capita total general revenues	340	301	268	253	212
Per capita taxes	200	173	152	137	103
Per capita Federal and State aid	88	78	80	78	76
Percent of general expenditure	26.5%	25.7%	28.8%	29.4%	37.4%
Percent of taxes	44.0	45.1	52.6	56.9	73.8
Per capita income	2,607	2,482	2,732	2,552	1,789

n.a. = Data not available.

## The Intensification of Fiscal Disparities 1957 to 1965

Will time solve this central city-suburban disparities problem? Our 1957-1965 comparisons indicate that time is working against, not for, many of our major central cities, especially with respect to educational resources and tax burdens.

Whether measured in absolute terms (per capita expenditure) or in relative terms (percentage increase) the central cities are slipping farther behind suburbia in educational expenditure with each passing year.

And, time is definitely working against most central cities with respect to relative tax burdens. When measured in per capita terms, tax burdens are increasing at a faster rate in the central city. When viewed in relative terms--percentage increases--there appears to be some lessening of the tax burden gap. However, this is probably a statistical illusion: Suburbia starts from a low base, hence smaller increments produce larger percentage increases. If tax burdens are measured in relation to income, then there is no question but what the differential favoring suburbia is growing both absolutely and relatively. In noneducational expenditures there appears to be a very slow closing of a large gap, but even this trend may be more apparent than real. When viewed strictly in absolute (per capita) terms the cost of general government is going up faster in central cities than in the outlying areas; the dollar gap grew between 1957 and 1965. When viewed in relative terms--the rate of increase since 1957--then there is some narrowing of the gap as general government costs in suburbia moved up at a slightly faster clip than did central city costs. But, here we have the statistical illusion noted in the case of tax disparities: a low (1957) baseline for suburban general government costs. To put it another way, while the gap may be closing very slowly, it is at such a slow rate as to have little or no policy significance, particularly in view of the presence of the great central city-suburban disparity in noneducational expenditures.

The various relationships are as follows:\*

<u>Item</u>	<u>Education Expenditure</u>	<u>Noneducation Expenditure</u>	<u>Tax Revenue</u>
Per capita gap			
1957	\$25	\$ 69	\$38
1965	47	100	48
Percent increase, 1957-1965			
Central city	62.3%	51.6%	51.5%
Outside central city	69.8	57.1	61.7

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\* Based on weighted averages in Tables 21, A-11 and A-12,

## Fiscal Prognosis

A fiscal prognosis for major metropolitan areas supports two general conclusions:

- (a) A persistence of disparities between central city and suburbia; and
- (b) The growing tax plight of the Nation's major central cities and their overlying local governments.

### Persistence of Central City-Suburban Fiscal Disparities

Our projections clearly indicate that the observed disparity between central city and suburban areas will not "wash out" over the foreseeable future. There is every reason to expect a persistence of disparities derived from the generally favorable suburban position on both the needs and tax resources fronts (Table 27).

Perhaps the most significant feature of these projections is the isolation and dramatization of the truly critical cases--those metropolitan areas with the greatest central city-suburban tax burden disparities: Chicago, Boston, St. Louis, Newark, New York, Cincinnati and Milwaukee. These are the cases with a high projected central city tax burden, tax burdens virtually double those of their suburban rings.

These projections were undertaken for the central city and outside central city areas using 1962 boundaries, adjusted in some cases for definitional changes between 1962 and 1965.

The detailed projections for 1975 are based on the rate of increase in per capita fiscal behavior between 1957 and 1965, projected forward to 1975. The 1975 estimates of population and income were based on the National Planning Association's detailed metropolitan projections for that year.<sup>6/</sup> Their estimates were then dis-aggregated between the central city and outside central city areas on the basis of the estimated 1964 population and income distributions.

If existing trends, rather than the 1964 levels, were used, the central cities would show much lower levels of income than the intra-metro estimates indicate, thus producing for the central city much higher expenditure and tax burdens relative to income and aggravating the disparities.

Further, there is an indication that the estimates of fiscal behavior are, in fact, conservative, failing to take into account certain internal characteristics associated with trends in local wage levels. There is now an indication that the period since 1965 has witnessed a more rapid rate of growth in the per capita level of central city fiscal behavior than the period 1957-65.

### Growing Tax Plight of Central City

These projections also enable us to concentrate on the developing gaps in the tax financing of local public services in the Nation's 36 largest cities--

TABLE 27.--PROJECTIONS TO 1975 OF LOCAL GENERAL EXPENDITURES AND TAX REVENUES AS A PERCENTAGE OF INCOME, CENTRAL CITY AND OUTSIDE CENTRAL CITY AREAS IN 35 STANDARD METROPOLITAN STATISTICAL AREAS

Area	Expenditures		Taxes	
	Central City	Outside Central City	Central City	Outside Central City
Los Angeles-Long Beach, California	10.2%	10.2%	6.0%	5.8%
San Bernardino-Riverside-Ontario, California	13.7	14.5	6.0	7.6
San Diego, California	9.4	12.0	4.6	5.3
San Francisco-Oakland, California	11.6	12.2	7.9	6.4
Denver, Colorado	9.3	8.0	6.3	5.2
Miami, Florida	12.9	8.0	6.4	4.9
Tampa-St. Petersburg, Florida	12.5	7.5	5.2	3.6
Atlanta, Georgia	11.7	10.1	4.0	3.6
Chicago, Illinois	8.5	6.3	6.9	2.8
Indianapolis, Indiana	6.6	9.5	5.5	5.5
Louisville, Kentucky-Indiana	8.4	4.8	4.0	2.2
New Orleans, Louisiana	8.0	10.6	3.3	1.7
Baltimore, Maryland	10.8	6.4	4.8	3.2
Boston, Massachusetts	14.8	5.9	7.2	4.4
Detroit, Michigan	9.5	8.0	5.7	4.1
Minneapolis-St. Paul, Minnesota	10.1	10.3	5.5	4.8
Kansas City, Missouri-Kansas	5.1	9.2	3.7	4.6
St. Louis, Missouri-Illinois	11.1	4.5	6.5	2.8
Newark, New Jersey	17.8	7.0	11.2	5.0
Paterson-Clifton-Passaic, New Jersey	9.0	5.6	6.3	4.9
Buffalo, New York	10.9	10.4	5.8	5.3
New York, New York	15.5	8.2	9.6	4.7
Rochester, New York	13.1	9.8	6.0	4.3
Cincinnati, Ohio-Kentucky-Indiana	14.0	4.8	6.2	3.4
Cleveland, Ohio	11.6	6.5	5.9	4.1
Columbus, Ohio	7.7	6.6	4.0	3.9
Dayton, Ohio	12.2	7.2	6.7	4.5
Portland, Oregon-Washington	9.0	7.8	5.8	4.3
Philadelphia, Pennsylvania-New Jersey	8.7	6.1	4.8	3.7
Pittsburgh, Pennsylvania	9.5	6.1	5.5	3.7
Providence, Rhode Island	8.6	5.5	5.1	3.9
Dallas, Texas	5.3	7.7	3.3	2.8
Houston, Texas	6.0	9.2	3.4	4.8
Seattle-Everett, Washington	8.6	15.4	4.1	4.6
Milwaukee, Wisconsin	12.7	8.8	7.2	2.7

Note: Excludes the Washington, D.C. SMSA because of the State-local character of its central city and the San Antonio SMSA because data were not available.

Source: Metropolitan Studies Center, Syracuse University.

TABLE 28.--LOCAL TAX COLLECTION "GAP" IN CENTRAL CITY AREAS OF THE 36 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS, PROJECTED FOR 1975<sup>1/</sup>  
(Millions)

Area	Tax	Projected	Increase	Portion of	Tax	Exhibit:
	Collections	Tax		Increase		
	1965	1975	1965-1975	to Natural	by 1975	Increase
	(1)	(2)	(3)	Growth	(3)-(4)	in Property
				in Property		Tax Rate
				Tax Base	(3)-(4)	1957-1965 <sup>2/</sup>
	(1)	(2)	(3)	(4)	(5)	(6)
Los Angeles-Long Beach, California	\$ 695.3	\$ 1,301.6	\$ 606.3	\$ 496.6	\$ 109.7	8.0%
San Bernardino-Riverside-Ontario, California	60.9	150.3	89.4	61.5	27.9	20.2
San Diego, California	96.0	222.8	126.8	85.2	38.6	18.5
San Francisco-Oakland, California	275.0	529.5	254.5	85.2	169.3	39.5
Denver, Colorado	95.0	168.7	73.7	13.7	60.0	38.3
Washington, D.C.	231.3	379.1	147.8	73.8	74.0	25.4
Miami, Florida	54.9	90.8	35.9	14.2	21.7	23.5
Tampa-St. Petersburg, Florida	66.2	171.6	105.4	49.9	55.5	37.0
Atlanta, Georgia	68.5	121.7	53.2	40.5	12.7	7.5
Chicago, Illinois	714.6	1,141.7	427.1	93.0	334.1	31.3
Indianapolis, Indiana	82.1	155.8	73.7	17.5	56.2	43.3
Louisville, Kentucky-Indiana	44.3	58.3	14.0	13.0	1.0	1.4
New Orleans, Louisiana	54.4	86.2	31.8	17.5	14.3	14.5
Baltimore, Maryland	134.8	201.6	66.8	.3	66.5	34.8
Boston, Massachusetts	172.8	287.5	114.7	-2.2	114.9	53.4
Detroit, Michigan	283.9	389.0	105.1	-11.6	116.7	42.2
Minneapolis-St. Paul, Minnesota	133.0	215.2	82.2	17.7	64.5	29.5
Kansas City, Missouri-Kansas	71.6	120.4	48.8	15.5	33.3	30.4
St. Louis, Missouri-Illinois	116.9	193.7	76.8	2.8	74.0	49.7
Newark, New Jersey	107.8	173.7	65.9	10.8	55.1	34.3
Faterson-Clifton-Passaic, New Jersey	30.1	86.7	36.6	5.7	30.9	42.0
Buffalo, New York	85.9	123.8	37.9	.1	37.8	35.0
New York, New York	2,225.1	4,183.2	1,958.1	1,101.6	856.5	22.5
Rochester, New York	55.4	83.5	28.1	3.8	24.3	33.3
Cincinnati, Ohio-Kentucky-Indiana	94.1	143.1	49.0	11.1	37.9	24.7
Cleveland, Ohio	122.5	158.6	36.1	8.9	27.2	21.1
Columbus, Ohio	61.0	119.6	58.6	36.0	22.6	16.9
Dayton, Ohio	45.8	74.9	29.1	15.2	13.9	12.6
Portland, Oregon-Washington	71.8	110.1	38.3	5.0	33.3	35.0
Philadelphia, Pennsylvania-New Jersey	300.9	427.0	126.1	48.0	78.1	14.7
Pittsburgh, Pennsylvania	91.8	130.9	39.1	10.2	28.9	10.0
Providence, Rhode Island	30.4	41.5	11.1	4.4	6.7	12.0
Dallas, Texas	96.3	154.4	58.1	39.0	19.1	13.6
Houston, Texas	125.4	252.9	127.5	71.4	56.1	17.6
Seattle-Everett, Washington	72.3	134.2	61.9	42.7	19.2	14.5
Milwaukee, Wisconsin	147.6	249.6	102.0	57.6	44.4	18.3
36 SMSA total	7,235.7	12,633.2	5,397.5	2,560.6	2,836.9	xxx

1/ Excluding San Antonio for which data were not available.

2/ Including imputed property tax rate for nonproperty taxes.

Source: Metropolitan Studies Center, Syracuse University.

a "minimal" projected tax gap of \$2.8 billion or a cumulative ten-year total tax gap of approximately \$14 billion (Table 28). The projected total local tax collections of the major central cities are compared with the amount that would be collected if taxes are to rise only in proportion to the natural increase in the property tax base (that is, with no new taxes or rate increases).

As has been noted, the 1975 estimate of \$12.6 billion in tax collections assumes the same average annual growth rate between 1965 and 1975 as was observed for the period 1957-1965. For many of these cities during the second half of the 1957-1965 period the tax base has been increasing at a declining rate, and in some it has actually declined, as compared to the first half. For the entire period, tax rates have had to rise considerably between 1957 and 1965. In no case was there an indicated decline in property tax rates. Our calculations indicate property tax rate increases equivalent to 53 percent in Boston, 50 percent in St. Louis and 42 percent in Detroit. In half of the cities, property tax rates rose 25 percent or more in the eight-year period.\*

The tax financing "gaps" shown in Table 28 are minimal for a number of reasons. First, the portion of the 1965-1975 increase that is attributed to the natural growth in the property tax base (column 4) is undoubtedly overstated in some cities because the computation does not allow for the observed recent decline in the rate of increase in the tax base. Secondly, if the recent trend toward an increasing response to the needs of high-cost citizens in the central cities continues, tax collections will have to grow at an even greater rate than in the past. And finally, our projections made no allowance for needed general improvement in the quality of central city government services.

All of these factors add up to a potentially tremendous tax gap relative to resource growth for these large central cities in particular and for local government generally. Taking account of the three additional factors enumerated above, the annual gap could easily reach \$5 to \$6 billion by 1975, or a cumulative 10-year total tax gap for the 36 large central cities of \$25 to \$30 billion.

The gap will be bridged partly by tax rate increases and new tax enactments and in some cases by State or Federal aid arrangements. Beyond this, local governments, unlike the National Government, are not free to use their borrowing powers to bridge the gap because they are precluded generally from engaging in deficit financing for operating purposes. Therefore, their solution to this tax gap problem is to forego higher expenditures in order to hold the line on the tax side.

No two cities or jurisdictions will handle this gap problem in the same way. Each will necessarily handle it in the light of local circumstances--the urgency of needs, the accessibility to additional revenues, the availability of financial aid, and the myriad of other facts that necessarily enter into the decisions of politically responsible leaders. For this reason, calculations of financial gaps cannot serve as guides for individual governments. They can serve only as approximate indicators of the magnitude of the fiscal problems of a group of governments responsible for the provision of local services in the central city.

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\* Including an equivalent property tax rate for nonproperty taxes.

It is the level at which the gap is bridged that is of crucial importance. If it is to be closed at a high or even an adequate level of governmental service, it will have to be done at enormous cost relative to the community's income and tax base unless many of our central cities are given massive infusions of Federal and State aid, if functions are shifted to the State and Federal levels, or if the cities are given an opportunity to tap an areawide tax base.



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**Appendix A**

**SUPPLEMENTARY TABLES**

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TABLE A-1.--THE DISTRIBUTION OF SMSA POPULATION BETWEEN CENTRAL CITIES AND OUTSIDE CENTRAL CITIES, 1900-1975

<u>Year</u>	<u>Total SMSA Population (thousands)</u>	<u>Percent of SMSA Population Within Central Cities</u>	<u>Percent of SMSA Population Outside Central Cities</u>
1900	31,895	62.2%	37.8%
1910	42,094	64.6	35.4
1920	52,631	66.0	34.0
1930	66,915	64.6	35.4
1940	72,834	62.7	37.3
1950	89,317	58.7	41.3
1960	112,895	51.4	48.6
1965	123,813	48.1	51.9
1975 (est.)	154,286	41.8	58.2

Source: U.S. Bureau of the Census, U.S. Census of Population: 1960, Selected Area Reports: Standard Metropolitan Statistical Areas. Final Report PC(3)-ID; National Planning Association, Economic and Demographic Projections for Two Hundred and Twenty-four Metropolitan Areas, Vol. III; and Metropolitan Studies Center, Syracuse University.

TABLE A-2.--POPULATION GROWTH IN CENTRAL CITIES AND OUTSIDE  
CENTRAL CITY AREAS, DECADES, 1900 TO 1975

Decade	Amount of Change (Thousands)		CC Growth per 100 Increase Outside Central City Areas
	Central City	Outside Central City Areas	
1900 - 1910	+7,337	+2,839	258.4
1910 - 1920	+7,519	+2,977	252.6
1920 - 1930	+8,428	+5,776	145.9
1930 - 1940	+2,403	+3,461	69.4
1940 - 1950	+6,664	+9,723	68.5
1950 - 1960	+5,573	+17,848	31.2
1960 - 1965	+1,822 <sup>1/</sup>	+9,653 <sup>1/</sup>	18.9 <sup>1/</sup>
1965 - 1975	+4,779 <sup>2/</sup>	+27,136 <sup>2/</sup>	17.6

<sup>1/</sup> Five-year growth.

<sup>2/</sup> Projection.

Source: U.S. Bureau of the Census, U.S. Census of Population. Selected Area Reports: Standard Metropolitan Statistical Areas, Final Report PC(3)-ID; National Planning Association, Economic and Demographic Projections for Two Hundred and Twenty-Four Metropolitan Areas, Vol. III; and Metropolitan Studies Center, Syracuse University.

TABLE A-3.--RATE OF CHANGE OF POPULATION INSIDE (CC) AND OUTSIDE CENTRAL CITY (OCC),  
BY RACE, 37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS IN THE UNITED STATES,  
1950 THROUGH 1960

Area	Total Population		White		Negro	
	CC	OCC	CC	OCC	CC	OCC
Los Angeles-Long Beach, California	27.1%	82.6%	19.4%	79.9%	96.3%	177.8%
San Bernardino-Riverside-Ontario, California	68.0	84.0	63.4	83.2	216.1	90.7
San Diego, California	71.4	106.7	67.2	106.3	131.0	133.4
San Francisco-Oakland, California	-4.5	55.0	-14.4	55.0	73.5	43.7
Denver Colorado	18.8	121.8	15.4	122.7	100.9	31.4
Washington, D.C.	-4.8	87.0	-33.3	91.6	46.6	32.5
Miami, Florida	17.0	161.7	8.2	158.0	62.0	192.0
Tampa-St. Petersburg, Florida	106.1	68.4	114.2	73.0	70.1	17.4
Atlanta, Georgia	47.1	33.9	43.2	40.6	53.7	-11.9
Chicago, Illinois	-9	71.5	-12.8	71.2	65.1	77.6
Indianapolis, Indiana	11.5	77.6	4.0	77.7	53.5	63.0
Louisville, Kentucky-Indiana	5.8	61.0	2.8	61.3	21.5	52.3
New Orleans, Louisiana	10.0	109.6	1.2	112.8	28.5	91.3
Baltimore, Maryland	-1.1	72.9	-15.6	79.3	44.6	14.7
Boston, Massachusetts	-13.0	17.6	-17.1	-17.4	57.7	21.6
Detroit, Michigan	-9.7	79.3	-23.5	81.6	60.5	33.8
Minneapolis-St. Paul, Minnesota	-4.4	115.7	-5.7	115.3	60.6	72.7
Kansas City, Missouri-Kansas	4.1	57.6	-2.3	62.7	49.3	5.2
St. Louis, Missouri-Illinois	-12.5	51.9	-24.0	53.6	39.4	28.8
Newark, New Jersey	-7.6	24.7	-26.8	23.3	84.1	46.4
Paterson-Clifton-Passaic, New Jersey	6.9	47.6	1.4	47.4	128.0	48.8
Buffalo, New York	-8.2	52.1	-15.3	52.0	93.5	57.5
New York, New York	-1.4	75.00	-6.7	74.0	45.5	92.4
Rochester, New York	-4.2	72.6	-9.3	72.5	210.8	72.3
Cincinnati, Ohio-Kentucky-Indiana	-.3	42.1	-7.6	43.3	39.1	14.8
Cleveland, Ohio	-4.2	67.2	-18.6	67.2	69.6	51.1
Columbus, Ohio	25.4	66.0	19.5	70.2	65.2	-37.4
Dayton, Ohio	7.6	57.3	-2.3	58.2	67.7	29.0
Portland, Oregon-Washington	-.3	35.6	-2.4	35.7	64.1	-24.1
Philadelphia, Pennsylvania-New Jersey	-3.3	46.3	-13.3	46.8	40.7	36.6
Pittsburgh, Pennsylvania	-10.7	17.2	-15.4	17.4	22.1	13.0
Providence, Rhode Island	-12.6	22.7	-14.0	22.6	34.5	23.4
Dallas, Texas	56.4	30.7	45.4	41.8	126.9	-38.8
Houston, Texas	57.4	44.8	53.1	47.0	72.4	27.7
San Antonio, Texas	43.9	8.1	43.7	8.2	44.8	-3.3
Seattle, Washington	19.1	45.9	15.9	45.8	71.7	4.2
Milwaukee, Wisconsin	24.8	16.3	9.9	41.7	186.9	46.5
U.S. average	10.7	48.5	4.7	49.2	50.3	30.7

Source: U.S. Bureau of the Census, U.S. Census of Population, 1960, Selected Area Reports: Standard Metropolitan Statistical Areas, Final Report PC(3)-1D.

TABLE A-4.--AVERAGE HOUSEHOLD INCOME, INSIDE (CC) AND OUTSIDE CENTRAL CITY (OCC),  
37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS IN THE UNITED STATES, 1964

Area	SMSA	CC	OCC	CC	OCC
				As a Percent of SMSA	As a Percent of SMSA
Los Angeles-Long Beach, California	\$ 8,848	\$8,877	\$ 8,827	100.3%	99.8%
San Bernardino-Riverside-Ontario, California	7,114	7,645	6,685	107.5	94.0
San Diego, California	8,436	8,712	8,079	103.3	95.8
San Francisco-Oakland, California	8,962	8,164	9,598	91.1	107.1
Denver, Colorado	8,287	8,236	8,346	99.4	100.7
Washington, D.C.	10,322	9,100	11,100	88.2	107.5
Miami, Florida	6,938	5,592	7,615	80.6	109.8
Tampa-St. Petersburg, Florida	5,824	5,947	5,643	102.1	96.9
Atlanta, Georgia	8,176	8,267	8,099	101.1	99.1
Chicago, Illinois	9,591	8,451	11,130	88.1	116.0
Indianapolis, Indiana	8,601	7,837	10,525	91.1	122.4
Louisville, Kentucky-Indiana	7,854	6,980	9,395	88.9	119.6
New Orleans, Louisiana	6,976	6,886	7,176	98.7	102.9
Baltimore, Maryland	8,748	8,002	9,596	91.5	109.7
Boston, Massachusetts	9,119	7,520	9,533	82.5	104.5
Detroit, Michigan	9,008	7,957	9,824	88.3	109.1
Minneapolis-St. Paul, Minnesota	8,836	8,264	9,541	93.5	108.0
Kansas City, Missouri-Kansas	8,265	8,082	8,439	97.8	102.1
St. Louis, Missouri-Illinois	8,550	6,911	9,547	80.8	111.7
Newark, New Jersey	9,755	6,501	10,701	66.6	109.7
Paterson-Clifton-Passaic, New Jersey	9,620	7,341	10,313	76.3	107.2
Buffalo, New York	8,399	7,450	9,011	88.7	107.3
New York, New York	9,102	8,047	12,134	88.4	133.1
Rochester, New York	9,573	8,108	11,212	84.7	117.1
Cincinnati, Ohio-Kentucky-Indiana	8,239	7,647	8,748	92.8	106.2
Cleveland, Ohio	9,498	6,732	11,975	70.9	127.3
Columbus, Ohio	8,214	7,264	10,444	88.4	127.1
Dayton, Ohio	8,163	7,401	8,791	90.7	107.7
Portland, Oregon-Washington	7,507	7,582	7,437	101.0	99.1
Philadelphia, Pennsylvania-New Jersey	8,549	7,312	9,616	85.5	112.5
Pittsburgh, Pennsylvania	7,822	7,594	7,900	97.1	101.0
Providence, Rhode Island	7,156	7,013	7,217	98.0	100.9
Dallas, Texas	7,919	8,076	7,652	102.0	94.7
Houston, Texas	7,748	7,787	7,619	100.5	98.3
San Antonio, Texas	6,512	5,908	11,707	90.7	179.8
Seattle-Everett, Washington	8,156	8,364	7,930	102.6	97.2
Milwaukee, Wisconsin	8,552	7,537	10,806	88.1	126.4
Unweighted average	8,362	7,600	9,185	90.9	109.8

Source: "Survey of Buying Power," Sales Management, Vol. 94, No. 12, June 10, 1965.

TABLE A-5.--AVERAGE HOUSEHOLD INCOME, CENTRAL CITY (CC) AND OUTSIDE CENTRAL CITY (OCC) AREAS ADJUSTED FOR RURAL COMPONENTS, 1964

SMSA	Average Household Income, 1964			Exhibit: Urban Fringe As a Percent of CC in 1959 <sup>1/</sup>
	CC	OCC (Adjusted)	OCC As a Percent of CC	
Los Angeles-Long Beach, California	\$8,877	\$ 8,908	100.3%	105.5%
San Bernardino-Riverside-Ontario, California	7,645	7,742	101.3	92.5
San Diego, California	8,712	8,857	101.7	104.0
San Francisco-Oakland, California	8,164	9,868	120.9	113.8
Denver, Colorado	8,236	8,787	106.7	109.1
Washington, D.C.	9,100	11,656	128.1	141.4
Miami, Florida	5,592	7,790	139.3	131.6
Tampa-St. Petersburg, Florida	5,947	6,457	108.6	111.3
Atlanta, Georgia	8,267	9,196	111.2	139.1
Chicago, Illinois	8,451	11,594	137.2	124.5
Indianapolis, Indiana	7,837	11,663	148.8	126.8
Louisville, Kentucky-Indiana	6,980	10,542	151.0	123.1
New Orleans, Louisiana	6,886	7,429	107.9	128.1
Baltimore, Maryland	8,002	10,849	135.6	125.1
Boston, Massachusetts	7,520	9,963	132.5	121.1
Detroit, Michigan	7,957	10,162	127.7	123.1
Minneapolis-St. Paul, Minnesota	8,264	9,972	120.7	115.5
Kansas City, Missouri-Kansas	8,082	8,942	110.6	115.6
St. Louis, Missouri-Illinois	6,911	10,206	147.7	132.2
Newark, New Jersey	6,501	10,919	168.0	141.8
Paterson-Clifton-Passaic, New Jersey	7,341	10,356	141.1	126.8
Buffalo, New York	7,450	9,886	132.7	123.0
New York, New York	8,047	12,557	156.0	127.9
Rochester, New York	8,108	12,492	154.1	132.1
Cincinnati, Ohio-Kentucky-Indiana	7,647	9,204	120.4	120.4
Cleveland, Ohio	6,732	12,150	180.5	134.6
Columbus, Ohio	7,264	11,458	157.7	130.6
Dayton, Ohio	7,401	9,853	133.1	118.6
Portland, Oregon-Washington	7,582	8,411	110.9	106.4
Philadelphia, Pennsylvania-New Jersey	7,312	10,307	141.0	125.0
Pittsburgh, Pennsylvania	7,594	8,637	113.7	113.5
Providence, Rhode Island	7,013	7,521	107.2	115.9
Dallas, Texas	8,076	8,267	102.3	112.9
Houston, Texas	7,787	8,269	106.2	113.3
San Antonio, Texas	5,908	NC	NC	164.0
Seattle-Everett, Washington	8,364	8,919	106.6	108.0
Milwaukee, Wisconsin	7,537	11,289	149.8	116.8

Note: See Appendix B for explanation of the rural adjustment.

NC = Not computed.

<sup>1/</sup> Based on 1960 Census of Population.

Source: "Survey of Buying Power," Sales Management, Vol. 94, No. 12, June 10, 1965.

TABLE A-6.--EDUCATIONAL CHARACTERISTICS BASED ON SELECTED URBANIZED AREAS, 1960

Area	Percent of Persons 14 to 17 Years of Age Not in School		Median School Years Completed, Persons Over 25 Years of Age	
	Central City	Urban Fringe	Central City	Urban Fringe
Los Angeles-Long Beach, California	10.2%	9.2%	12.1	12.1
San Bernardino-Riverside-Ontario, California	5.6	8.0	12.2	11.6
San Diego, California	13.2	8.0	12.2	12.2
San Francisco-Oakland, California	9.8	7.4	11.9	12.3
Denver, Colorado	14.0	8.2	12.1	12.4
Washington, D.C.	15.2	7.5	11.7	12.6
Miami, Florida	14.1	9.0	10.6	12.0
Tampa, Florida	13.9	12.0	10.2	11.3
St. Petersburg, Florida	10.1	15.7	11.0	11.2
Atlanta, Georgia	15.1	9.9	10.5	12.3
Chicago, Illinois	14.2	9.8	10.0	12.1
Indianapolis, Indiana	16.3	8.9	10.8	12.2
Louisville, Kentucky-Indiana	18.7	12.0	9.3	11.1
New Orleans, Louisiana	15.0	12.9	9.0	11.1
Baltimore, Maryland	19.2	11.6	8.9	10.9
Boston, Massachusetts	18.2	9.7	11.2	12.2
Detroit, Michigan	11.6	8.6	10.0	11.7
Minneapolis-St. Paul, Minnesota	8.7	6.1	11.6	12.4
Kansas City, Missouri-Kansas	16.1	10.6	11.5	12.1
St. Louis, Missouri-Illinois	17.7	9.0	8.8	10.9
Newark, New Jersey	10.4	7.9	9.0	11.8
Paterson-Clifton-Passaic, New Jersey	12.1	7.9	9.1	11.8
Buffalo, New York	11.9	8.1	9.6	11.3
New York, New York	14.6	7.9	10.1	18.8
Rochester, New York	10.9	3.8	10.1	12.2
Cincinnati, Ohio-Kentucky-Indiana	15.7	10.1	9.7	10.9
Cleveland, Ohio	13.6	6.5	9.6	12.2
Columbus, Ohio	15.0	5.4	11.2	12.5
Dayton, Ohio	13.0	8.4	10.4	12.1
Portland, Oregon-Washington	6.0	5.0	12.0	12.2
Philadelphia, Pennsylvania-New Jersey	15.6	9.1	9.6	11.7
Pittsburgh, Pennsylvania	13.8	9.5	10.0	11.3
Providence, Rhode Island	18.4	18.3	9.6	10.5
Dallas, Texas	16.8	12.2	11.8	12.2
Houston, Texas	14.3	10.8	11.3	12.0
San Antonio, Texas	19.0	49.7	9.6	12.8
Seattle, Washington	4.8	6.0	12.2	12.4
Milwaukee, Wisconsin	8.9	5.1	10.4	12.1
U.S. average	13.5	9.0	10.7	12.0

Source: U.S. Bureau of the Census, U.S. Census of Population, 1960, Selected Area Reports, Standard Metropolitan Statistical Areas, Final Report PC(3)-1D.

TABLE A-7.--PERCENT OWNER OCCUPIED HOMES AND UNSOUND HOUSING INSIDE (CC) AND OUTSIDE CENTRAL CITY (OCC), 37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS, 1960

SMSA	Owner Occupied		Unsound	
	CC	OCC	CC	OCC
Los Angeles-Long Beach, California	47%	64%	9.81%	7.42%
San Bernardino-Riverside-Ontario, California	67	67	9.41	14.80
San Diego, California	53	67	10.17	10.71
San Francisco-Oakland, California	39	68	15.01	7.99
Denver, Colorado	54	73	16.38	11.01
Washington, D.C.	30	63	14.43	5.39
Miami, Florida	42	69	16.96	7.65
Tampa-St. Petersburg, Florida	70	80	18.51	15.11
Atlanta, Georgia	46	73	25.00	18.99
Chicago, Illinois	34	76	20.63	8.09
Indianapolis, Indiana	55	86	22.02	10.70
Louisville, Kentucky-Indiana	54	81	23.78	17.93
New Orleans, Louisiana	37	74	28.60	17.07
Baltimore, Maryland	54	76	15.69	11.95
Boston, Massachusetts	27	63	24.67	10.56
Detroit, Michigan	58	83	14.34	4.29
Minneapolis-St. Paul, Minnesota	55	87	20.05	8.51
Kansas City, Missouri-Kansas	54	77	23.65	12.71
St. Louis, Missouri-Illinois	38	78	29.81	15.98
Newark, New Jersey	23	65	32.43	8.64
Paterson-Clifton-Passaic, New Jersey	45	72	18.85	5.59
Buffalo, New York	44	74	20.12	11.60
New York, New York	22	74	18.64	8.02
Rochester, New York	51	88	17.49	8.03
Cincinnati, Ohio-Kentucky-Indiana	40	72	26.70	14.50
Cleveland, Ohio	45	78	19.61	4.34
Columbus, Ohio	52	78	22.98	11.84
Dayton, Ohio	55	76	18.34	15.05
Portland, Oregon-Washington	61	79	16.62	15.34
Philadelphia, Pennsylvania-New Jersey	62	78	22.95	9.73
Pittsburgh, Pennsylvania	49	71	29.00	18.70
Providence, Rhode Island	35	63	22.97	16.38
Dallas, Texas	60	72	17.92	19.54
Houston, Texas	60	80	16.21	15.00
San Antonio, Texas	64	63	26.64	22.35
Seattle, Washington	57	79	16.24	13.56
Milwaukee, Wisconsin	48	76	16.51	7.69
U.S. average	47	73	20.40	15.60

Source: U.S. Bureau of the Census, U.S. Census of Housing, 1960, Vol. I, States and Small Areas, United States Summary, Final Report HC(1)-1.



TABLE A-8.--UNEMPLOYMENT RATES, BASED ON SELECTED URBANIZED AREAS, 1960

Area	Central City	Urban Fringe
Los Angeles-Long Beach, California	6.4%	5.1%
San Bernardino-Riverside-Ontario, California	5.8	7.7
San Diego, California	7.0	6.6
San Francisco-Oakland, California	6.7	4.8
Denver, Colorado	3.6	3.1
Washington, D.C.	4.1	1.8
Miami, Florida	7.3	4.8
Tampa, Florida	5.1	4.4
St. Petersburg, Florida	4.6	5.6
Atlanta, Georgia	3.6	2.6
Chicago, Illinois	5.4	2.4
Indianapolis, Indiana	4.7	2.3
Louisville, Kentucky-Indiana	6.2	4.8
New Orleans, Louisiana	5.6	4.4
Baltimore, Maryland	6.5	3.8
Boston, Massachusetts	5.0	3.3
Detroit, Michigan	9.9	5.9
Minneapolis-St. Paul, Minnesota	4.3	3.0
Kansas City, Missouri-Kansas	4.7	3.8
St. Louis, Missouri-Illinois	5.4	3.5
Newark, New Jersey	8.2	3.4
Paterson-Clifton-Passaic, New Jersey	6.7	3.4
Buffalo, New York	8.5	5.3
New York, New York	5.2	3.4
Rochester, New York	5.9	2.6
Cincinnati, Ohio-Kentucky-Indiana	5.9	3.5
Cleveland, Ohio	7.5	3.1
Columbus, Ohio	5.4	2.3
Dayton, Ohio	5.5	3.6
Portland, Oregon-Washington	5.3	4.7
Philadelphia, Pennsylvania-New Jersey	6.5	3.5
Pittsburgh, Pennsylvania	8.1	6.1
Providence, Rhode Island	6.1	4.5
Dallas, Texas	3.3	2.7
Houston, Texas	4.3	3.9
San Antonio, Texas	5.2	2.6
Seattle, Washington	6.1	4.2
Milwaukee, Wisconsin	4.6	2.5
U.S. average	5.5	4.1

Source: U.S. Bureau of the Census, U.S. Census of Population, 1960, Selected Area Reports, Standard Metropolitan Statistical Areas, Final Report PC(3)-1D.

TABLE A-9.--LOCAL GOVERNMENTS AND LAND AREA IN THE 37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS IN THE UNITED STATES, 1967

Area	Land Area (sq. mi.)	Number of Local Governments					
		Total	School Districts	County Governments	Municipalities	Town- ships	Special Districts
Los Angeles-Long Beach, California	4,060	233	95	1	76	-	61
San Bernardino-Riverside-Ontario, California	27,308	234	69	2	27	-	136
San Diego, California	4,255	164	51	1	14	-	98
San Francisco-Oakland, California	2,486	312	90	4	56	-	162
Denver, Colorado	3,665	269	19	4	32	-	214
Washington, D.C.	2,347	84	-	6	60	-	18
Miami, Florida	2,054	36	1	1	27	-	7
Tampa-St. Petersburg, Florida	1,304	39	2	2	25	-	10
Atlanta, Georgia	1,723	84	9	5	43	-	27
Chicago, Illinois	3,714	1,113	327	6	250	113	417
Indianapolis, Indiana	3,082	282	45	8	71	88	70
Louisville, Kentucky-Indiana	908	148	18	3	64	17	46
New Orleans, Louisiana	2,026	41	4	3	14	-	20
Baltimore, Maryland	2,255	27	-	5	14	-	8
Boston, Massachusetts	997	146	6	-	17	61	62
Detroit, Michigan	1,965	242	97	3	84	49	9
Minneapolis-St. Paul, Minnesota	2,111	220	42	5	109	47	17
Kansas City, Missouri-Kansas	2,760	272	92	6	85	32	57
St. Louis, Missouri-Illinois	4,119	474	108	6	169	46	145
Newark, New Jersey	698	207	73	3	50	32	49
Paterson-Clifton-Passaic, New Jersey	427	200	88	2	74	12	24
Buffalo, New York	1,587	145	41	2	26	37	39
New York, New York	2,149	551	192	4	135	36	184
Rochester, New York	2,314	207	49	4	34	61	59
Cincinnati, Ohio-Kentucky-Indiana	2,154	266	74	7	104	51	30
Cleveland, Ohio	1,519	207	57	4	90	43	13
Columbus, Ohio	1,484	127	25	3	42	50	7
Dayton, Ohio	1,715	159	40	4	50	49	16
Portland, Oregon-Washington	3,657	385	85	4	33	-	263
Philadelphia, Pennsylvania-New Jersey	3,549	876	202	7	140	199	328
Pittsburgh, Pennsylvania	3,051	704	129	4	190	118	263
Providence, Rhode Island	681	83	2	-	8	25	48
Dallas, Texas	4,467	183	61	5	79	-	38
Houston, Texas	6,258	214	48	5	54	-	107
San Antonio, Texas	1,962	59	20	2	21	-	16
Seattle-Everett, Washington	4,234	268	36	2	47	-	185
Milwaukee, Wisconsin	1,458	174	76	4	57	32	5

Source: U.S. Bureau of the Census, Census of Governments, 1967, Vol. 1, Governmental Organization.

TABLE A-10.--PER CAPITA TOTAL LOCAL GENERAL EXPENDITURE, CENTRAL CITY (CC)  
AND OUTSIDE CENTRAL CITY (OCC) AREAS, 37 LARGEST STANDARD METROPOLITAN  
STATISTICAL AREAS, 1957 AND 1964-1965

SMSA	1957			1964-1965		
	SMSA	CC	OCC	SMSA	CC	OCC
Los Angeles-Long Beach, California	\$254	\$267	\$203	\$368	\$390	\$353
San Bernardino-Riverside-Ontario, California	221	296	192	391	446	368
San Diego, California	190	191	189	323	307	343
San Francisco-Oakland, California	227	223	230	402	373	410
Denver, Colorado	185	214	147	266	299	238
Washington, D.C.	196	239	131	342	477	272
Miami, Florida	188	226	169	274	318	255
Tampa-St. Petersburg, Florida	132	159	89	244	298	168
Atlanta, Georgia	133	158	100	267	302	237
Chicago, Illinois	178	202	142	249	268	227
Indianapolis, Indiana	157	178	107	233	214	283
Louisville, Kentucky-Indiana	141	162	114	189	218	163
New Orleans, Louisiana	152	163	120	219	212	233
Baltimore, Maryland	175	199	142	254	292	214
Boston, Massachusetts	203	273	181	279	427	239
Detroit, Michigan	201	202	200	283	280	285
Minneapolis-St. Paul, Minnesota	186	185	188	320	300	339
Kansas City, Missouri-Kansas	146	186	112	226	201	246
St. Louis, Missouri-Illinois	134	149	124	207	274	176
Newark, New Jersey	197	243	181	309	413	280
Paterson-Clifton-Passaic, New Jersey	156	155	157	230	244	226
Buffalo, New York	203	193	210	327	306	341
New York, New York	257	257	260	425	442	384
Rochester, New York	199	200	196	364	362	367
Cincinnati, Ohio-Kentucky-Indiana	181	246	117	252	392	167
Cleveland, Ohio	186	183	193	286	282	289
Columbus, Ohio	163	166	156	236	226	252
Dayton, Ohio	144	167	129	240	293	213
Portland, Oregon-Washington	165	203	131	253	290	224
Philadelphia, Pennsylvania-New Jersey	151	165	138	226	241	214
Pittsburgh, Pennsylvania	147	188	128	211	280	189
Providence, Rhode Island	118	160	99	188	255	165
Dallas, Texas	155	184	108	208	210	206
Houston, Texas	162	155	187	224	205	283
San Antonio, Texas	112	113	104	162	n.a.	n.a.
Seattle-Everett, Washington	159	174	142	325	270	335
Milwaukee, Wisconsin	222	229	210	338	345	326
Unweighted average	175	198	156	277	304	265
Weighted average	193	214	171	303	332	278

n.a. = Data not available.

Source: Compiled from various reports of the Governments Division, U.S. Bureau of the Census.

TABLE A-11.--PER CAPITA TOTAL LOCAL EDUCATIONAL EXPENDITURE INCLUDING HIGHER EDUCATION, CENTRAL CITY (CC) AND OUTSIDE CENTRAL CITY (OCC) AREAS, 37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS, 1957 AND 1964-1965

Area	1957			1964-1965		
	SMSA	CC	OCC	SMSA	CC	OCC
Los Angeles-Long Beach, California	\$95	\$ 98	\$ 93	\$154	\$133	\$168
San Bernardino-Riverside-Ontario, California	99	147	80	183	212	171
San Diego, California	80	72	90	132	111	159
San Francisco-Oakland, California	92	65	112	162	88	192
Denver, Colorado	74	73	74	131	104	154
Washington, D.C.	69	50	84	140	104	158
Miami, Florida	70	70	70	117	117	117
Tampa-St. Petersburg, Florida	47	47	47	97	97	97
Atlanta, Georgia	54	55	53	101	75	123
Chicago, Illinois	63	48	86	104	77	136
Indianapolis, Indiana	66	62	75	126	93	215
Louisville, Kentucky-Indiana	66	62	71	98	95	102
New Orleans, Louisiana	44	46	39	67	61	79
Baltimore, Maryland	64	59	71	104	90	119
Boston, Massachusetts	63	49	68	97	72	104
Detroit, Michigan	89	62	114	128	96	152
Minneapolis-St. Paul, Minnesota	72	55	96	135	84	195
Kansas City, Missouri-Kansas	59	63	55	108	67	141
St. Louis, Missouri-Illinois	61	46	71	99	82	107
Newark, New Jersey	85	76	88	130	114	135
Paterson-Clifton-Passaic, New Jersey	75	56	81	112	92	118
Buffalo, New York	78	52	99	141	87	175
New York, New York	82	63	140	141	112	212
Rochester, New York	70	53	92	168	128	207
Cincinnati, Ohio-Kentucky-Indiana	68	81	55	112	165	80
Cleveland, Ohio	67	50	85	122	94	144
Columbus, Ohio	64	52	94	99	76	158
Dayton, Ohio	66	47	78	116	106	122
Portland, Oregon-Washington	77	75	80	134	124	141
Philadelphia, Pennsylvania-New Jersey	61	49	72	105	74	130
Pittsburgh, Pennsylvania	59	41	64	100	78	105
Providence, Rhode Island	49	46	50	82	70	87
Dallas, Texas	64	65	64	92	77	116
Houston, Texas	78	65	126	111	81	207
San Antonio, Texas	53	48	87	86	n.a.	n.a.
Seattle-Everett, Washington	71	57	87	138	n.a.	n.a.
Milwaukee, Wisconsin	65	51	85	108	98	129
Unweighted average	70	61	80	119	99	141
Weighted average	73	61	86	124	99	146

n.a. - Data not available.

Source: Compiled from various reports of the Governments Division, U.S. Bureau of the Census.

TABLE A-12.--PER CAPITA NONEDUCATIONAL LOCAL GENERAL EXPENDITURE, CENTRAL CITY (CC)  
AND OUTSIDE CENTRAL CITY (OCC) AREAS, 37 LARGEST STANDARD METROPOLITAN  
STATISTICAL AREAS, 1957 AND 1964-1965

Area	1957			1964-1965		
	SMSA	CC	OCC	SMSA	CC	OCC
Los Angeles-Long Beach, California	\$159	\$169	\$110	\$214	\$257	\$185
San Bernardino-Riverside-Ontario, California	122	149	112	208	234	197
San Diego, California	110	120	99	191	196	184
San Francisco-Oakland, California	135	158	118	240	269	222
Denver, Colorado	111	141	73	135	195	84
Washington, D.C.	127	189	47	202	373	114
Miami, Florida	118	156	98	157	201	138
Tampa-St. Petersburg, Florida	85	111	43	147	201	71
Atlanta, Georgia	79	103	48	166	227	114
Chicago, Illinois	115	154	56	145	191	91
Indianapolis, Indiana	91	116	32	107	121	68
Louisville, Kentucky-Indiana	75	100	43	90	123	61
New Orleans, Louisiana	108	117	81	152	151	154
Baltimore, Maryland	111	140	71	150	202	95
Boston, Massachusetts	140	221	114	182	310	135
Detroit, Michigan	112	140	86	155	184	133
Minneapolis-St. Paul, Minnesota	114	130	92	185	216	144
Kansas City, Missouri-Kansas	87	123	56	118	134	105
St. Louis, Missouri-Illinois	73	103	53	108	192	69
Newark, New Jersey	112	167	93	179	299	145
Paterson-Clifton-Passaic, New Jersey	82	99	76	118	152	108
Buffalo, New York	125	141	111	186	219	166
New York, New York	175	193	119	284	330	172
Rochester, New York	130	147	104	195	234	160
Cincinnati, Ohio-Kentucky-Indiana	113	165	62	140	227	87
Cleveland, Ohio	119	133	108	164	188	145
Columbus, Ohio	99	114	62	137	150	94
Dayton, Ohio	78	120	51	124	187	91
Portland, Oregon-Washington	88	128	51	119	166	83
Philadelphia, Pennsylvania-New Jersey	90	116	66	121	167	84
Pittsburgh, Pennsylvania	88	147	64	111	202	84
Providence, Rhode Island	69	114	49	106	188	78
Dallas, Texas	91	119	44	116	133	90
Houston, Texas	84	91	61	113	124	76
San Antonio, Texas	59	65	17	76	n.a.	n.a.
Seattle-Everett, Washington	88	117	54	187	n.a.	n.a.
Milwaukee, Wisconsin	157	178	121	220	237	187
Unweighted average	106	137	76	165	205	124
Weighted average	120	153	84	179	232	132

n.a. = Data not available.

Source: Compiled from various reports of the Governments Division, U.S. Bureau of the Census.

TABLE A-13.--PER CAPITA LOCAL PUBLIC WELFARE EXPENDITURES, 37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS, AND PER CAPITA DIRECT STATE PUBLIC WELFARE EXPENDITURES, 1964-1965

SMSA	Local Government Expenditure							Direct State Expenditure
	SMSA Total <sup>1/</sup>	Central City Government	County Areas <sup>2/</sup>					
			Central County	County A	County B	County C	County D	
Los Angeles, California	51.78	*	56.28	20.33				.97
Long Beach, California		-						
San Bernardino, California		-	63.90					.97
Riverside, California		-	60.90					
Ontario, California		-						
San Diego, California	49.80	*	49.80					.97
San Francisco, California	57.98	68.68	68.68	56.74	38.15	37.59		.97
Oakland, California			64.40					
Denver, Colorado	33.07	50.70	50.70	18.89	16.75	12.83		9.33 <sup>3/</sup>
Washington, D.C.	17.79	42.01	42.01	4.42 <sup>2/</sup>	6.03 <sup>2/</sup>	8.10 <sup>2/</sup>		
Miami, Florida	2.98	-	2.98					18.98
Tampa, Florida	3.91	-	3.88					18.98
St. Petersburg, Florida		-	3.93					
Atlanta, Georgia	3.37	*	4.48	2.03	3.06			24.49
Chicago, Illinois	8.72	2.92	10.10	4.44	1.76	2.20	1.37	26.21
Indianapolis, Indiana	11.87	-	13.33					1.15
Louisville, Kentucky-Indiana	5.03	-	3.59					30.61 <sup>6/</sup>
New Orleans, Louisiana	.35	.53	.53					57.42
Baltimore, Maryland	26.76	46.07	46.07	7.09	5.47			.24
Boston, Massachusetts	41.69	91.93	82.96	36.71	29.16	21.66		4.09
Detroit, Michigan	8.71	13.34	10.35	5.01	5.28			16.11
Minneapolis, Minnesota	38.63	7.73	45.10	16.89				1.34
St. Paul, Minnesota		7.90	39.96					
Kansas City, Missouri-Kansas	4.46	*	1.02	4.31	18.62			32.29 <sup>7/</sup>
St. Louis, Missouri-Illinois	2.41	1.41	1.41	.78	2.45	11.16		32.29 <sup>8/</sup>
Newark, New Jersey	26.62	13.08	40.60	9.64	11.22			2.01
Paterson, New Jersey	10.54	2.85	18.72	6.35				2.01
Clifton, New Jersey		*						
Passaic, New Jersey		2.96						
Buffalo, New York	35.66	*	36.85	30.25				.62
New York, New York	47.25	58.39	58.39	15.70	20.82	23.14	24.01	.62
Rochester, New York	27.91	-	28.48					.62
Cincinnati, Ohio-Kentucky-Indiana	21.57	6.97	29.22	.39				9.19 <sup>9/</sup>
Cleveland, Ohio	18.76	2.60	20.49	9.65				9.19
Columbus, Ohio	22.10	*	23.29					9.19
Dayton, Ohio	15.33	-	17.96	7.40				9.19
Portland, Oregon-Washington	3.40	-	5.47	.24	.44	.08		27.46 <sup>10/</sup>
Philadelphia, Pennsylvania-New Jersey	7.12	5.16	5.16	5.87	3.70	7.09	3.32	22.75 <sup>11/</sup>
Pittsburgh, Pennsylvania	10.58	*	13.31	5.68	4.39	4.81		22.75
Providence, Rhode Island	4.84	9.92	5.79	1.95				35.70
Dallas, Texas	.66	*	.71					22.72
Houston, Texas	1.18	*	1.20					22.72
San Antonio, Texas	.49	*	.49					22.72
Seattle-Everett, Washington	.08	-	.08	.05				40.92
Milwaukee, Wisconsin	25.26	*	27.54	16.38				4.43

1/ May include amount for one or more counties for which data are not shown separately.

2/ Expenditure of all local governments within county area.

3/ Maryland counties.

4/ Virginia counties.

5/ State per capita as follows: Maryland, \$2.24; Virginia, \$1.46.

6/ Kentucky only. Indiana per capita was \$1.15.

7/ Missouri only. Kansas per capita was \$2.18.

8/ Missouri only. Illinois per capita was \$26.21.

9/ Ohio only. Kentucky per capita was \$30.61; Indiana per capita was \$1.15.

10/ Oregon only. Washington per capita was \$40.92.

11/ Pennsylvania only. New Jersey per capita was \$2.01.

\*Less than \$0.50.

Source: Compiled from various reports of the Governments Division, U.S. Bureau of the Census.

TABLE A-14.--PER CAPITA LOCAL HIGHWAY EXPENDITURES, 37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS, AND PER CAPITA DIRECT STATE HIGHWAY EXPENDITURES, 1964-1965

SMSA	Local Government Expenditure							Direct State Expenditure
	SMSA Total <sup>1/</sup>	Central City Government	County Areas <sup>2/</sup>					
			Central County	County A	County B	County C	County D	
Los Angeles, California	\$18.41	\$12.38	\$18.28	\$19.21				\$39.58
Long Beach, California		11.13						
San Bernardino, California		16.04	18.48					
Riverside, California		18.16	21.16					
Ontario, California		n.a.	18.48					
San Diego, California	18.66	11.88	18.66					39.58
San Francisco, California	20.22	16.48	16.48	25.68	\$22.82	\$24.67		39.58
Oakland, California		22.50	17.71					
Denver, Colorado	14.03	13.72	13.72	15.66 <sup>3/</sup>	12.52			47.21
Washington, D.C.	29.70	60.02	60.02	15.58 <sup>3/</sup>	17.55 <sup>3/</sup>	20.56 <sup>4/</sup>		3/
Miami, Florida	12.48	6.61	12.48					46.11
Tampa, Florida	22.61	19.72	20.06					46.11
St. Petersburg, Florida		32.83	25.27					
Atlanta, Georgia	21.66	12.23	24.79	20.63	15.65			33.13
Chicago, Illinois	24.07	15.61	25.44	23.01	16.07	17.22	\$13.36	33.26
Indianapolis, Indiana	12.27	8.21	10.85					36.34
Louisville, Kentucky-Indiana	8.19	9.21	7.67					59.60 <sup>6/</sup>
New Orleans, Louisiana	18.90	14.64	14.64	28.10				60.90
Baltimore, Maryland	19.72	18.02	18.02	13.07	25.60			36.26
Boston, Massachusetts	15.64	13.74	13.02	14.40	15.99	19.61		41.15
Detroit, Michigan	17.40	11.58	17.29	20.01	16.04			24.42
Minneapolis, Minnesota	23.44	15.77	24.70	19.85				49.81
St. Paul, Minnesota		22.80	29.27					
Kansas City, Missouri-Kansas	15.64	10.06	13.33	16.38	22.33			50.03 <sup>7/</sup>
St. Louis, Missouri-Illinois	15.38	13.43	13.43	15.94	19.69	17.06		50.03 <sup>8/</sup>
Newark, New Jersey	13.93	3.24	9.33	26.36	15.15			29.48
Paterson, New Jersey	14.33	5.42	11.61	15.71				29.48
Clifton, New Jersey		5.48						
Passaic, New Jersey	5.50							
Buffalo, New York	20.39	10.31	19.36	25.01				23.87
New York, New York	24.42	24.55	24.55	27.86	23.35	25.85	16.17	23.87
Rochester, New York	26.25	17.28	24.27					23.87
Cincinnati, Ohio-Kentucky-Indiana	16.66	16.66	19.06	7.73				37.31 <sup>9/</sup>
Cleveland, Ohio	21.36	16.74	21.48	16.14				37.31
Columbus, Ohio	19.06	13.48	18.19					37.31
Dayton, Ohio	23.52	27.93	24.09	19.68				37.31
Portland, Oregon-Washington	16.16	8.82	14.18	18.25	13.01	23.95		70.21 <sup>10/</sup>
Philadelphia, Pennsylvania-New Jersey	14.05	9.68	9.68	20.69	9.23	6.45	9.42	41.14 <sup>11/</sup>
Pittsburgh, Pennsylvania	13.04	9.87	16.57	11.75	11.63	12.00		41.14
Providence, Rhode Island	12.72	13.67	13.26	9.80				55.31
Dallas, Texas	22.68	20.05	23.51					41.48
Houston, Texas	19.86	12.33	17.21					41.48
San Antonio, Texas	11.75	11.60	11.44					41.48
Seattle-Everett, Washington	24.81	20.18	25.23	21.70				54.03
Milwaukee, Wisconsin	35.37	23.73	37.70	23.83				20.96

n.a. = Data not available.

1/ May include amount for one or more counties for which data are not shown separately.

2/ Expenditure of all local governments within county area.

3/ Maryland counties.

4/ Virginia counties.

5/ State per capita as follows: Maryland, \$36.36; Virginia, \$64.08.

6/ Kentucky only. Indiana per capita was \$36.34.

7/ Missouri only. Kansas per capita was \$36.34.

8/ Missouri only. Illinois per capita was \$33.24.

9/ Ohio only. Kentucky per capita was \$59.60; Indiana per capita was \$36.34.

10/ Oregon only. Washington per capita was \$54.03.

11/ Pennsylvania only. New Jersey per capita was \$29.48.

Source: Compiled from various reports of the Governments Division, U.S. Bureau of the Census.

TABLE A-15.--PER CAPITA LOCAL POLICE EXPENDITURES, 37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS, 1964-1965

SMSA	SMSA Total <sup>1/</sup>	Central City Government	Central County	County Areas <sup>2/</sup>			
				County A	County B	County C	County D
Los Angeles, California	13.24	\$20.99	\$23.77	\$21.66	\$16.71		
Long Beach, California			22.80				
San Bernardino, California			18.35	12.10			
Riverside, California			16.13	15.04			
Ontario, California			n.a.	n.a.			
San Diego, California	14.35	13.37	14.35				
San Francisco, California	18.18	26.69	26.69	14.56	\$11.54	\$15.09	
Oakland, California		21.87	16.43				
Denver, Colorado	10.08	14.14	14.14	6.00	9.80	4.01	
Washington, D.C.	18.60	34.47	34.47	12.89*	8.17*	10.94*	\$ 7.98*
Miami, Florida	18.16	19.99	19.99				
Tampa, Florida	11.52	12.62	11.98				
St. Petersburg, Florida		9.79	11.03				
Atlanta, Georgia	9.82	11.24	11.26	8.91	8.00		
Chicago, Illinois	18.51	26.18	20.83	9.26	7.86	9.74	6.66
Indianapolis, Indiana	8.37	12.78	9.85				
Louisville, Kentucky-Indiana	9.16	11.59	10.05				
New Orleans, Louisiana	10.48	11.66	11.66	8.33			
Baltimore, Maryland	18.94	26.67	26.67	7.17	13.38		
Boston, Massachusetts	15.71	28.51	28.51	10.61	11.81	13.38	
Detroit, Michigan	16.05	22.83	18.94	10.75	9.23		
Minneapolis, Minnesota	10.44	12.85	10.74	7.00			
St. Paul, Minnesota		12.67	12.22				
Kansas City, Missouri-Kansas	12.75	17.17	16.05	7.07	10.32		
St. Louis, Missouri-Illinois	14.06	27.68	27.68	9.33	6.12*	7.09*	
Newark, New Jersey	20.62	40.19	25.98	11.72	16.10		
Paterson, New Jersey	16.38	18.20	16.45	16.34			
Clifton, New Jersey		12.98					
Passaic, New Jersey		17.69					
Buffalo, New York		14.34	21.55	15.17	10.53		
New York, New York	29.22	33.63	33.63	20.46	8.84	16.41	19.21
Rochester, New York	9.89	17.27	11.08				
Cincinnati, Ohio-Kentucky-Indiana	10.74	16.54	13.16	8.27*			
Cleveland, Ohio	14.44	21.05	15.97	6.52			
Columbus, Ohio	10.68	12.00	11.32				
Dayton, Ohio	8.32	12.89	9.54	6.05			
Portland, Oregon-Washington	13.89	20.16	18.70	7.34	4.55	8.06	
Philadelphia, Pennsylvania-New Jersey	13.72	21.78	21.78	5.69	4.16	7.19	8.28 <sup>3/</sup>
Pittsburgh, Pennsylvania	10.58	19.97	13.31	5.68	4.39	4.81	
Providence, Rhode Island	12.00	19.42	13.11	9.25			
Dallas, Texas	12.19	12.75	13.07				
Houston, Texas	10.08	10.79	10.46				
San Antonio, Texas	7.94	7.88	8.00				
Seattle-Everett, Washington	12.94	14.99	14.10	7.17			
Milwaukee, Wisconsin	19.33	20.56	21.35	9.83			

n.a. = Data not available.

<sup>1/</sup> May include amount for one or more counties for which data are not shown separately.<sup>2/</sup> Expenditure of all local governments within county area.<sup>3/</sup> In addition, there are three counties in New Jersey with per capita amounts of \$2.88, \$11.92 and \$8.41, respectively.

\*Located outside State in which central city is located.

Source: Compiled from various reports of the Governments Division, U.S. Bureau of the Census.



TABLE A-16.--PER CAPITA LOCAL FIRE EXPENDITURES, 37 LARGEST STANDARD METROPOLITAN STATISTICAL AREAS, 1964-1965

SMSA	SMSA Total <sup>1/</sup>	Central City Government	Central County	County Area <sup>2/</sup>			
				County A	County B	County C	County D
Los Angeles, California	6.81	\$14.00	\$12.17	\$ 8.44			
Long Beach, California		15.38					
San Bernardino, California		15.66	8.01				
Riverside, California		10.13	4.88				
Ontario, California		n.a.	n.a.				
San Diego, California	7.22	8.42	7.22				
San Francisco, California	19.64	23.77	23.77	12.76	\$10.09	\$35.31	
Oakland, California		17.75	13.86				
Denver, Colorado	7.77	10.92	10.92	2.44	4.24	8.53	
Washington, D.C.	9.25	17.30	17.30	6.37*	1.21*	9.14*	\$3.95*
Miami, Florida	8.91	16.18	8.91				
Tampa, Florida		11.51	8.33				
St. Petersburg, Florida		8.05	5.79				
Atlanta, Georgia	6.16	9.03	8.34	5.00	2.58		
Chicago, Illinois	7.55	10.18	8.47	1.01	5.22	6.15	2.97
Indianapolis, Indiana	6.61	10.88	8.12				
Louisville, Kentucky-Indiana	5.94	9.39	6.09				
New Orleans, Louisiana	6.56	8.47	8.47	3.54			
Baltimore, Maryland	11.20	16.49	16.49	3.44	7.19		
Boston, Massachusetts	16.01	22.15	22.15	13.78	14.25	14.36	
Detroit, Michigan	7.86	9.85	9.01	5.93	5.01		
Minneapolis, Minnesota		10.40	6.39	2.90			
St. Paul, Minnesota		11.95	9.11				
Kansas City, Missouri-Kansas		12.79	11.32	.91	9.66		
St. Louis, Missouri-Illinois		12.23	12.23	5.37	3.84*	4.97*	
Newark, New Jersey	13.84	25.37	17.98	2.72	12.74		
Paterson, New Jersey		16.01	10.63	5.34			
Clifton, New Jersey		11.20					
Passaic, New Jersey		17.54					
Buffalo, New York	10.66	18.52	11.03	8.95			
New York, New York	13.94	15.96	15.96	6.55	2.44	3.60	19.92
Rochester, New York	7.57	15.92	8.65				
Cincinnati, Ohio-Kentucky-Indiana	7.06	13.76	8.76	7.00*			
Cleveland, Ohio	8.69	12.95	9.94	2.27			
Columbus, Ohio	7.85	10.59	8.40				
Dayton, Ohio	5.24	12.35	6.29	2.30			
Portland, Oregon-Washington	10.07	16.06	11.94	13.46	1.49	5.62	
Philadelphia, Pennsylvania-New Jersey	5.61	9.83	9.83	1.30	.85	4.67	1.59 <sup>3/</sup>
Pittsburgh, Pennsylvania	4.75	13.16	6.09	1.59	2.14	2.07	
Providence, Rhode Island	11.13	17.37	12.02	8.29			
Dallas, Texas	8.86	10.88	9.70				
Houston, Texas	6.80	9.16	7.47				
San Antonio, Texas	4.40	4.84	4.47				
Seattle-Everett, Washington	9.93	11.50	10.71	6.04			
Milwaukee, Wisconsin	11.88	12.42	13.44	4.98			

n.a. = Data not available.

<sup>1/</sup> May include amount for one or more counties for which data are not shown separately.<sup>2/</sup> Expenditure of all local governments within county area.<sup>3/</sup> In addition there are three counties in New Jersey with per capita amounts of \$1.64, \$5.42 and \$3.47, respectively.

\*Located outside State in which central city is located.

Source: Compiled from various reports of the Government Division, U.S. Bureau of the Census.

TABLE A-17.--COMMERCIAL AND INDUSTRIAL PROPORTION OF ASSESSED VALUATION  
OF LOCALLY ASSESSED REAL PROPERTY FOR THE CENTRAL CITY AND OUTSIDE  
CENTRAL CITY AREAS, 1962

SMSA	Central City	Central City <sup>1/</sup>
Los Angeles-Long Beach, California	25.9%	19.9%
San Bernardino-Riverside-Ontario, California	n.a.	15.8
San Diego, California	21.2	14.4
San Francisco-Oakland, California	41.9	17.2
Denver, Colorado	34.5	27.2
Washington, D.C.	32.9	12.0
Miami, Florida	n.a.	n.a.
Tampa-St. Petersburg, Florida	n.a.	n.a.
Atlanta, Georgia	46.0	16.8
Chicago, Illinois	39.5	16.3
Indianapolis, Indiana	31.5	10.9
Louisville, Kentucky-Indiana	41.6	16.4
New Orleans, Louisiana	29.4	9.8
Baltimore, Maryland	28.8	16.3
Boston, Massachusetts	51.1	n.a.
Detroit, Michigan	40.0	n.a.
Minneapolis-St. Paul, Minnesota	47.4	18.8
Kansas City, Missouri-Kansas	40.3	20.4
St. Louis, Missouri-Illinois	43.2	18.6
Newark, New Jersey	48.6	17.9
Paterson-Clifton-Passaic, New Jersey	n.a.	n.a.
Buffalo, New York	36.8	24.9
New York, New York	31.9	17.0
Rochester, New York	43.4	21.8
Cincinnati, Ohio-Indiana	33.8	17.9
Cleveland, Ohio	56.5	19.8
Columbus, Ohio	27.7	12.4
Dayton, Ohio	n.a.	n.a.
Portland, Oregon-Washington	36.0	20.5
Philadelphia, Pennsylvania-New Jersey	36.7	18.1
Pittsburgh, Pennsylvania	45.9	31.2
Providence, Rhode Island	33.7	n.a.
Dallas, Texas	36.8	n.a.
Houston, Texas	28.0	n.a.
San Antonio, Texas	18.5	9.0
Seattle, Washington	38.4	14.2
Milwaukee, Wisconsin	37.5	n.a.

n.a. = Data not available.

<sup>1/</sup> Unweighted average of the outside central city portions of the central county and other outlying counties.

Source: U.S. Bureau of the Census, Census of Governments, 1962, Taxable Property Values, Table 22.

## Appendix B

### STATISTICAL METHODOLOGY

#### Developing the Basic Fiscal Data

The data for the analysis of the central city and outside central city fiscal behavior are derived from the Bureau of the Census report, Local Government Finances in Selected Metropolitan Areas in 1964-65 and from the raw data for individual local governments used to build up the aggregates appearing in that volume. To conform with the 1960 definitions of Standard Metropolitan Statistical Areas the 38 areas covered in that report were reduced to 36 by (1) incorporating the Anaheim-Santa Ana-Garden Grove SMSA into the Los Angeles SMSA, and (2) by excluding the San Antonio SMSA because of the absence of detailed governmental finance data. All other SMSA's were made to conform with their 1960 boundaries. Finally, the two New England State Economic Areas were redefined in such a manner as to make Boston and Providence central cities of the areas involved. This involved only a minor adjustment in the case of Boston which comprises the bulk of Suffolk County, but it did require some fundamental changes in the case of Providence.

The 1957 population data are derived from the same areal definitions as those used for 1964-65. The populations data are based on interpolations of the the 1950-1960 population growth patterns, i.e., 1950 populations plus .7 of the 1950-1960 growth for each SMSA.

The basic data for central city and outside central city areas were derived, with modifications for definitional changes, from Local Government Finances in Standard Metropolitan Statistical Areas (1957 Census of Governments) and a Census study entitled Finances and Employment in Relation to Population, 1957 (State and Local Government Special Studies No. 45).

The methodology used in this study follows the techniques developed by Brazer\* and Campbell and Sacks\*\* in making central city/outside central city comparisons. Where cities are coterminous with county boundaries or they have no overlying governments the allocation is purely mechanical; the central city and outside central city are handled as independent units. This procedure applies where the central city provides all--or nearly all--local government services (e.g., New York City, Baltimore, Boston, and Washington, D.C.), and

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\* Harvey E. Brazer, City Expenditures in the United States (New York: National Bureau of Economic Research, Inc., 1959).

\*\* Alan K. Campbell and Seymour Sacks, Metropolitan America: Fiscal Patterns and Governmental Systems (New York: The Free Press, 1967).

also where there are overlying, but exactly coterminous, governments (e.g., San Francisco, Philadelphia, Denver, New Orleans and St. Louis).

Except for San Francisco, the fiscal data for the cities noted above and for their outlying areas are based entirely on published data in the Local Government Finances in Selected Metropolitan Areas volume and in City Government Finances in 1964-65, and on the comparable data for 1957. Where there is more than one central city in a SMSA they are considered as a single unit in the central city comparisons. Thus, San Francisco is consolidated with Oakland. Oakland is not a city-county and hence calls for an allocation of county fiscal data between Oakland and the remainder of Alameda County.

In order to attribute to each central city the relevant financial items of the county in which it is located and of any other overlying local governments (mainly school districts and special districts) it was necessary to secure underlying Census survey forms and worksheet data for 1964-65. These were made available to the Commission by the Governments Division, Bureau of the Census. For 1957, such information was published in the 1957 Census of Governments.

For those jurisdictions that are coterminous with the central city, the full financial amounts were attributed to the central city area. In the case of an overlying, but noncoterminous jurisdiction (e.g., a county) its fiscal behavior was allocated on the basis of the fraction of the total population of the overlying population residing in the central city or central cities. The residual amount was allocated to the outside central city areas. As a result the weighted averages of the central city and outside central areas are equal to the SMSA per capita figures as published for 1964-65 and as directly implied by the county area aggregates for 1957.

Generally, but not always, the allocation of fiscal responsibility involves noneducational expenditures. Occasionally there are noncoterminous school districts and/or districts providing higher education. The principal problems involve the allocation of county activities between the central city and outside central city areas. A comparison of tax behavior derived indirectly by this population allocation method, and directly from an analysis of tax rates indicates that our procedure does not introduce any systematic distortion into the data.

The allocation procedure may be illustrated by an example, that of San Diego. Based on published reports, the city of San Diego had general expenditures of \$59,053,000 in 1964-65. It reported no expenditures for education and a nominal amount for public welfare. Education is provided by the San Diego Unified School District which reported expenditures of \$70,449,000 for fiscal 1965. This amount was credited entirely to the central city area of San Diego. It was estimated that the city comprised 56.2 percent of San Diego County population; the central city area was therefore credited with \$67,442,000 of the \$120,003,000 of the county's general expenditure. This added up to \$194,943,000, or \$307 (as reported in Table A-10) for each of the 636,000 persons estimated as residing in the city of San Diego in 1964. The remaining \$170,001,000 was allocated to the outside central city area of the San Diego SMSA. With an estimated population of 495,000 this equalled \$343 per capita.

This was the general approach followed in the case not only of total direct general expenditures, but of educational expenditures, noneducational expenditures, taxes, and the sum of State and Federal aid.

## Weighted and Unweighted Averages

Where feasible, we have computed both "weighted" and "unweighted" averages in those tables that present per capita data for each of the largest 36 SMSA's. These were computed as follows:

Weighted average.--This is computed by dividing the sum of the absolute amounts by the sum of the populations. This procedure produces totals that give each resident of each area equal weight, with the result that the average does not take on the characteristics of either the large or the small SMSA's.

Unweighted average.--This is computed by obtaining the per capita amount for each of the 36 SMSA's, adding up these per capitas, and dividing by 36. This average reflects the characteristics of the more numerous smaller SMSA's.

### Adjusting Outside Central City Income for the Rural Component

Comparisons of social and economic characteristics between the central city and the remainder of an SMSA are distorted by the rural component of the outside central city area. To compensate for the deflating effect of the lower income rural families on the average income outside the central city an adjustment factor was applied to raise this income figure to a level that would approximate the "urban fringe" concept used in the 1960 Census of Population.

To compute the "rural component adjustment factor" it was assumed that the proportion of rural population in the outside central city area of each SMSA was the same in 1964 as in 1959, and that the relationship between rural farm median family income and that in the urban fringe (national average for all SMSA's) remained constant for both years (rural farm income was 64.9 percent of income in "other urban territory" in 1959).\* The computation is as follows:

$$I_a = \frac{I}{1 - (P_r)(1 - k)}$$

where,

- $I_a$  = Adjusted average household income outside central city
- $I$  = Average household income outside central city as computed from "Survey of Buying Power," Sales Management (see Table A-4)
- $P_r$  = Rural population as percent of total population outside the central city in 1959 (see Table 4, p. 35)
- $k$  = Rural farm median family income as percent of median family income in "other urban territory" in 1959 (average for all SMSA's) = 64.9 percent.

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\* See page 43.

The San Bernardino-Riverside-Ontario area provides a dramatic example of the deflating effect of the rural component. Based on 1964 incomes the central cities of that SMSA, when combined, had an average household income well in excess of the outside central city area, \$7,645 as compared to \$6,685 (see Table A-4). However, a considerable portion of the area outside the central city was rural (38.9 percent in 1959). Adjusting for this large rural population and assuming that its median income was 64.9 percent of that in the urban fringe increases the outside central city income to \$7,742, slightly higher than that in the central cities (see Table A-5). Thus, where in 1959 the median family income in the urban fringe of the San Bernardino-Riverside-Ontario SMSA was 92.5 percent of the median family income in the central cities, by 1964 the relationship had shifted slightly in the opposite direction (see Table A-5).

## Appendix C

### SOURCE REFERENCES

#### CHAPTER 2

- 1/ Advisory Commission on Intergovernmental Relations, Metropolitan Social and Economic Disparities: Implications for Intergovernmental Relations in Central Cities and Suburbs (January, 1965), pp. 125-126.
- 2/ 1968 State Legislative Program (September, 1967), p. 248.
- 3/ The Problem of Special Districts in American Government (May, 1964).
- 4/ Alternative Approaches to Governmental Reorganization in Metropolitan Areas, Advisory Commission on Intergovernmental Relations, Washington, D.C., June, 1962.
- 5/ Governmental Structure, Organization, and Planning in Metropolitan Areas, July, 1961, pp. 19-35.
- 6/ Metropolitan Social and Economic Disparities: Implications for Intergovernmental Relations in Central Cities and Suburbs, Advisory Commission on Intergovernmental Relations, Washington, D.C., January, 1965.
- 7/ National Commission on Technology, Automation, and Economic Progress, Technology and the American Economy (Washington, D.C.: U.S. Government Printing Office, February, 1966), pp. 95-97.
- 8/ "Urban Conditions: General," in The Annals of the American Academy of Political and Social Science (Philadelphia, Pa.: May, 1967), Vol. 371, pp. 165 ff.

#### CHAPTER 3

- 1/ Richard L. Forstall, "Population Change in American Cities, 1960-1965," Municipal Yearbook 1966 (Chicago, Ill.: International City Managers Association, 1966), pp. 29-47.

### CHAPTER 3 (Cont'd)

- 2/ The President's Commission on Law Enforcement and Administration of Justice, Task Force Report: Crime and Its Impact--An Assessment (Washington, D.C.: U.S. Government Printing Office, 1967), p. 25.
- 3/ Ibid., p. 37.
- 4/ Advisory Commission on Intergovernmental Relations, State-Local Taxation and Industrial Location (Washington, D.C.: U.S. Government Printing Office, April, 1967), Ch. II.
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### CHAPTER 4

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Appendix D

METROPOLITAN CASE STUDIES

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## FOREWORD

Metropolitan areas are often characterized as agglomerations of declining central cities surrounded by a variety of suburban communities; some affluent, others industrial or commercial enclaves and still others middle class bedrooms to the central city. The quantity and quality of public services provided in the individual metropolitan communities by numerous local governmental units are said to differ considerably from one community to another because of:

- Disparities in the ability to finance public services; and
- Disparities in the nature and in the needs of the population to be served.

In fact, not all metropolitan areas are beset by the kinds of disparities described above. Furthermore, some metropolitan areas in which such disparities exist now may be moving toward a less disparate situation, while in other areas disparities may be developing or they may be becoming more pronounced.

Because there exists great interstate and intrastate diversity on these counts, the Commission made a dozen case studies of metropolitan fiscal disparities as an integral part of its general study of "Fiscal Balance in the American Federal System."

The dozen SMSA's selected for study provide geographic representation and a range of population sizes. In the aggregate the group is large enough to permit inferences on the differential effects that can flow from a variety of State fiscal policies, governmental structures and intergovernmental relationships.

The case studies had three objectives: (1) to determine the extent and nature of fiscal disparities among jurisdictions within metropolitan areas; (2) to ascertain the effect that various State and local policies (equalization, taxation, annexation, incorporation, consolidation, zoning, etc.) have had on the formation and trend of these fiscal disparities; and (3) to evaluate the effectiveness and feasibility of various State and National policy alternatives designed either to minimize intra-metropolitan fiscal disparities or to compensate for them.

Dominating the picture in the individual metropolitan areas is the role of the States--past, present and future. States not only establish the general framework of local governmental organization, but as has been recognized throughout this study they assign expenditure and tax responsibility and provide aid. These were reflected in the major differences between central city and outside central city areas, but they are even more clearly evident when local governments outside the central cities are analyzed in detail.

The meaning of disparities--fiscal, social, economic, etc.--is clearly a function of the State-established units of government. Thus, each of the studies has found it essential to indicate the nature of the governmental systems involved.

In doing this, the studies underscore the fact that there is great variation in the way cities bridge the gap between needs and resources. With little or no State aid,

shared State taxes or local nonproperty tax sources, New Jersey cities make heavy use of the property tax. Louisville and other Kentucky cities, in contrast, have been given access to the earnings tax. California localities can piggyback a local supplement onto the State sales tax.

In some metropolitan areas there are greater disparities between public service levels within the city, perhaps wider than those between the central city and suburban jurisdictions. The Los Angeles study forcefully drives this point home.

By and large the central city-suburban expenditure differences stem from the fact that the core cities generally must devote more of their resources to poverty-linked public services while suburban areas spend more for public education and recreation. Although State assistance with the welfare load generally runs in favor of the central city, the more significant State investment in education all too frequently is distributed perversely relative to need--the suburbs get more educational aid per capita than the central city. Milwaukee is the classic example.

Heavy use of the property tax in core cities--to support not only education but the variety of other services essential to make urban living tolerable--stands out as counterproductive to the task of renewing the city's aging structures. Cities such as Boston, as that study points out, have had to chart a course around the property tax shoal in striving to change their function from a center for blue collar employment to one of providing white collar employment. This change in dominant occupation, however, offers little or no relief for the increasing number of the unskilled and poorly-educated, clustering in the central city.

The wisp of another cloud has crept across the metropolitan area landscape. The older suburban communities are taking on physical, social and economic characteristics similar to the central city's, as the Chicago, Cleveland, Buffalo and New Jersey studies show. Thus, the suburbs are neither uniformly affluent nor free of fiscal woes. In fact, disparities among suburban jurisdictions may be both greater in magnitude and intensifying as rapidly as the central city-outside central city differences.

It would be hasty judgment to conclude from these manifestations of fiscal imbalance that the pooling of resources in a metropolitan area offers the only hope for restoring fiscal vigor to central cities and suffering older suburbs. All the local resources in some places might still not suffice to meet public needs. By capitalizing on the federal system's undoubted capacity to adapt a variety of fiscal and program techniques to specific situations there is considerable hope that balance on the metropolitan fiscal front can be restored.

The Commission has had to select the more salient parts of many of the studies for publication in this report, because of limitations of funds and space. Each of the geographic areas is, however, represented by one virtually complete study. Excerpts have been drawn from studies of the other cities. It has not been possible to include all of the data referred to in the excerpts. The complete report for each of the SMSA's is available in the library of the Commission and in the Department of Housing and Urban Development, which helped to finance the in-depth case studies.

The conclusions and recommendations in the case studies are those of the individual authors and do not necessarily reflect those of either the Advisory Commission on Intergovernmental Relations or the Department of Housing and Urban Development.

Fiscal Disparities in the  
BOSTON, MASSACHUSETTS  
Metropolitan Area

A Report by  
Alexander Ganz  
Massachusetts Institute of Technology, Cambridge

<u>Major Fiscal Disparities, 1965</u>	<u>Central City</u>	<u>Outside Central City</u>
Per capita State and Federal aid	\$190	\$ 61
Per capita revenue from taxes	226	165
Per capita educational expenditure	72	104
Per capita noneducational expenditure	310	135
Total estimated population, 1964 (thousands)	670	2,507

The first sizable city in America demonstrates the renewing effect of a shift in activity. The Hub of the Universe (so named, with Yankee restraint, in the nineteenth century) had become hollow, as manufacturing and employment leaked away to the rim, leaving the central city with high cost citizens and shrunken tax base. Even its historic textile industry had departed to the low labor cost southern States.

But a surprising new growth has lately appeared--research and electronics industries around the beltway, and expansion of business, government and service activities in the densely populated inner areas. One-half of all the office buildings in the area have gone up in the central city.

At present, however, Boston continues to exhibit all of the classic symptoms of fiscal distress. Its future fiscal health is still dependent on its resurgence as a focal point for the area's economic activity and State and Federal financial aid.

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## INTRODUCTION

Since the end of World War II, the Boston Metropolitan Area has, in a sense, been experiencing the best of both worlds: a relative decline in its share of those lower wage, lower productivity industries experiencing lesser growth nationally--textiles and leather--and significant growth in those more dynamic activities undergoing greater expansion in the economy as a whole--instruments and electronics, machinery and transportation equipment, higher education, medical service, finance and insurance, and recreation and tourism. As a consequence, the Boston Metropolitan Area's lesser growth in population has been accompanied by one of the highest rates of growth in per capita income, reflecting the upgrading of jobs, labor force, productivity and manpower capabilities.

Within this overall picture, however, the experience of the City of Boston, and its surrounding metropolitan ring, have been quite distinct. Boston has been losing population and employment since at least 1950, with the outward flow of manufacturing and trade, and the egress of middle and upper income residents. Boston has been left with the bulk of the poor, the larger part of the area's substandard housing, and a disproportionate share of the area's elderly. Boston, in effect, has been left with the metropolitan area's more costly citizenry, in terms of the need for the provision of services and facilities.

In-depth studies of the future of the Boston Regional Area have recently been made by the Boston Metropolitan Area Planning Council. They throw significant light on the interrelation of prospective economic-industrial-urban growth for the Boston Area as a whole and its central city and outside central city communities. These studies, looking ahead to 1975 and 1990, envisage a Boston Regional Area one-third larger, in terms of population, with per capita income levels almost doubling by 1990, as the past decade's upgrading of industry structure and jobs continues over the next quarter century.

Even with a slower prospective population growth than that of the nation as a whole, the Boston Regional Area is expected to experience very substantial growth and change in the structure of its economy, and in the intra-area location of employment, population and residence. The Core Area, comprising the Cities of Boston, Brookline, Cambridge, Everett, Somerville, and Chelsea, is expected to continue to lose population and employment, with all and more of the increment in employment and population going to the outer rings of the Boston Area, in response to the changing structure and location patterns of industry, and rising incomes and residence location preferences of the population. Nevertheless, the Core Area is experiencing a revival, even with its declining population density, as the expansion of service activities spurs an ambitious renewal program, and this may be expected to continue.

These potential prospects for the economic viability of the City of Boston, however, will be highly sensitive to the possible amelioration of glaring, critical fiscal disparities now confronting this central city in its relationship with its metropolitan ring communities. In a state with 70 percent of its revenues flowing from the property tax, 60 percent of Boston's real property is tax exempt. In the framework of a population and labor force no longer growing, economic growth prospects and the fiscal capacity of the City of Boston will be severely constrained, even with the changing economic structure of its economy and the upgrading of jobs and income that may be expected to accompany the growth of business, personal and government service activities, as manufacturing and trade continue to move out. In contrast with a limited horizon of revenue growth, public expenditure needs of the City of Boston, already overwhelmed by outlays for health, welfare and safety, allowing less than adequate margins for education, transportation, and housing, are soaring as the City of Boston continues to provide for the bulk of the Area's poor, needy, and disadvantaged, and as standards of public service for social welfare rise. To fulfill the potential for the viability of the City of Boston economy, in these circumstances, would require measures at the state and national

level to redress, in part, the fiscal and economic disparities presently confronting the City of Boston.

Communities in the metropolitan ring around the City of Boston include an inner core of cities and towns with prospects and problems similar to that of Boston, as well as industrial and estate enclaves, and bedroom communities, but self-contained communities experiencing population and economic growth and an expanding fiscal base predominate. These communities, which will absorb most of the area's new and expanding manufacturing and trade activity, population, employment and economic growth in the next quarter century, have a growing revenue base. This growth may not be adequate to public expenditure needs, however. For these communities, public expenditure requirements for new school and water system outlays and other capital facilities limit resources dedicated to streets and highways, welfare and public safety. For these communities, their growing revenue base is not adequate for present and future public expenditure requirements, pointing to the need for new forms of fiscal support at the state and national levels.

In effect, both the mature and the growing communities of the Boston Metropolitan Area face prospects of growth in fiscal capacity substantially short of present and future needs, though the problem of the City of Boston is critical. For the mature communities, the problem is one of shrinkage of the tax base, in the face of expanding health, welfare, safety and housing expenditure needs, and the unrequited provision of central city services to metropolitan ring communities. For the growing communities in Boston's metropolitan ring, the expanding requirements for schools, water and other public facilities limits expenditures for urgent needs, even in the framework of a growing fiscal capacity. Thus over and above the amelioration of intergovernmental fiscal disparities, local communities need an expanded flow of resources from state and local governments.

I. RECENT GROWTH AND FUTURE PERSPECTIVES FOR THE BOSTON METROPOLITAN AREA ECONOMY: THE CONTEXT FOR INTERCOMMUNITY SOCIOECONOMIC DISPARITIES

Upgrading of the Boston Metropolitan Area Economy,  
Postwar Experience and Future Perspectives

Intergovernmental fiscal disparities of the Boston Metropolitan Area, and the critical fiscal situation of the City of Boston, and its potential amelioration, are best examined in the setting of recent growth and future perspectives of the Boston Metropolitan Area Economy, and the socioeconomic disparities between its central city and the surrounding metropolitan ring.

In the context of a slower postwar population growth, in comparison with the nation as a whole, the Boston Metropolitan Area has experienced a more rapid rise in per capita income, reflecting a fundamental transformation of industrial structure and upgrading of the labor force. As a consequence, per capita income levels in the Boston Metropolitan Area are rising faster and are substantially higher than that for the nation as a whole. From 1950 to 1962, population growth of the Boston Metropolitan Area, at 11 percent, was less than half that for the nation as a whole (Table 1). Per capita personal income of the Boston Area, in contrast, already at a higher level than the nation's in 1950, expanded its relative rate of growth, and, in 1962, exceeded that of the nation by one-fifth.

For the future, in the context of an expanding national economy, the Boston Metropolitan Area is expected to continue to have a superior level of per capita personal income, in relation to the country as a whole, signifying further improvement of industry mix and productivity levels (Table 1).<sup>1/</sup> This improved quality of the Boston

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<sup>1/</sup> See also Economic Base and Population Study, Volumes I, II, and III, Boston Metropolitan Area Planning Council, Boston, Mass., 1967.



TABLE 1.--GROWTH IN POPULATION AND PER CAPITA PERSONAL INCOME,  
RECENT AND PROSPECTIVE, FOR THE UNITED STATES AND THE  
BOSTON STANDARD METROPOLITAN STATISTICAL AREA

	<u>1950</u>	<u>1962</u>	<u>1975</u>	<u>Percent Change</u>	
				<u>1950-1962</u>	<u>1962-1975</u>
United States					
Population (millions)	\$151.2	\$185.9	\$225.3	22.9%	21.2%
Personal income (billions)	226.2	440.2	748.3	94.6	70.0
Per capita personal income	1,496	2,368	3,321	58.3	40.2
Boston SMSA <sup>1/</sup>					
Population (thousands)	3,062	3,394	3,818 <sup>2/</sup>	10.8	12.5
Personal income (millions)	\$5,119	\$9,588	\$14,813 <sup>2/</sup>	87.3	54.5
Per capita personal income	\$1,672	\$2,825	3,880 <sup>2/</sup>	69.0	37.3

<sup>1/</sup> Includes all of the counties which form Boston SMSA.

<sup>2/</sup> NPA projections adjusted to county basis.

Source: "Personal Income in Metropolitan Areas: A New Series," Article by Robert E. Graham, Jr., and Edwin J. Coleman, Appearing in Survey of Current Business, May 1967, U.S. Department of Commerce, Office of Business Economics, Washington, D.C.; Economic and Demographic Projections for 224 Metropolitan Areas, National Planning Association, Center for Economic Projections, Washington, D.C., May 1967.

Area economy, expected over the next 10 to 25 years, would be consonant with a continued lesser population growth rate.

#### Transformation of Industrial Structure

The key to this favorable postwar experience and outstanding future expectation, has been a basic transformation of the Boston Area economy involving the emergence of dynamic growth industries which more than offset the loss of older, slower growing activities to other regions. The Boston Area's loss of lower wage, lower productivity textile and leather activity to other regions with more modern plant and more suitable market linkages has been more than compensated for by the expansion of higher wage and higher productivity industries, including machinery, higher education, insurance, instruments, transportation equipment, recreation, tourism and other services. Between 1947 to 1963, for example, textiles fell from first to fourteenth place among the Boston Area's export activities ranked by employment size, and employment in the leather industry fell by one-third. In contrast, electrical machinery, higher education and insurance, rose from third, ninth and seventh place, in 1947, to first, second and third place, in 1963 (Table 2). For the future, based on the special endowments and improved qualities of its labor force, these and other service activities of the Boston Metropolitan Area are expected to contribute to maintain the Area's lead in per capita income and productivity levels of the nation.

#### Boston's Population Loss Midst the Area's Population Growth

At the heart of this area, however, the postwar experience and future prospects for the City of Boston are substantially different, and these socioeconomic differences are aggravated by serious intergovernmental fiscal disparities. Boston's postwar experience has been one of loss of population and employment and lower levels of per capita income, at the same time that it is saddled with the bulk of the metropolitan area's poor families and substandard housing, and a disproportionate share of the area's elderly and less well-educated. For the future, all of the Boston Area's net increase in population and employment is expected to go to the outside central city suburban ring, in line with the outward flow of manufacturing and trade, and in accordance with the residence location preference associated with expanding income levels and the younger age of household heads (Tables 3 and 8). Recent experience and future prospects for the expansion of government, business and service activity employment, nevertheless, suggest the potential viability of the City of Boston economy, if new Federal, State and local institutional arrangements could alleviate present fiscal disparities.

#### Boston's Share of the Area's Disadvantaged Citizenry

In 1960, the City of Boston had an inordinate share of the metropolitan area's unskilled workers, unemployed, low income families, elderly, Negroes, and substandard housing units. At the same time, with a disproportionately larger share of the area's problem people, and smaller share of the area's well-to-do families, it provided the "place-of-work" of almost half of the area's jobs, an additional unrequited service burden. A vivid cross-section of the socioeconomic disparities between the City of Boston and its surrounding metropolitan ring is portrayed in the 1960 Censuses of Population and Housing (Table 4). This 1960 cross-section illustrates Boston's large share of high cost citizenry, in terms of requirements for welfare and social services. In that year, the City of Boston, with some one-fourth of the metropolitan area population, accounted for almost two-fifths of the area's unemployed. Boston's labor force was less skilled, containing more than one-third of the area's service workers and laborers. Boston's families had lower levels of income. Median household income in Boston was one-fourth lower than that in the metropolitan area as a whole. Boston families with incomes of less than \$3,000 made up two-fifths of the area total in that class, while those with incomes of more than \$15,000 comprised only one-eighth of the

TABLE 2.--POSTWAR AND PROJECTED CHANGE IN THE STRUCTURE OF THE  
GREATER BOSTON REGIONAL PLANNING AREA, 1947-1963-1980

	Employment			Rank		
	1947	1963	1980	1947	1963	1980
	----- (thousands) -----					
Principal export activities						
Electrical machinery	40.2	55.8	72.5	3	1	1
Private education	16.2	33.8	52.8	9	2	2
Insurance carriers	20.4	30.4	38.6	7	3	3
Nonelectrical machinery	32.5	29.5	30.7	4	4	6
Leather Products	42.5	28.7	33.6	6	6	7
Federal Government defense-space	21.6	23.0	26.0	6	6	7
Rubber products	21.7	21.5	20.4	5	7	11
Instruments	17.4	19.1	20.4	8	8	10
Miscellaneous manufactures	5.9	18.2	25.3	13	9	8
Paper products	15.4	16.4	20.7	11	10	9
Miscellaneous services	5.2	14.5	36.9	14	11	4
Transportation equipment	6.1	13.8	11.5	12	12	12
Food products	16.1	12.5	10.5	10	13	13
Textile products	48.4	11.6	9.8	1	14	14
Other export activities	61.0	104.5	152.0			
Local market activities	745.3	851.3	1,056.5			
Total employment	1,137.5	1,284.6	1,618.1			

Source: Analyses of the Boston Metropolitan Area Planning Council, appearing in article entitled "Forecasting Economic Growth for Eastern Massachusetts," by Frederick Bell, New England Business Review, August 1966, Federal Reserve Bank of Boston.

TABLE 3.--POPULATION, BOSTON METROPOLITAN AREA AND THE CITY OF BOSTON

	1950	1960	1965	Percent Change	
				1950-1960	1960-1965
	----- (thousands) -----				
Boston Metropolitan Area	2,414.4	2,595.5	2,676.0	+7.5%	+3.1%
City of Boston	724.7	697.2	616.3	-3.8	-11.6

Source: The Commonwealth of Massachusetts, The Decennial Census, 1965, Boston; Current Population Reports, Population Estimates, Estimates of the Population of Standard Metropolitan Statistical Areas: July 1, 1965, U.S. Bureau of the Census, Series P-25, No. 371, Washington, D.C., August 14, 1967; Current Population Reports, Technical Studies, Standard Metropolitan Statistical Areas in the United States as Defined on May 1, 1967, with Population in 1960 and 1950, U.S. Bureau of the Census, Series P-23, No. 23, Washington, D.C., October 9, 1967.

TABLE 4.--SOCIOECONOMIC CHARACTERISTICS OF THE CITY OF BOSTON  
IN COMPARISON WITH THE BOSTON METROPOLITAN AREA AS A WHOLE

	Boston		City As Percent of SMSA
	City	SMSA	
1960 population	697,197	2,589,301	26.9%
Labor force	191,373	694,848	27.5
Employment	172,248	652,620	26.4
Service workers and laborers	46,528	127,555	36.5
Unemployed	4,669	12,303	38.0
Place of work	409,378	920,198	44.5
Negro population	63,165	77,781	81.2
Median income (households), 1959	\$ 4,264	\$ 5,537	77.0
Families with incomes of--			
Less than \$3,000 in 1959	\$27,539	\$71,008	38.8
More than \$15,000 in 1959	\$ 5,445	\$45,668	11.9
Substandard housing units	38,932	72,470	53.7
Persons over 65 years	85,585	264,931	32.3

Source: U.S. Censuses of Population and Housing: 1960, Final Report, PHC (1)-18, Census Tracts, Boston, Massachusetts Standard Metropolitan Statistical Area, U.S. Bureau of the Census, Washington, D.C.

area families in this category. In 1960, Boston had more than half of the area's sub-standard housing units, and one-third of the area's population 65 years of age and over.

Boston's educational system is not adequately geared to break the cycle of low skills-low income-poverty-poor education. One-third of Boston's school buildings are more than 50 years old and several are in their second century. One-fourth of Boston's schools have student bodies more than 50 percent Negro, and are classed as segregated. Boston students perform poorly. A typical reading achievement score for Boston sixth graders is 5.6. Reading achievement in Roxbury, the Negro ghetto in Boston, is 1-1/2 years behind the national average.<sup>2/</sup>

#### Shift of Jobs to the Outside Central City Metropolitan Ring

Boston's burden of high cost citizenry developed against the background of declining postwar employment, paralleling its declining postwar population, while employment in the metropolitan ring expanded by leaps and bounds (Table 5). From 1948 to 1963, employment in the City of Boston fell by 17 percent while that for the metropolitan ring rose by 39 percent, raising the metropolitan area total by 12 percent. In effect, Boston experienced an outflow of manufacturing and trade in response to needs for more space, cheaper land, linkages with the metropolitan ring's improved transportation facilities, and proximity to the customers. Offsetting these trends, in part, was an 18 percent increase in service activity employment in the City of Boston, reflecting an important revitalization and rehabilitation of large downtown areas, and the expanding service needs of a growing economy. This aspect of the postwar development holds the kernel of future possibilities for the viability of the City of Boston economy.

#### Location of New Construction in the Boston Metropolitan Area

The location of nonresidential building activity in the Boston Metropolitan Area, over the past decade, foreshadows both a continued outflow of manufacturing and trade to the metropolitan ring, as well as a further expansion of service activities in the City of Boston. Nonresidential building permit valuations in the Boston Metropolitan Area, in the period 1954-65, show that more than two-thirds of all nonresidential private construction has gone to the outside central city metropolitan ring (Table 6). This measure of construction activity is significant as a precursor of future employment growth and location. Within this overall pattern, nevertheless, two distinctive, important sub-trends are taking place. While more than four-fifths of all new industrial plants, and three-fourths of all new retail and wholesale trade facilities, are going to the outside central city metropolitan ring, one half of all office buildings and three-fifths of all hospital and institutional buildings are being constructed in the City of Boston. These economic activity location trends, pointing to the changing economic function of the City of Boston, point up the dimensions of Boston's problem and potential for continued economic viability.

Considering these offsetting trends in the growth and location of manufacturing, trade and service activities, Boston fared relatively well in terms of new housing construction since 1960. Despite a continued net outflow of population to the metropolitan ring, Boston accounted for one-fourth of all new housing units authorized for construction in the Boston Housing Market Area between 1960 and September 1966 (Table 7). The construction of 23,644 new housing units in Boston since 1960 derived, in part, from the replacement of substandard units, the urban renewal program, as well as the new needs of the new service activity jobs created in the City of Boston.

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<sup>2/</sup> Village School Downtown, Peter Schrag, Beacon Press, Boston, 1967.

TABLE 5.--EMPLOYMENT CHANGES IN SELECTED INDUSTRIES IN THE CITY OF BOSTON,  
IN COMPARISON WITH THE METROPOLITAN AREA RING AND THE  
METROPOLITAN AREA AS A WHOLE, 1948 AND 1963  
(Thousands of workers)

	<u>Employment in Selected Industries</u>			
	<u>Total</u>	<u>Manufacturing</u>	<u>Trade</u>	<u>Selected Services</u>
Central city				
1948	250.8	101.5	119.0	30.3
1963	207.6	82.5	89.2	35.9
Percent change	-17.2%	-18.7%	-25.0%	18.5%
Outside central city				
1948	270.5	169.4	78.0	23.1
1963	377.3	213.4	127.7	36.2
Percent change	39.5%	26.0%	63.7%	56.7%
Boston SMSA, total				
1948	521.3	270.9	197.0	53.4
1963	584.9	295.9	216.9	72.1
Percent change	12.2%	9.2%	10.1%	35.0%

Source: Censuses of Business and Manufactures, 1947-48 and 1963, U.S. Bureau of the Census, Washington, D.C.

TABLE 6.--NEW PRIVATE NONRESIDENTIAL BUILDING IN THE  
 BOSTON METROPOLITAN AREA, BY CENTRAL CITY-OUTSIDE  
 CENTRAL CITY COMPOSITION, 1954-1965

	<u>Percent of Valuation of Permits              Authorized for New Nonresidential              Building in the Outside Central              City Metropolitan Ring</u>
All Types	68%
<u>Business</u>	70
Industrial	82
Stores	74
Office buildings	<u>51</u>
Gasoline stations	82
<u>Community</u>	67
Educational	72
Hospital and institutional	<u>41</u>
Religious	86
Amusement	64

Source: "The Decentralization of Jobs," Article by Dorothy K. Newman  
 appearing in Monthly Labor Review, May 1967, U.S. Department  
 of Labor, Bureau of Labor Statistics, Washington, D.C.



TABLE 7.--NEW HOUSING UNITS AUTHORIZED IN THE  
BOSTON HOUSING MARKET AREA

	<u>1960-1966</u>
<u>Number of Housing Units</u>	
<u>Authorized by Building Permits</u>	
Boston housing market area	94,755
Central area	29,543
Boston	23,644
<u>Change in Population</u>	
Boston housing market area	19,775
Central area	-6,875
Boston*	-90,000

\*Estimated on basis of 1960 and 1965 Commonwealth of Massachusetts  
Census data.

Source: Analysis of the Boston, Massachusetts, Housing Market, Federal  
Housing Administration, U.S. Department of Housing and Urban  
Development, Washington, D.C., October 1967.

### Future Location of Population and Employment in the Boston Regional Area

In line with these developments--the changing, upgraded structure of the Boston Area economy, and the outward shift of population and manufacturing and trade employment to the metropolitan ring--Boston's population and employment are expected to continue to decline over the next quarter century while that of the Greater Boston Regional Area is expected to grow by one-third (Table 8). In this context, in accordance with recent studies of the Boston Metropolitan Area Planning Council, Boston's employment is expected to fall by only one-eighth while its population may be reduced by one-third.

### Prospects for the Viability of Boston Central City

Despite anticipated smaller population and employment levels, however, the City of Boston economy may be expected to participate in the general upward shift of households to higher income levels over the next two decades. Whereas only half of all households in the Boston Metropolitan Area had incomes of \$8,000 or more, in 1965, three-fourths of all households are expected to be in this category by 1985, in the framework of an expanding national economy (Table 9). This more affluent Boston Metropolitan Area population will also be younger, with three-fourths under 45 years of age, in 1985, in comparison with two-thirds in 1965. Of course, in comparison with the metropolitan area, Boston may be expected to retain a larger share of the lower income and older age households.

Nevertheless, the growth of government, business and personal service activity employment in Boston, and the future upward shift of household income levels suggest a potential for economic viability of the Boston economy, even with a declining population. This possibility, however, will be highly sensitive to the amelioration of fiscal disparities affecting Boston in relation to its surrounding metropolitan ring communities.

## II. LOCAL GOVERNMENT FISCAL DISPARITIES IN THE BOSTON METROPOLITAN AREA

### Overview

Within the general framework of rapidly rising per capita personal incomes levels, and lesser population growth, the Boston Metropolitan Area's 70-odd cities and towns cover a wide spectrum of types in comparison with the nation as a whole. These include balanced communities (combining an economic base with a full range of services), those with specialization in manufacturing, wholesale or retail trade, education, or recreation, as well as industrial and estate enclaves, and bedroom communities. The dominant feature, nevertheless, is that of shrinking lower income central city and central core communities, and emerging higher income suburban cities and towns. This feature may be expected to continue over the next quarter century as the Boston Metropolitan Area's population and employment expand by one-third.

In this framework, Boston central city's higher per capita government expenditures, required mainly to service its high cost, low income citizenry, compels a straining of its smaller per capita fiscal capacity, even though its revenue effort is unusually high. State and federal aid and intergovernmental cooperation do not sufficiently ameliorate Boston's comparative fiscal needs, nor appropriately compensate for the metropolitan area-wide services it renders, though recent developments in these areas are benefitting Boston.

Substantial additional state and federal aid, and intergovernmental cooperation, are needed to redress these fiscal disparities adversely affecting Boston. This redress is needed to complement the recent revitalization of the Boston central city economy,

TABLE 8.--LOCATION OF POPULATION AND EMPLOYMENT, BY CORE AND METROPOLITAN RING IN THE EASTERN MASSACHUSETTS REGIONAL PLANNING AREA<sup>1/</sup>

	<u>1963</u>	<u>1975</u>	<u>1990</u>
<u>Thousands of Persons</u>			
<b>Population</b>			
Core <sup>2/</sup>	1,029	745	708
Inner suburbs <sup>3/</sup>	505	728	634
Route 128 <sup>4/</sup>	891	1,089	1,441
Bay circuit <sup>5/</sup>	470	666	1,072
Route 495 <sup>6/</sup>	587	636	791
Outer fringe <sup>7/</sup>	59	60	84
Total	3,541	3,924	4,733
<b>Employment</b>			
Core <sup>2/</sup>	561	431	503
Inner suburbs <sup>3/</sup>	134	170	208
Route 128 <sup>4/</sup>	270	301	430
Bay circuit <sup>5/</sup>	141	178	307
Route 495 <sup>6/</sup>	180	200	319
Outer fringe <sup>7/</sup>	10	15	34
Total	1,296	1,295	1,801
<u>Percent Distribution</u>			
<b>Population</b>			
Core <sup>2/</sup>	29.0%	19.0%	15.0%
Inner suburbs <sup>3/</sup>	14.3	18.5	13.4
Route 128 <sup>4/</sup>	25.1	27.6	30.5
Bay circuit <sup>5/</sup>	13.3	17.0	22.6
Route 495 <sup>6/</sup>	16.6	16.3	16.7
Outer fringe <sup>7/</sup>	1.7	1.6	1.8
Total	100.0	100.0	100.0
<b>Employment</b>			
Core <sup>2/</sup>	43.3	33.4	28.0
Inner suburbs <sup>3/</sup>	10.3	13.1	11.5
Route 128 <sup>4/</sup>	20.8	23.2	23.9
Bay circuit <sup>5/</sup>	10.9	13.7	17.0
Route 495 <sup>6/</sup>	13.9	15.4	17.7
Outer fringe <sup>7/</sup>	0.8	1.2	1.9
Total	100.0	100.0	100.0

<sup>1/</sup> Some 76 cities and towns in a radius of 30 miles of downtown Boston.

<sup>2/</sup> Boston, Brookline, Cambridge, Chelsea, Everett, and Somerville.

<sup>3/</sup> Arlington, Belmont, Brighton, Lynn, Malden, Medford, Melrose, Milton, Nahant, Quincy, Revere, Saugus, Watertown, Winchester, Winthrop.

<sup>4/</sup> Communities bordering on Route 128.

<sup>5/</sup> Communities between Routes 128 and 495.

<sup>6/</sup> Communities bordering on Route 495.

<sup>7/</sup> Communities beyond Route 495.

Source: Unpublished preliminary analyses and projections of the Boston Metropolitan Area Planning Council and the Eastern Massachusetts Regional Planning Project, Boston, Mass., 1967.

TABLE 9.--PERSPECTIVES FOR AGE COMPOSITION OF THE POPULATION AND  
DISTRIBUTION OF HOUSEHOLDS BY INCOME LEVELS,  
IN THE BOSTON METROPOLITAN AREA

	1960	Estimated	Projected	
		1965	1975	1985
	----- (percent distribution) -----			
<b>Population, by age group</b>				
Under 18 years	32.4%	32.9%	33.2%	34.5%
18 to 44 years	34.7	34.5	35.5	38.2
45 to 64 years	22.2	22.0	20.8	17.1
65 years and over	10.7	10.6	10.5	10.2
Total	100.0	100.0	100.0	100.0
<b>Households, by income class (1960 dollars)</b>				
Under \$4,000	20.5	18.9	14.6	10.9
\$4,000 - \$8,000	32.5	28.8	18.6	12.1
\$8,000 - \$15,000	32.7	35.6	39.7	31.5
More than \$15,000	14.3	16.7	27.1	45.5
Total	100.0	100.0	100.0	100.0

Source: Unpublished research in progress on "Emerging Patterns of Urban Growth," by Alexander Ganz, Massachusetts Institute of Technology.

through the new upsurge of service activities, and make possible the economic viability of the City of Boston.

The visible fissure in the Boston area's intercommunity pattern of economic base and fiscal capacity, local government expenditures, sources of local revenue, and comparative fiscal effort, is the dichotomy between older, no-longer-growing, lower income communities, and younger, expanding, wealthier cities and towns. The older communities have larger public service needs which press hard on their lesser revenue yield, despite a greater fiscal effort. Expenditures must be concentrated on health, welfare, and public safety, to the detriment of education, transportation, and other needed services. The wealthier communities, with an expanding economic and revenue base, are, nevertheless, hard put to provide growing capital outlays for schools, water-systems and other infrastructure facilities. The role of state and federal aid, and intergovernmental cooperation and agreements does not adequately compensate for the greater need and lesser fiscal capacity of the older, poorer communities, as well as their provision of unrequited services to the metropolitan area as a whole.

Boston and the central core cities have lower per capita economic and fiscal bases in terms of taxable real property and personal income. Boston's taxable real property base has not expanded in 20 years. Per capita local government expenditures in Boston central city are larger, but since this mainly covers its inordinately greater health, welfare, and public safety needs, its standard of provision of education and other services and facilities is lower. To finance these expenditures, Boston central city tax rates are higher, to compensate for the lower per capita property tax and personal income tax base, and its sizable proportion of tax exempt property. In effect, a stronger Boston central city fiscal effort, in terms of locally raised government revenue as a percent of personal income received by residents, and the property tax rate, produces a lower level of per capita government services in education, highways, and other critical areas. Compensating, in part, for this inadequate fiscal base, Boston central city receives a proportionately greater share of its revenue from state and federal aid, and this has been increasing, though not enough. The provision of public services in the Boston Metropolitan Area through intergovernmental cooperation and agreements, and the operation of special public service districts, is limited but expanding.

For the future, the pattern of economic and fiscal development of the Boston Area communities may be readily predicted in the context of the growth and relative outward shift of manufacturing, trade activity, and population residence. In fiscal terms, both slow growing and expanding communities may be expected to follow a demonstrated pattern in terms of expenditure and revenue characteristics, with growing communities concentrating outlays on education, water supply and other public infrastructure facilities. The increased flow of state and federal aid may dampen the disparities in local tax burdens. An expanded regional and metropolitan area approach to fiscal problems and planning, on the part of federal and state governments is needed. This plus special treatment to improve the fiscal capacity of Boston central city would enhance the economic prospects for the Boston Metropolitan Area as a whole.

#### Character of the Boston Metropolitan Area Communities

The Boston area is compact and densely populated, with the central city constituting a relatively small portion of the population (Table 10). The density gradient is relatively smooth away from the center, except for some perturbations caused by the existence of older independent cities which have been swallowed up as the area expanded. As elsewhere, there is a predominance of school age children in the suburbs, particularly the newer ones, whereas the older people tend to be concentrated near the center of the metropolitan area. There are relatively few Negroes, and they are heavily concentrated in a few neighborhoods in Boston, Cambridge, and Somerville.

It is useful for many purposes in studying the detailed fiscal patterns within the metropolitan area to classify the component cities and towns into simple categories

TABLE 10.--BOSTON STANDARD METROPOLITAN STATISTICAL AREA  
(CONSISTING OF 78 CITIES AND TOWNS)

Population of Metropolitan Boston (SMSA), 1965, Compared with 1955,  
Showing Increase and Decrease in Number and Percentage

Cities and Towns	Population		Increase or Decrease	Percent Change
	1965	1955		
Arlington	52,482	47,148	5,334	11.3%
Ashland	8,698	5,828	2,870	49.2
Bedford	10,787	8,776	2,011	22.9
Belmont	28,794	28,790	4	0.0
Beverly	38,135	31,432	6,703	21.3
Boston	616,326	724,702	-108,376	-15.0
Braintree	33,954	26,698	7,256	27.2
Brookline	53,608	56,876	-3,268	-5.7
Burlington	19,473	5,225	14,248	272.7
Cambridge	92,677	98,958	-6,281	-6.3
Canton	15,310	10,128	5,182	51.2
Chelsea	27,098	36,826	-9,728	-26.4
Cohasset	6,559	4,729	1,830	38.7
Concord	14,516	10,889	3,627	33.3
Danvers	24,764	18,185	6,579	36.2
Dedham	26,618	21,450	5,168	24.1
Dover	3,592	2,245	1,347	60.0
Duxbury	6,211	4,280	1,931	45.1
Everett	43,410	45,077	-1,667	3.7
Framingham	52,369	31,589	20,780	65.8
Hamilton	6,141	4,116	2,025	49.2
Hanover	7,862	4,258	3,604	84.6
Hingham	17,576	13,418	4,158	31.0
Holbrook	11,231	6,286	4,945	78.7
Hull	8,836	5,824	3,012	51.7
Lexington	31,388	22,256	9,132	41.0
Lincoln	4,463	2,949	1,514	51.3
Lynn	92,653	99,020	-6,367	-6.4
Lynnfield	9,821	5,667	4,154	73.3
Malden	56,142	59,497	-3,355	-5.6
Manchester	4,386	3,376	1,010	29.9
Marblehead	20,942	15,908	5,034	31.6
Marshfield	10,176	4,959	5,217	105.2
Medfield	7,479	5,293	2,186	41.3
Medford	60,429	65,393	-4,964	-7.6
Melrose	32,105	29,239	2,866	9.8
Middleton	3,909	3,370	539	16.0
Millis	5,262	3,030	2,232	73.7
Milton	27,708	24,043	3,665	15.2
Nahant	4,067	3,231	836	25.9

TABLE 10 (CONCL'D).--BOSTON STANDARD METROPOLITAN STATISTICAL AREA  
(CONSISTING OF 78 CITIES AND TOWNS)

Population of Metropolitan Boston (SMSA), 1965, Compared with 1955,  
Showing Increase and Decrease in Number and Percentage

<u>Cities and Towns</u>	<u>Population</u>		<u>Increase or Decrease</u>	<u>Percent Change</u>
	<u>1965</u>	<u>1955</u>		
Natick	30,365	26,213	4,152	15.8%
Needham	29,303	21,560	7,743	35.9
Newton	88,514	86,535	1,979	2.3
Norfolk	3,985	2,769	1,216	43.9
North Reading	9,882	6,083	3,799	62.5
Norwell	6,387	4,127	2,260	54.8
Norwood	28,978	21,052	7,926	37.6
Peabody	41,781	26,682	15,099	56.6
Pembroke	7,708	3,838	3,870	100.8
Quincy	87,158	84,495	2,663	3.2
Randolph	21,726	13,539	8,187	60.5
Reading	21,188	16,440	4,748	28.9
Revere	42,394	39,565	2,829	7.1
Rockland	15,054	10,516	4,538	43.2
Salem	40,112	40,117	-5	0.0
Saugus	23,429	18,489	4,940	26.7
Scituate	14,458	8,341	6,117	73.3
Sharon	11,341	7,814	3,527	45.1
Sherborn	2,333	1,439	894	62.1
Somerville	86,332	97,032	-10,700	-11.0
Stoneham	20,109	15,817	4,292	27.1
Sudbury	10,894	3,646	7,248	198.8
Swampscott	13,995	13,070	925	7.1
Topsfield	4,375	2,208	2,167	98.1
Wakefield	25,571	22,115	3,456	15.6
Walpole	16,390	11,293	5,097	45.1
Waltham	57,134	50,115	7,019	14.0
Watertown	40,115	38,898	1,217	3.1
Wayland	12,192	7,359	4,833	65.7
Wellesley	26,297	21,759	4,538	20.9
Wenham	3,114	2,245	869	38.7
Weston	9,848	6,257	3,591	57.4
Westwood	12,123	8,480	3,643	43.0
Weymouth	50,468	42,747	7,721	18.1
Wilmington	15,261	9,408	5,853	62.2
Winchester	21,634	18,126	3,508	19.4
Winthrop	20,398	18,704	1,694	9.1
Woburn	35,149	25,856	9,293	35.9
Total	2,605,452	2,455,713	149,739	6.1

based on their function in the metropolitan economy. This classification will help provide a concise view of the area, and an easier understanding of its fiscal behavior (Table 11).

First is the general level of wealth. For comparison purposes, we examine median family income, although the disparity between this measure and the taxable property base is sometimes significant. In the Boston Metropolitan Area, the low income towns are clustered near the center of the SMSA, and include some of the older cities, such as Salem, Malden, and Lynn. The high income communities, in general, form a contiguous group to the west; they include Weston, Sudbury, and Wellesley.

A second factor is the composition and magnitude of the economic base relative to the resident population; allied with this is the degree to which residents commute out to work. At present, the bulk of in-commuting is to the central area, although this is rapidly changing with some outward movement occurring to outlying industrial centers, such as Framingham and Waltham, from corresponding suburban residence locations. The closest to an industrial enclave is the city of Everett. We might classify as balanced those towns which provide employment for and services to a majority of their residents. These towns have tended to specialize in particular activities, such as Lynn in manufacturing, Saugus in retailing, Natick in wholesaling and Cambridge in education. The bedroom communities, such as Topsfield, Wenham, Lincoln, and Dover, lie mostly on the periphery of the metropolitan area. Sprinkled across the intermediate belt are towns with a modest commercial base, such as Marblehead, Melrose, and Winchester.

The final classification is the degree of development or maturity of the area. Rate of population growth is a component of and proxy for this category, being closely related to such other important measures as population density and age of the community. Boston as a whole is a slow-growing SMSA by national standards (about 3/4 percent per year). The growth pattern is typical with the central area declining or stagnant, the inner belt growing about two to three percent per year, and the periphery from four to seven percent per year. Growth at the fringe tends to be explosive, being focused in a few towns at any point in time--Burlington, Sudbury, Marshfield, and Pembroke, at the moment.

#### Variation in the Economic Base

At the heart of many of the area's public finance problems is the diverse division of its economic activity among the fragmented governments which make it up. The area as a whole is relatively well off, in terms of rate of growth in per capita personal income, but the variations among its component parts are unusually broad.

Perhaps the crucial measure of local tax capacity under the present system is the taxable property base at market value (Table 12). With the usual caveats about using such data, particularly for small towns and areas with heavy industrial concentration, we can look at the full-value figures compiled by the State Commission on Equalization. The per capita figures cover a range of over five to one, from the wealthy residential enclaves of Weston and Dover and industrial centers like Everett to the poor outlying communities like Middleton and the no-longer-growing old cities such as Boston, Chelsea, and Somerville. Exploitation of the tax potential is complicated by problems of inequities in assessment which seem to be greatest in the rapidly growing and the most slow-growing areas. Systematic biases with disturbing implications have been found to exist in assessment procedures in some areas<sup>1/</sup> and law suits challenging them abound. Internecine competition among local governments for industrial growth has further complicated the use and administration of the tax with a variety of special exemptions and

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<sup>1/</sup> O. Oldman and H. Aaron, "Assessment-Sales Ratio under the Boston Property Tax," National Tax Journal, March 1965.



TABLE 11.--CLASSIFICATION OF COMMUNITIES IN THE BOSTON SMSA

	<u>Growth Rate</u>	<u>Median Family Income</u>	<u>Work Outside Town of Residence</u>	<u>Local Economic Base</u>	<u>Special Characteristics</u>
<u>Essex</u>					
Beverly		Low	Much	Modest	
Danvers		Middle	Some	Balanced	State institution
Hanilton		Middle	Complete	None	Semirural
Lynn	Low	Low	Some	Balanced	Manufacturing
Lynnfield	High	High	Complete	None	
Manchester		Low	Complete	None	Semirural
Marblehead		Middle	Some	Modest	
Middleton		Low	Complete	None	Semirural
Nahant		Middle	Complete	None	
Peabody		Low	Some	Balanced	Much retailing
Salem	Low	Low	Some	Balanced	
Saugus		Middle	Some	Balanced	Much retailing
Swampscott	Low	Middle	Much	Modest	
Topsfield	High	High	Complete	None	
Wenham		Middle	Complete	None	
<u>Middlesex</u>					
Arlington		Middle	Much	Modest	
Ashland		Low	Some	Modest	Semirural
Bedford	Low	Middle	Some	Modest	Much service industry; military installation
Belmont		Middle	Much	Modest	
Burlington	Very high	Middle	Much	Balanced	
Cambridge	Low	Low	Some	Balanced	Education; industry
Concord		High	Much	Modest	
Everett	Low	Low	Some	Modest	Industry
Frammingham	High	Middle	Some	Balanced	Much retailing; industry
Lexington		High	Much	Modest	
Lincoln		High	Complete	None	
Malden	Low	Low	Much	Modest	
Medford	Low	Low	Much	Modest	Education
Melrose	Low	Middle	Much	Modest	
Natick		Middle	Some	Balanced	Much wholesaling
Newton	Low	High	Much	Balanced	
North Reading	High	Middle	Complete	None	
Reading		Middle	Some	Balanced	
Somerville	Very low	Low	Much	Balanced	
Stoneham		Middle	Much	Modest	
Sudbury	Very high	High	Complete	None	
Wakefield		Middle	Some	Balanced	
Waltham		Middle	Some	Balanced	Much industry
Watertown	Low	Middle	Much	Balanced	Much industry; government installation
Wayland	High	High	Most	Little	
Weston		Very high	Complete	None	
Wilmington	High	Low	Some	Balanced	
Winchester		High	Much	Modest	
Woburn		Low	Some	Balanced	

TABLE 11 (CONCL'D).--CLASSIFICATION OF COMMUNITIES IN THE BOSTON SMSA

	<u>Growth Rate</u>	<u>Median Family Income</u>	<u>Work Outside Town of Residence</u>	<u>Local Economic Base</u>	<u>Special Characteristics</u>
<u>Norfolk</u>					
Braintree	Low	Middle	Some	Balanced	Much industry and wholesale
Brookline		Middle	Much	Balanced	
Canton		Middle	Some	Balanced	
Cohasset		Middle	Some	Little	Resort
Dedham		Middle	Much	Balanced	
Dover		Very high	Complete	None	
Holbrook	High	Middle	Some	Little	Semirural
Medfield	High	Middle	Complete	None	
Milton		High	Much	Little	
Needham		High	Some	Balanced	Much wholesaling
Norfolk	Low	Low	Some	Little	Semirural
Norwood		Middle	Much	Balanced	
Quincy	High	Low	Some	Balanced	Much industry
Randolph		Middle	Some	Modest	
Sharon		Middle	Much	Little	
Walpole		Middle	Some	Balanced	Government institution
Wellesley		Very high	Some	Balanced	Much wholesaling
Westwood		High	Much	Modest	
Weymouth		Middle	Some	Modest	Government installation
<u>Plymouth</u>					
Duxbury	High	Low	Limited	None	Semirural; some resort
Hanover		Low	Limited	None	Semirural
Hingham		Middle	Some	Balanced	
Hull		Low	Some	Little	Some resort
Marshfield	Very high	Middle	Limited	None	Some resort
Norwell	Very high	Middle	Some	None	
Pembroke		Low	Limited	None	
Rockland		Low	Some	Modest	
Scituate	High	Middle	Some	Modest	Some resort
<u>Suffolk</u>					
Boston	Very low	Central City			
Chelsea	Very low	Low	Some	Balanced	Much industry
Revere	Low	Low	Some	Balanced	
Winthrop	Low	Middle	Much	Modest	

Very low < -1.00%  
 Low = -0.99 to 1.00%  
 High = 6.01 to 10.00%  
 Very high > 10.01%  
 Median = 3.2%

Source: See Appendix to Chapter II.

TABLE 12.--TAX BASE IN THE BOSTON SMSA

	1966 Taxable Property at Market Value Per Capita	1959 Median Family Income	1963			
			Retail Sales Per Capita	Wholesale Sales Per Capita	Selected Service Receipts Per Capita	Value Added in Manufacturing Per Capita
<u>Essex</u>						
Beverly	\$ 5,250	\$ 6,708	\$ 1,438	\$ 269	\$100	\$ 720
Danvers	5,290	7,018	1,371	538	129	1,488
Hamilton	4,960	6,886	0	0	0	0
Lynn	4,700	6,021	1,407	706	194	2,600
Lynnfield	7,540	9,413	302	0	0	0
Manchester	11,000	6,664	0	0	0	0
Marblehead	7,270	8,295	951	227	86	158
Middleton	4,230	6,270	0	0	0	0
Nahant	5,160	7,312	187	0	34	0
Peabody	5,030	6,749	2,456	1,702	143	1,266
Salem	5,000	5,970	2,009	2,531	209	1,442
Saugus	4,510	6,887	3,218	1,242	85	260
Swampscott	8,070	7,967	926	340	137	110
Topsfield	7,450	8,745	0	0	0	0
Wenham	7,700	7,671	0	0	0	0
<u>Middlesex</u>						
Arlington	5,410	7,538	879	362	104	92
Ashland	5,120	6,654	557	279	61	0
Bedford	8,040	7,893	1,191	271	600	0
Belmont	8,210	8,372	1,105	718	86	84
Burlington	6,050	7,446	1,112	2,542	493	0
Cambridge	5,170	5,923	2,209	4,568	494	2,231
Concord	7,570	8,538	1,545	414	502	0
Everett	9,670	5,983	736	530	73	1,485
Framingham	5,660	7,495	2,564	850	326	2,688
Lexington	5,850	9,043	1,115	1,369	244	727
Lincoln	10,300	8,841	0	0	0	0
Malden	3,660	6,194	1,279	948	187	846
Medford	3,970	6,693	1,569	1,068	174	329
Melrose	5,450	7,507	801	487	65	406
Natick	6,820	7,550	1,632	10,401	222	633
Newton	7,500	9,008	1,296	3,833	184	671
North Reading	5,360	7,005	0	0	0	0
Reading	5,660	7,801	898	339	83	669
Somerville	3,480	6,024	872	1,163	126	534
Stoneham	5,770	7,160	1,516	350	112	368
Sudbury	7,800	8,538	0	0	0	0
Wakefield	6,280	7,189	1,098	2,293	153	1,013
Waltham	6,200	6,804	1,894	4,379	394	4,097
Watertown	6,150	7,003	1,200	0	191	2,490
Wayland	7,800	9,363	674	0	66	0
Weston	9,510	13,703	0	0	0	0
Wilmington	5,750	6,708	1,347	873	57	0
Winchester	7,750	9,572	877	678	161	169
Woburn	5,000	6,650	1,442	1,390	97	1,222

TABLE 12 (CONCL'D).--TAX BASE IN THE BOSTON SMSA

	1966 Taxable Property at Market Value Per Capita	1959 Median Family Income	1963			
			Retail Sales Per Capita	Wholesale Sales Per Capita	Selected Service Receipts Per Capita	Value Added in Manufacturing Per Capita
<u>Norfolk</u>						
Braintree	\$6,810	\$7,474	\$21,250	\$1,802	\$183	\$1,106
Brookline	8,720	8,380	2,148	2,645	298	96
Canton	6,000	7,241	1,033	3,524	180	2,899
Cohasset	8,830	7,615	1,883	0	101	0
Dedham	7,640	7,216	1,902	8,411	281	1,195
Dover	8,380	12,256	0	0	0	0
Holbrook	4,200	6,903	696	0	90	0
Medfield	4,820	7,535	0	0	0	0
Milton	7,770	8,685	532	121	53	0
Needham	9,650	9,282	1,520	15,330	243	1,096
Norfolk	4,260	5,982	0	0	0	0
Norwood	5,730	7,309	2,340	1,466	139	1,866
Quincy	6,370	6,785	1,759	838	171	1,481
Randolph	4,550	6,860	1,012	579	88	721
Sharon	5,290	7,917	573	0	82	278
Walpole	6,600	7,117	1,097	919	74	1,703
Wellesley	9,900	11,748	2,033	6,327	253	178
Westwood	7,400	8,690	828	1,183	135	0
Weymouth	7,530	7,003	863	179	112	166
<u>Plymouth</u>						
Duxbury	9,890	6,452	0	0	0	0
Hanover	6,190	6,981	0	0	0	0
Hingham	6,270	8,115	1,892	0	136	343
Hull	6,200	6,318	871	0	168	0
Marshfield	7,630	6,897	0	0	0	0
Norwell	6,300	7,593	0	0	0	0
Penbroke	4,870	5,939	0	0	0	0
Rockland	4,080	6,273	1,179	385	57	930
Scituate	7,300	7,440	1,060	158	118	0
<u>Suffolk</u>						
Boston	4,050	5,747	1,778	6,217	612	1,337
Chelsea	2,840	5,298	1,442	3,796	111	1,448
Revere	4,680	5,917	1,315	2,669	276	1,034
Winthrop	4,420	6,573	550	245	76	37
SMSA Mean	6,385	7,504	1,028	1,374	146	706

Source: See Appendix to Chapter II.

TABLE 13.--LOCAL GOVERNMENT GENERAL EXPENDITURES IN  
BOSTON AND EIGHT OTHER METROPOLITAN AREAS

<u>Metropolitan Area</u>	<u>1965 Per Capita</u>	<u>1962-1965 Growth</u>	<u>1962 Per Capita</u>	<u>1957-1962 Growth</u>	<u>1957 Per Capita</u>
1. New York	\$425	19%	\$357 (1)	39%	\$258 (1)
2. San Francisco	402	21	333 (2)	47	227 (2)
3. Washington	342	11	308 (3)	66	185 (6)
4. Newark	309	14	270 (4)	38	197 (4)
5. Worcester	302 <sup>1/</sup>	20	251 (6)	52	166 (8)
6. Boston	279	9	255 (5)	25	203 (3)
7. Denver	266	6	251 (7)	34	187 (5)
8. Baltimore	254	2	250 (8)	40	179 (7)
9. St. Louis	207	11	187 (9)	39	135 (9)

Figure in parentheses is rank in per capita general expenditures.

<sup>1/</sup> Estimated by author.

Source: See Appendix to Chapter II.

TABLE 14.--LOCAL GOVERNMENT EXPENDITURES IN THE BOSTON SMSA

Category	1964-1965				Comparative Index <sup>1/</sup>
	SMSA		Central City		
	Per Capita	Percent of Total	Per Capita	Percent of Total	
General expenditure	\$279	100.0%	\$424	100.0%	1.52
Capital outlay	36	12.9	43	10.1	1.23
Education	97	34.7	75	17.7	0.77
Capital outlay	12	4.3	4	0.9	0.33
Highways	16	5.7	13	3.1	0.82
Welfare	42	15.0	89	21.0	2.12
Hospital and public health	17	6.1	42	9.9	2.48
Police	16	5.7	31	7.3	1.93
Fire protection	16	5.7	23	5.4	1.43
Sewerage	6	2.2	4	0.9	0.67
Sanitation	6	2.2	8	1.9	1.33
Parks and recreation	6	2.2	16	3.8	2.67
Housing and renewal	<sup>2/</sup>		29	6.8	-
Libraries	<sup>2/</sup>		7	1.6	-
General government	10	3.6	23	5.4	2.30
Interest	8	2.9	10	2.4	1.25
Other	40	14.3	55	13.0	2.28

<sup>1/</sup> Ratio of per capita data in central city to those for SMSA.

<sup>2/</sup> Included in "Other" for SMSA.

Source: See Appendix to Chapter II.

tax abatements. Concentrations of tax-exempt property are another problem in such cities as Boston and Chelsea.

A breakdown of the tax base by type of property is not available, but its composition is reflected in the other economic series which also indicate the nature of the local economic base.

Personal income is in a sense the ultimate measure of personal ability to pay as well as a crucial determinant of the demand for public services and an inverse index of certain needs. Although the variation is less than that in any other measure of the base, it is still relatively great compared to that in other metropolitan areas. It is important to consider personal income as it has a direct bearing on our evaluation of the fiscal situation in different communities. For example, Lexington which has a high median family income and a relatively low property base has less of a problem than Wilmington which has about the same property base but a far lower income; and Everett with a large industrial tax base but a low income has less difficulty than Norfolk which has the same income but less than half the property base. The worst problems, of course, are faced by those cities which are low by both measures, such as Boston, Chelsea and Somerville.

The various measures of the economic base need not be correlated with one another, i.e., a town which is wealthy by one measure may be poor by another. This is so both because towns may specialize in a particular type of activity and because wealth of one kind, e.g., commercial property, may be separated from related economic activities, e.g., the income and residential property of the commercial managers. The various measures of specific activity vary greatly within the area, depending on the specialty of a particular community. We find wholesaling at strategic points on the periphery, such as Needham, Dedham, and Natick and in the central city. Manufacturing is focused in industrial centers along Route 128 like Waltham and Framingham. The service industry is located in Boston and a few other cities. Retailing is the most dispersed, depending on local purchasing power as well as on the existence of shopping centers, such as Peabody, Saugus and Framingham. Looking at Boston itself, we find that it is still a manufacturing, wholesaling, and service center, but that it has lost ground in manufacturing and retailing. Despite recent improvements, it still ranks near the bottom in taxable property value, in part perhaps because of the presence of much untaxable land. As noted earlier, more than 60 percent of all real property in Boston is tax exempt.

#### Local Government Expenditures

General expenditures per capita in the Boston area lie about the national metropolitan average, the Boston area's previous lead having been narrowed by its less rapid growth (Table 13). Spending in Boston central city is far above that for the rest of the area, but substantial differences exist among the cities and towns (Tables 14 and 15). Two fundamentally different sets of reasons give rise to two different groups of governmental expenditure patterns. On the one hand, we find the central city and similar older, poorer communities which are confronted with massive welfare problems, exploding protection demands, and the need for renewal. On the other hand, the new smaller towns, usually at least moderately wealthy, are confronted with massive capital needs as well as demand for high quality public services, especially education. The central city-suburb dichotomy is merely one view of the contrasting patterns which exist in the metropolitan area. At the one extreme, the City of Boston spends far more per capita on welfare programs, public health and hospitals, police protection, parks and recreation, general government, and special functions, such as urban renewal. The suburbs spend absolutely more on education, highways, and sewerage--all having large components of capital outlay.

If we look in detail at the variations in spending patterns among the individual towns, we see that total outlays per capita vary far less than do those for any particular function, reflecting the stage of community growth or maturity, the diversity

TABLE 15.--INDIVIDUAL LOCAL GOVERNMENT  
EXPENDITURES IN THE BOSTON SMSA, 1962

	General Expenditures <u>Per Capita</u>	Percent Total Capital <u>Outlay</u>	Percent <u>Education</u>	Percent <u>Highway</u>	Percent <u>Welfare</u>	Percent Public Health and <u>Hospitals</u>	Percent <u>Protection</u>
<u>Essex</u>							
Beverly	\$210	7%	42%	10%	14%	2%	7%
Danvers	225	6	32	4	28	2	6
Hamilton	239	14	33	7	13	21	14
Lynn	238	14	30	7	18	3	14
Lynnfield	262	30	51	5	6	13	30
Manchester	203	16	56	11	10	0	16
Marblehead	222	34	65	10	5	0	34
Middleton	393	9	34	16	12	0	9
Nahant	250	18	40	7	6	12	18
Peabody	193	9	44	15	17	0	9
Salem	335	6	35	8	7	0	6
Saugus	178	5	55	7	9	3	5
Swampscott	254	7	45	9	7	3	7
Topsfield	445	12	52	18	5	0	12
Wenham	207	8	48	11	10	0	8
<u>Middlesex</u>							
Arlington	254	3	19	6	18	13	12
Ashland	253	9	29	4	17	1	14
Bedford	271	20	25	5	15	1	12
Belmont	221	13	39	5	14	1	15
Burlington	215	6	40	6	10	2	11
Cambridge	270	7	46	12	6	2	10
Concord	204	3	29	4	23	2	13
Everett	235	10	33	9	16	2	14
Framingham	296	38	59	6	8	1	6
Lexington	203	7	38	11	9	1	11
Lincoln	183	30	63	9	6	0	5
Malden	198	11	61	7	5	3	7
Medford	205	9	37	10	7	2	12
Melrose	322	32	63	11	4	1	8
Natick	277	4	56	7	4	1	11
Newton	292	28	55	8	6	1	9
North Reading	297	18	52	11	3	1	6
Reading	267	10	44	10	4	0	8
Somerville	221	7	53	7	7	1	13
Stoneham	215	54	69	7	7	0	6
Sudbury	203	4	47	16	10	1	12
Wakefield	201	10	41	7	10	1	12
Waltham	410	21	49	24	6	0	7
Watertown	191	11	46	11	12	1	10
Wayland	217	7	32	7	13	2	14
Weston	215	20	60	10	2	0	8
Wilmington	311	6	50	14	4	0	10
Winchester	251	20	60	9	8	1	9
Woburn	268	11	46	10	5	1	11



TABLE 15 (CONCL'D)--INDIVIDUAL LOCAL GOVERNMENT  
EXPENDITURES IN THE BOSTON SMSA, 1962

	<u>General Expenditures Per Capita</u>	<u>Percent Total Capital Outlay</u>	<u>Percent Education</u>	<u>Percent Highway</u>	<u>Percent Welfare</u>	<u>Percent Public Health and Hospitals</u>	<u>Percent Protection</u>
<u>Norfolk</u>							
Braintree	\$266	6	30	8	12	20	12
Brookline	230	14	57	4	7	2	10
Canton	310	12	29	8	10	2	17
Cohasset	260	24	53	6	8	1	8
Dedham	336	6	35	13	9	0	19
Dover	251	26	45	9	8	2	13
Holbrook	239	55	68	14	2	0	3
Medfield	176	9	50	14	13	1	8
Milton	266	38	59	13	7	0	7
Needham	201	7	40	8	5	2	14
Norfolk	340	20	54	4	3	10	9
Norwood	158	6	42	20	14	0	10
Quincy	199	10	49	9	7	2	12
Randolph	238	28	53	6	13	0	7
Sharon	252	15	63	13	3	1	6
Walpole	221	10	57	8	5	2	7
Wellesley	249	8	55	8	4	1	9
Westwood	254	10	52	9	3	1	9
Weymouth	265	25	49	6	9	2	9
<u>Plymouth</u>							
Duxbury	260	7	39	18	12	0	11
Hanover	243	7	45	12	17	0	6
Hingham	348	30	60	6	5	1	10
Hull	355	39	55	12	7	0	19
Marshfield	365	10	36	12	10	0	9
Norwell	232	45	69	8	6	0	4
Pembroke	293	9	45	15	12	0	8
Rockland	191	11	49	9	15	0	9
Scituate	348	24	58	9	6	1	12
<u>Suffolk</u>							
Boston	311	6	19	3	21	10	15
Chelsea	258	6	24	4	24	1	16
Revere	191	1	37	2	11	1	17
Winthrop	176	8	41	10	18	2	10
SMSA Mean	254						

Source: See Appendix to Chapter II.

of purposes for which the governments spend money, and the general revenue constraint which forces them to trade off among potential uses of funds, in line with their stage of growth.

Capital expenditures in general are highest in the rapidly growing areas, tending to lag somewhat behind the growth in population. The largest expenditures are for new schools, with highways and sewer construction making up the bulk of the remainder. Replacement costs in the stable or shrinking older communities tend to be deferred as long as possible because of more pressing current needs and limited funds, with occasional spurts to catch up. This is most visible in the antiquated school buildings of Boston and some of the surrounding old cities. The least variable of the important functions is, of course, education, for which the basic need is well defined and many of the basic standards are uniform. The burden on a town depends not only on the age structure of the population, but also on the degree to which pupils attend private or parochial schools. Education outlays are lowest in the central part of the SMSA and in some of the older outlying cities, and highest in the wealthy suburbs.

The collection of welfare programs constitute the next largest category of spending, and, in the case of Boston and some other hard-pressed cities, the largest one, ahead even of education. The obvious explanation for the wide variations in spending among communities is the concentration of the various recipient groups in particular parts of the metropolitan area due to economic and social pressures. Casual observation suggests, however, that variations in the performance of the welfare function can be substantial, even given the framework of state standards and supervision.

Highway spending also imposes a widely varying burden; in part this view is amplified by the uneven nature of capital outlays from one year to the next. This is reflected in the fact that the highest per capita expenditures are in isolated outlying suburbs, such as Sudbury, Sherborn, Topsfield, and Manchester, which are rapidly opening up to development. The level of spending generally decreases as we move toward the center, with the established, moderately older communities spending less, and hits bottom in Boston. Expenditures per mile of road obviously move in a reverse fashion, because the higher population density toward the center permits substantial economies on a per capita basis. Nonetheless, we cannot help observing the sorry state of most of the central area highway system.

Given the increasing public concern with the protection functions, particularly police, it is interesting to note the wide variations in spending for these purposes. Per capita outlays are highly correlated with population density, as a proxy for all the conditions which lead to a demand for increased protection. The exceptions are the coastal resort communities, which spend relatively large amounts given their modest populations. It should be noted that in the Boston SMSA, and in the central city particularly, spending for both types of protection is very high in comparison with similar communities elsewhere. The City of Boston spends 50 percent more per capita on fire protection than does New York City; at the other extreme, some of the towns spend virtually nothing for this purpose.

Recreational and park facilities receive most attention in the larger wealthy suburbs and in the City of Boston, with most other communities spending very little. Public hospitals exist in only 7 of the 76 towns and cities, with the remainder having tiny public health programs if anything. The hospital cities carry the burden for the whole area, in general being reimbursed for far less than the costs they incur in providing services. The vast majority of the SMSA's renewal and public housing activities are in the city of Boston, which for its size has one of the largest programs in the country.

### Sources of Local Revenue

The Boston SMSA leans more heavily on the property levy to finance local government outlays than do similar metropolitan areas across the United States, with the state providing a somewhat less than average share of general funds (Table 16). Much less use is made of user charges and fees or other types of taxes at the local level.

General revenues per capita in the city of Boston are almost 75 percent above those for the rest of the metropolitan area (Table 17). The City receives a larger share of its funds from both the state and federal governments than do the surrounding communities (Table 18). It relies even less on the use of charges and fees, and receives a smaller portion of its funds from the property tax. The debt picture is virtually identical, although individual communities in the outlying area have widely different debt burdens.

Looking at the detailed data for 1962, we note far greater variations among the towns of the metropolitan area as to the level of general revenues and the extent of outside financing. The use of nonproperty tax revenue sources displays a distinct discontinuity. The majority of towns get less than 7 percent of their local funds from such sources, but a small group receives over twenty percent. They are mostly outlying suburbs, such as Lynnfield, Burlington, Randolph, and Pembroke, which depend on fees for services and special assessments for some capital improvements.

### Fiscal Effort

Local revenue per capita is a crude measure of the fund-raising task undertaken by local governments, irrespective of their underlying financial ability to raise revenue. This measure varies in a fashion similar to that of general expenditures per capita, although it is far from perfectly correlated, as the role of outside funding differs among the towns.

In measuring effort, we must choose some index of ability against which to measure performance. The two we choose are local revenue as a percent of personal income received by the residents and the effective property tax rate, corrected for differences in assessments (Table 19). These measures are partial and ignore the issues of tax incidence, both categorical and geographic.

Reliance on the property tax source in the Boston area is unusually heavy and, not surprisingly, it has some of the highest effective rates in the country. Rates cover a range of almost four to one: from Everett, an industrial enclave, to Chelsea, a poor old stagnant city with much tax-exempt property. Effective rates vary less than property tax collections per capita, implying that towns with extremely large and small tax bases have low and high rates, respectively. For example, at the area average tax rate of \$34, Chelsea could have raised \$96.50 per capita, Watertown \$209, and Manchester \$374; their actual rates, respectively, were: \$75.50, \$30.90, and \$23.00.

The effect of a larger tax base is two-edged; it permits easier financing and may be associated with greater demand for high-quality services; on the other hand, it may be correlated with a lesser demand for other programs, such as welfare, public housing, and medical care. For the Boston area, a casual estimate would be that a town with twice the taxable capacity per capita of another would spend about 80 percent more, per capita (an expenditure elasticity of about 0.8). This means that the wealthier towns spend more on balance, other things being equal, but not in proportion to their wealth, so their effective tax rates tend to be lower. This fact is borne out by a fairly strong negative correlation between tax rates and taxable value per capita. The highest rates are to be found in the central city and in other old cities, such as Chelsea, Malden, and Somerville--all with true rates over \$50 per \$1,000. The lowest ones, in addition to Everett, are in the modest sized, fairly wealthy outlying suburbs like Duxbury, Manchester, and Wrentham.

TABLE 16.--SOURCES OF LOCAL GOVERNMENT REVENUES, 1962

Rank	SMSA	
	<u>Percent of General Revenue from State Aid</u>	
1	Baltimore	35.1%
2	San Francisco	28.8
3	BOSTON	26.4
4	Denver	24.8
5	New York	23.6
6	Worcester	23.4
7	St. Louis	15.2
8	Newark	12.3
9	Washington	10.7
	<u>Percent of Local Revenue from Property Tax</u>	
1	BOSTON	71.5
2	Newark	68.0
3	Worcester	60.2
4	St. Louis	50.6
5	Denver	50.6
6	San Francisco	48.5
7	New York	43.8
8	Baltimore	40.3
9	Washington	30.5
	<u>Percent of Local Revenue from Other Taxes (Sales, Income, Etc.)</u>	
1	Washington	20.7
2	New York	16.7
3	St. Louis	14.4
4	Denver	7.4
5	San Francisco	6.4
6	Newark	6.3
7	Baltimore	4.6
8	BOSTON	1.0
9	Worcester	0.7
	<u>Percent of Local Revenue from Charges</u>	
1	St. Louis	11.5
2	San Francisco	10.3
3	Worcester	10.1
4	New York	10.0
5	Washington	9.4
6	Denver	8.9
7	Baltimore	8.0
8	BOSTON	6.8
9	Newark	6.5

Source: See Appendix to Chapter II.

TABLE 17.--LOCAL GOVERNMENT SOURCES OF REVENUE IN THE BOSTON SMSA

Category	1964-1965			
	SMSA		Central City	
	Per Capita	Percent of Total	Per Capita	Percent of Total
General revenue	\$295	100.0%	\$433	100.0%
Aid	88	29.8	163	37.6
State	75	25.4	123	28.4
Federal	13	4.4	40	9.2
Own revenue	207	70.2	267	62.4
Property tax	177	60.0	230	53.2
Charges and miscellaneous	28	9.5	33	7.6
Other	2	0.7	4	1.6
Debt outstanding	321	100.0	303	100.0
Short term only	51	15.9	48	15.9

Source: See Appendix to Chapter II.

TABLE 18.--SOURCES OF REVENUE OF INDIVIDUAL LOCAL GOVERNMENTS  
IN THE BOSTON SMSA, 1962

	<u>General Revenue Per Capita</u>	<u>Outside Aid Per Capita</u>	<u>Property Taxes As Percent of Local Revenue</u>
<u>Essex</u>			
Beverly	\$212	\$47	94.3%
Danvers	230	78	92.4
Hamilton	230	52	81.5
Lynn	244	60	91.7
Lynnfield	211	38	74.7
Manchester	242	51	93.3
Marblehead	259	38	94.1
Middleton	417	76	85.1
Nahant	242	44	89.8
Peabody	193	35	95.0
Salem	217	43	92.8
Saugus	203	47	92.3
Swampscott	254	45	94.6
Topsfield	332	72	94.2
Wenham	250	53	94.5
<u>Middlesex</u>			
Arlington	259	61	87.4
Ashland	253	63	96.3
Bedford	245	71	91.7
Belmont	198	48	94.2
Burlington	238	44	77.1
Cambridge	283	45	92.5
Concord	202	58	95.6
Everett	218	50	91.4
Framingham	197	44	90.8
Lexington	210	39	93.9
Lincoln	216	51	93.0
Malden	223	48	91.2
Medford	208	37	95.2
Melrose	256	46	93.3
Natick	294	42	94.3
Newton	283	51	86.2
North Reading	296	46	93.2
Reading	296	98	95.5
Somerville	249	43	91.0
Stonham	246	60	91.0
Sudbury	218	42	87.1
Wakefield	204	41	94.2
Waltham	363	59	95.2
Watertown	212	48	88.3
Wayland	229	46	94.3
Weston	295	48	81.4
Wilmington	343	48	91.4
Winchester	226	48	91.0
Woburn	270	43	94.4

TABLE 18 (CONCL'D).--SOURCES OF REVENUE OF INDIVIDUAL LOCAL GOVERNMENTS  
IN THE BOSTON SMSA, 1962

	<u>General Revenue Per Capita</u>	<u>Outside Aid Per Capita</u>	<u>Property Taxes As Percent of Local Revenue</u>
<u>Norfolk</u>			
Braintree	\$283	\$54	74.5%
Brookline	233	47	88.8
Canton	290	64	92.2
Cohasset	250	56	93.2
Dedham	312	60	96.6
Dover	225	42	93.0
Holbrook	294	42	95.8
Medfield	198	43	92.7
Milton	193	42	81.3
Needham	227	37	94.0
Norfolk	315	40	81.7
Norwood	156	49	94.6
Quincy	212	40	94.9
Randolph	210	37	75.0
Sharon	248	42	92.3
Walpole	253	48	93.1
Wellesley	269	40	92.5
Westwood	262	36	92.3
Weymouth	234	54	94.3
<u>Plymouth</u>			
Duxbury	346	80	93.6
Hanover	217	36	94.4
Hingham	283	57	92.8
Hull	421	80	93.7
Marshfield	371	74	85.0
Norwell	250	52	77.7
Pembroke	253	55	79.5
Rockland	196	38	74.0
Scituate	326	56	93.7
<u>Suffolk</u>			
Boston	335	94	88.5
Chelsea	242	80	93.3
Revere	209	39	96.6
Winthrop	176	48	94.7
SMSA Mean	253	51	90.6

Source: See Appendix to Chapter II.

TABLE 19.--TAX EFFORT IN BOSTON SMSA

	1962 Effective Property Tax Rate	1962 Local Effort <sup>1/</sup>	1964 Effective Property Tax Rate	Percent 1964 Rate for Schools	1966 Effective Property Tax Rate
<u>Essex</u>					
Beverly	\$25.90	7.9%	\$30.00	39.1%	\$35.90
Danvers	24.50	7.9	32.40	40.7	28.00
Hamilton	33.40	9.0	35.50	66.5	34.80
Lynn	30.40	9.5	32.30	31.3	37.30
Lynnfield	25.90	9.0	28.60	46.8	28.00
Manchester	22.00	10.3	23.00	45.7	23.00
Marblehead	22.10	8.1	25.60	42.3	25.50
Middleton	36.10	10.3	41.40	63.3	45.50
Nahant	29.90	6.0	38.10	41.5	35.00
Peabody	21.10	9.8	24.40	38.1	34.70
Salem	31.00	8.6	35.10	27.3	38.70
Saugus	26.40	7.7	29.30	34.1	33.80
Swampscott	23.20	6.3	27.80	48.3	29.70
Topsfield	22.90	8.7	24.30	63.0	30.50
Wenham	24.50	6.9	26.90	61.3	24.20
<u>Middlesex</u>					
Arlington	29.00	8.8	31.60	39.5	33.10
Ashland	32.00	10.2	37.10	35.0	33.20
Bedford	30.30	8.9	32.90	29.5	29.50
Belmont	21.40	7.3	21.40	43.5	22.10
Burlington	29.50	7.9	32.00	49.5	37.90
Cambridge	39.50	6.7	39.50	27.6	44.90
Concord	38.00	7.9	34.50	58.0	37.80
Everett	18.90	8.5	19.10	34.6	21.00
Framingham	29.60	8.3	33.90	45.2	36.00
Lexington	37.00	6.9	35.90	68.5	43.60
Lincoln	29.60	9.2	25.80	49.0	28.90
Malden	44.00	8.4	45.90	31.4	52.80
Medford	38.20	5.2	42.70	38.7	44.70
Melrose	26.90	10.8	31.20	53.2	32.00
Natick	34.50	8.3	30.80	51.0	28.20
Newton	29.50	10.6	27.80	48.0	35.60
North Reading	30.90	8.9	39.50	54.2	36.00
Reading	27.20	7.4	30.40	44.1	29.00
Somerville	42.50	9.2	43.80	23.5	51.00
Stoneham	27.00	10.3	31.80	40.8	30.70
Sudbury	33.90	7.8	37.20	52.7	33.60
Wakefield	24.30	8.1	26.30	50.7	25.20
Waltham	25.80	9.8	28.30	33.5	31.40
Watertown	27.40	7.5	28.50	37.2	30.90
Wayland	33.40	8.3	34.10	51.3	33.20
Weston	27.50	8.3	26.90	57.0	30.60
Wilmington	34.50	9.0	38.00	34.2	37.00
Winchester	30.40	10.1	28.70	48.7	30.60
Woburn	33.10	6.5	35.00	45.2	36.30



TABLE 19 (CONCL'D).--TAX EFFORT IN BOSTON SMSA

	1962 Effective Property Tax Rate	1962 Local Effort <sup>1/</sup>	1964 Effective Property Tax Rate	Percent 1964 Rate for Schools	1966 Effective Property Tax Rate
<u>Norfolk</u>					
Braintree	\$28.80	10.6%	\$33.00	50.0%	\$26.80
Brookline	25.50	8.5	29.50	35.6	28.30
Canton	32.10	5.6	33.50	39.6	32.90
Cohasset	26.40	9.5	28.70	56.0	27.30
Dedham	20.90	8.2	22.10	50.3	23.90
Dover	20.50	8.0	23.10	63.5	28.30
Holbrook	34.60	6.9	36.00	44.5	32.50
Medfield	32.00	7.8	35.40	47.0	39.50
Milton	21.60	9.1	22.20	43.3	22.00
Needham	22.80	6.1	23.90	52.7	25.00
Norfolk	24.50	8.8	27.90	64.5	31.40
Norwood	25.10	7.4	27.50	44.5	27.00
Quincy	28.70	7.9	31.00	39.0	29.90
Randolph	32.30	10.6	41.70	40.6	39.80
Sharon	33.40	8.6	38.50	55.3	38.40
Walpole	27.00	10.3	28.90	70.0	27.80
Wellesley	20.80	5.8	23.70	58.0	25.10
Westwood	25.00	8.1	28.60	48.0	32.40
Weymouth	22.60	9.4	24.10	48.2	25.80
<u>Plymouth</u>					
Duxbury	22.80	8.4	21.80	34.0	22.20
Hanover	35.30	9.7	35.30	47.6	38.00
Hingham	33.00	8.3	35.70	48.0	37.40
Hull	40.20	12.6	44.00	36.7	42.70
Marshfield	44.40	11.1	45.80	38.5	40.00
Norwell	27.60	11.4	31.90	51.2	32.50
Pembroke	35.00	10.8	42.00	38.2	33.90
Rockland	35.00	9.1	42.00	39.7	39.00
Scituate	32.20	11.6	33.30	45.0	33.70
<u>Suffolk</u>					
Boston	61.40	12.4	61.40	25.3	60.90
Chelsea	70.50	9.8	81.40	30.2	75.50
Revere	39.50	9.3	37.80	35.7	45.90
Winthrop	32.60	4.5	29.40	46.7	30.10
Nean	30.60	8.7	32.85	45.2	34.04

<sup>1/</sup> Measured as locally raised government revenue as percent of personal income received by residents.

Source: See Appendix to Chapter II.

Looking just at the school tax rate, we find a similar range, with the average being 45 percent of the total local tax rate. Those towns in which the school tax rate is a large fraction of the total rate tend to be ones with a low overall rate and vice versa. This is true because in general the high tax rate towns are those which are relatively poor and are called on for many other services which compete with education for the limited funds available, whereas the low tax rate towns are relatively well-off and spend mainly on education. The difference is so large that the absolute school rate is actually lower in those cities which have a higher overall rate.

The personal income measure of local effort varies considerably less. This underscores the importance of family income as a determinant of local government spending. The picture of extreme behavior is somewhat different. Boston and other old cities still lie at the high end of the spectrum of locally raised revenue as a percent of personal income of residents, joined by some of the small outlying suburbs with large capital needs and currently fairly low family incomes, such as Hull, Norwell, and Pembroke. The lowest figures of revenue in relation to personal income are in the large wealthy balanced suburbs like Newton, Wellesley, and Winchester. A similar inverse correlation is observed between this measure and the level of family income, implying that the fiscal burden is relatively lighter in the high income communities despite their absolutely large per capita expenditures.

### Role of the State

The state has an impact on local fiscal patterns both through the provision of financial assistance and through direct assumption of service responsibilities, and this role in Massachusetts is now expanding. In general state aid in Massachusetts has been about the national average on a per capita basis and as a share of total revenues. In many cases, state aid slights the needs of poor towns and densely populated cities. The state has given much of its assistance in general form rather than ties to specific programs (Table 20). Direct participation has been relatively limited. The situation has changed radically in the past year with the passage of a state sales tax and an overhaul of the aid programs. Under a newly passed law, the state will take over responsibility for local welfare programs; the required means of financing has not yet been determined, however.

The impact of direct state activity is greatest in the highway program, with the major beneficiaries, in a relative sense, being the smaller outlying towns. State public health and hospital programs lessen local responsibility somewhat in those functions, but the needs are so great relative to existing programs that the remaining burden is substantial, falling primarily on a small handful of the larger cities, particularly Boston.

The big financial assistance programs in terms of funding are those for education, welfare, highways and the general distributions from state-collected taxes.

The major educational program is the so-called Chapter 70 aid which was revised with the passage of the sales tax and is still subject to change. The new formula provides a sliding share of acceptable education expenditures (excluding specifically aided functions and federal funds received) on a per-pupil basis (not merely public school). The sliding scale is cut off at 15 and 75 percent of expenditures, and the expenditure base is limited to between 80 and 110 percent of the statewide average of such expenditures. Eighty percent of the collections under the sales tax are used to finance this, and in case of a shortfall each town receives a pro rata share. An amendment was proposed to assure that each town received at least a 15 percent increase in aid over the existing program; this amendment was defeated and is being reoffered.

The formula is a substantial improvement over the old one, particularly in the substitution of up-to-date valuation figures for the antique ones previously in use,

TABLE 20.--RELATIVE FINANCIAL ROLE OF STATE AND LOCAL GOVERNMENT  
IN MASSACHUSETTS (ALL LOCAL GOVERNMENTS), 1962

Dollar Rank	Function	Total General Expenditures (millions)	Financed by Local Government	State Aid to Local Government	Spent Directly by State Government
1	Local education	\$483.7	\$406.3	\$ 77.4	-
2	Highways	248.2	83.7	8.3	\$157.0
3	Welfare	201.6	40.5	143.0	18.1
4	Hospitals	143.6	51.6	-	92.0
5	Police protection	74.9	68.9	-	6.0
6	Fire protection	70.2	70.2	-	-
7	Interest on debt	69.8	32.1	-	37.7
8	Housing and redevelopment	47.4	42.2	4.7	0.5
9	General construction	42.2	31.8	0.3	10.1
10	Higher education	33.6	0.3	-	33.3
11	Financial administration	33.4	18.0	-	15.4
12	Sewers	27.9	27.9	-	-
13	Correction	26.8	7.5	-	19.3
14	Sanitation	23.7	23.7	-	-
15	Parks and recreation	22.8	22.8	-	-
16	Health	22.4	10.9	0.3	11.2
17	Libraries	17.9	16.2	1.2	0.5
18	Unemployment administration	14.6	-	-	14.6
19	Public buildings	14.3	11.3	-	3.0
20	Other education	11.7	-	-	11.7
21	Airports	11.4	1.4	1.1	8.9
22	Natural resources	10.1	0.6	-	9.5
23	Seaports (water terminals)	7.9	0.1	-	7.8
24	Parking	3.1	3.1	-	-
	Other	119.5	75.3	-	44.2
	General aid	-	-	90.6	-
Total		1,783.0 <sup>1/</sup>	1,046.4	326.9	500.8

<sup>1/</sup> Adjusted to avoid double-counting.

Source: See Appendix to Chapter II.

but it still contains biases against the very poor towns, those which spend a great deal on education, and those where few children are in parochial school.

The school building assistance program has been one of the best run, but unfortunately was administered completely outside the Department of Education. It contains only a limited redistribution formula and is based on a rather restrictive set of standards. It did contain an incentive for regional school districts, which at the moment has been removed.

There are myriad other specific programs of varying importance. Transportation aid was set up so as to provide nothing to cities, although this is being altered. The school lunch program and payment of teacher pension contributions by the state are the two other large flows. The state has recently used its educational aid as a lever to obtain some measure of progress with the problems of racial segregation and imbalance.

Until the recent passage of the new law (not yet implemented), vesting direction of the welfare programs in the state, the welfare programs in Massachusetts were locally run and partially state subsidized. The poor cities tended to receive too little in relation to their needs, and standards varied across the state. The so-called Old Age Tax on meals was distributed to the towns, nominally to help finance programs for the aged.

The principal highway programs are Chapter 90, aid for small towns, and the special projects funds. All are biased against densely populated areas and those with high per mile costs.

The state has a diversity of housing assistance programs, now in the process of evolution, which should be a help to the hard pressed cities. In addition, there is a supplementary urban renewal and industrial redevelopment program.

The normal corporate income tax is partly distributed to the towns in repayment for a machinery excise tax abolished in 1935. The valuations of that year are still used as the basis for distribution, with obvious gross distortion. The old industrial centers do obviously benefit under this arrangement.

The balance of the normal income tax, after deduction of some of the education programs, has been distributed to the towns on the basis of their valuation, i.e., the wealthier the town, the more it got. The perversity of this distribution was enhanced by the fact that the valuation basis was a mixture of one from 1945 and one from 1963. From now on, all of the income tax is to be paid into a Local Aid Fund, from which regular programs will be financed. The balance will continue to be distributed as before still using the old valuations. This is in part to assure that the state does not again fall into the serious arrearage of the past few years when it surreptitiously "borrowed" some \$50 million from the towns by failing to pay aid which was due them.

All of the recent changes in the aid programs have been for the better, and all that can be said is that serious problems remain. The total amount of aid has been increased substantially and on balance it will be more equitably distributed. The impact of the changes has just been felt in the past fiscal year, so it is too early for definitive remarks. True tax rates have on the average increased very little as contrasted with an average growth of 4 percent per year previously. However, the same degree of disparity among towns in the Boston metropolitan area continues to exist. It would appear on balance that all the programs taken together do reduce somewhat the variations in local government revenue and expenditure which would exist in their absence, but this seems to be largely the effect of the welfare programs. If we look at simple per capita measures of locally raised revenue, the present programs actually increase the disparity slightly. We would have to conclude that the state programs do little to reduce disparities or to encourage interlocal cooperation.

## The Federal Role

It is extremely difficult to assess the federal impact in the Boston area, because of the rapid changes taking place. Federal aid received directly by the area rose from about \$8 million in 1962 to \$40 million in 1965, far above the average metropolitan area on a per capita basis. In addition to defense-impacted area aid, most of the earlier funds were for housing and renewal, obviously beneficial to the central city and old communities. Channeled through the state were the monies for the categorical welfare, school milk and lunch, vocational education, and educational equipment programs. Now the whole host of new federal programs for urban areas are becoming operative; perhaps most important are Medicare and the basic education aid programs.

Readily available evidence on established programs indicates a beneficial impact on the poorer cities and those with especially severe problems. Boston in particular has taken great advantage of the renewal and housing funds, and the area abounds with projects. The welfare and Medicare programs ease the burden of those functions, which has been unequally distributed. Educational funds are welcomed everywhere, and a substantial portion are finding their way to needy communities. The greatest difficulty lies with the smaller poor towns which lack the knowledge and expertise necessary to keep up with federal programs and take advantage of them. Boston, with about one quarter of the area's population, garnered almost two-thirds of the directly proffered aid funds in 1965. The impact of the highway program, and the relative paucity of money for transit, distorted transportation planning. There has been unusual lack of cooperation among the state and local governments with regard to planning in general. Poverty funds are finding their way into various agencies and activities, largely in Boston itself; the magnitude and persistence of the effects cannot yet be judged. Many of the undertakings involve ameliorating racial problems: obtaining housing for Negroes in all-white communities, for example, and bussing to the suburbs of Negro school children.

In summary, we might say that federal monies have generally gone for much needed purposes, but there has been little success thus far in encouraging metropolitan-wide approaches to problems. Although planning now abounds in many agencies with a differing geographic and functional scope, there is little enough cooperation among them with respect to planning, let alone actual undertakings.

## Intergovernmental Cooperation and Agreements

In the Metropolitan District Commission, the Boston area has one of the oldest independent special public service districts in the country. Its primary purposes are to provide water and sewer facilities to its member towns; it also provides some roads, police services, and recreational facilities. The District is a creature of the state, leads an independent existence from its member towns, and is in many instances unresponsive to their wishes. It is generally noted for efficiency of operations and also for extreme resistance to change, whether functional or geographic. The principal criticism is that it has not expanded to meet new challenges, nor has it been a leader in the metropolitan community. In 1962, it spent some \$32 million for the operation and construction of facilities; this was financed by user charges, such as water, rental of some facilities, and assessments levied by the state against the member towns. Within the scope of its activity the District has been an efficient provider of those services with obvious spillover effects, and has benefitted from substantial economies of scale. Its planning and management techniques have been praiseworthy, but uncoordinated with those of other bodies.

The Massachusetts Bay Transit Authority, formerly the Metropolitan Transit Authority (and before that the privately operated Boston Elevated Railway Company), technically administered by an independent Boston Metropolitan District, is responsible for public transit in the greater Boston area. Its history has been more colorful and less certain than that of the Metropolitan District Commission. Until recently, its authority was limited to a relatively small number of central communities which made up its

regular deficits and paid off outstanding debt through special assessments levied by the state. Its expanded membership more nearly corresponds to the area currently served, and that to be served when long dormant expansion plans are implemented. A massive master transportation plan has been drawn up, unfortunately not with the cooperation of the Department of Public Works, which calls for substantial, long overdue expansion and modernization of the system.

No other multi-member special public service district of consequence exists in the Boston area. There are state bodies, such as the Massachusetts Turnpike Authority, which operates the turnpike extension running into Boston; the Port Authority, a semi-commercial agency which operates certain port facilities in Boston; and some dependent town and city authorities, such as the Boston Parking Authority, which operates the municipal garages.

The other important instance of interlocal cooperation is found in the regional school districts, which operate seven academic and four vocational schools partly or wholly in the Boston metropolitan area. Expansion of this program was fostered by the School Building Assistance Committee through advice and the provision of added financial incentives. The schools are supported by the member communities out of their property taxes and state foundation aid receipts, with the burden usually apportioned on a per student basis. As would be expected, the academic regional schools, all high or junior high, are located in the smaller towns near the periphery of the area. The vocational ones are located closer to the center and cover a wider membership.

There are a limited number of interlocal agreements, more or less formal and operative, covering tuition-paying students, fire department cooperation, and garbage disposal; but the potential for cooperation is largely unexploited. Little use is made of fees or services charges as in a Lakewood-type plan, or of special assessments or capital projects with substantial spillover benefits. In particular, those cities which operate public hospitals are left paying an inordinately large share of the bills for non-residents, and private hospitals are universally left bearing some of the medical welfare burden. This situation will undoubtedly be improved through the operation of Medicare, particularly the Title XIX program, but sufficient data are not yet available to permit assessment of the situation.

The county system merits brief attention. These vestigial bodies provide mainly correctional institutions, some judicial functions, and a tuberculosis hospital. They are financed by property levies assessed by the state. Suffolk County no longer exists as an entity, having been absorbed by the City of Boston.

### The Future

The future of Boston Metropolitan Area communities can best be assessed in terms of community types and stages of development. As a particular entity moves through time from semirural village to distant suburban residence, to exploding suburb, to balanced city and beyond, it is confronted with many of the same challenges that others have faced before it and still others will confront in the future. Each has its own personality, and, more important, the state and federal environment in which it exists will change over time. Nonetheless, there are substantial similarities in the experiences of local government which permit us to make some educated guesses about the future. The most difficult prognosis is that for the central City of Boston, whose potential for economic viability will require drastic fiscal measures, at the metropolitan, state and national levels, to redress fiscal inequities.

The objective problems which are likely to confront each group of communities in the future are not hard to foretell from looking at towns which are just one step ahead in the development process at the moment. This process can be readily correlated with the expected outward shift of manufacturing and trade activity, and residence location, from central core cities, with the projected one-third increase in population and

employment in the Boston Metropolitan Area over the next quarter century. What is needed is the more effective mobilization of resources, which means getting substantially more active cooperation among local governments, plus greater aid from the state and federal government.

The general disparities in expenditures are not likely to change radically. Newly developing communities will be faced with a rapid growth from their old levels of spending; presently growing ones will mature, and some will grow old. There may be some lessening of disparities in particular functions due to the availability of increased aid funds, as in education. Increased awareness of what is going on elsewhere and greater demands for services may also play a role. Uniform state and federal standards may have some effect. But it should be noted that the City of New York, which is in some sense the paragon in local government finance, continues to increase its total spending by six percent every year, with its various surrounding governments following through their stages of development, and overall disparities there have not diminished.

As economic growth spreads across the area, and households shift to higher income levels, there may be some lessening of disparities. The changing, upgraded economic structure of the area has involved a process of economic integration, but community specialization is likely to persist. As long as the area is fragmented into isolated government decision-making units, some will be rich and some poor no matter what policies are followed.

The increased flow of aid and its conscious direction may, however, lessen the variations observed in the local tax burden, although such movement is not yet apparent. Particularly the state aid programs need revision in the distribution formulae, and ways must be found to cut through federal red tape to make it easier for poor, small towns to get assistance and to assure opportunities for experimentation rather than conformity to narrow standards. It will take active participation by the state, and perhaps federal authorities, to improve the local revenue structure. Every effort should be made to assure uniform, full-value assessing of property on a regular basis. Special exemptions should be eliminated in favor of outright subsidies or grants where the purpose is deemed worthy. Towns should be strongly encouraged to make far greater use of user charges and special assessments both for the added revenue they will generate and to assure a more equitable distribution of the burden to those who benefit from specific government activities. These charges should be based on actual costs and kept up to date. This applies both to direct dealings with citizens and those cases where services are provided to another local government.

The judicial system and correctional institutions now operated by the counties should be transferred to the state and the county governments abolished. The state should assure, in conjunction with the appropriate federal activities, that no town or city bears an undue burden of medical welfare expenses and that the financing is spread over the area benefiting from the presence of the institution. The state should bring appropriate pressures to bear to increase the membership of the Metropolitan District Commission, to bring about greater cooperation with appropriate jurisdictions, and make it more responsive to the needs of its members. Similarly, the Massachusetts Bay Transit Authority should be encouraged to move forward, and some substantial measure of cooperation brought about with the Department of Public Works on comprehensive transportation planning.

The state must actively promote both effective planning and actual operations on a wider-than-single-town basis. In one case, this may mean two towns cooperating on garbage disposal, in another, an area-wide pollution control district. This may mean merely contractual arrangements, joint sponsorship, a new intermediate-level government unit, or, given the compactness of the state, direct supervision by the state itself. There are further opportunities for regional schools, particularly for provision of special education, and, for some goals, region-wide cooperation is necessary. Specialized police and fire services might be regionally provided. Garbage and sewage disposal

demand regional action. Transportation of all kinds must be coordinated among the local governments in the region.

At a higher level the federal government will inevitably be involved with many of the same issues. Given its distance from the details of the particular situation, its role will be more that of funding rather than intervening, but it must still provide guidance. In particular, it must press for a regional and metropolitan area approach to problems.

## APPENDIX TO CHAPTER II

### Data Sources for Tables 11 through 20

U.S. Census Bureau, 1962 Census of Governments.

\_\_\_\_\_, City Government Finances, 1964-65.

\_\_\_\_\_, Local Government Finances in Selected Metropolitan Areas, 1964-65.

\_\_\_\_\_, 1960 Census of Population.

\_\_\_\_\_, 1963 Census of Business.

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### III. FACTORS AFFECTING INTERGOVERNMENTAL DISPARITIES, THEIR PROSPECTS, AND POTENTIAL LINES FOR REMEDIAL ACTION

The intercommunity fiscal disparities of the Boston Metropolitan Area, analyzed above, reflect conflicting roles of aggravation and amelioration by the various levels of government--state, regional, local, federal. Without drastic remedial action, these factors are likely to remain operative in the context of expected growth in Boston Metropolitan Area population and employment.



At the state level, the various revenue sharing formulae contribute to the fiscal capacity of cities and towns, but the formulae for distribution tend to aggravate disparities and provide insufficient aid to the poorer, older communities. The state distribution of income and sales tax proceeds, determined by the population and property tax base, favors the wealthier communities. School aid is biased against Boston central city, despite its needs, because of its smaller proportion of school age population. The state-imposed debt limit for communities, geared to the property tax base, limits the financing capacity of the older, poorer communities. State highway aid favors rural communities. State law encourages the consolidation of rural school districts. Massachusetts has pioneered in open-occupancy legislation for housing, but the Roxbury ghetto has not been changed.

Regional agencies for the provision of public services have been limited in their scope of operations, but represent a beginning in regional planning. The jurisdiction of the Metropolitan District Commission, covering 47 cities and towns, is insufficient for today's Boston Metropolitan Area with its 78 cities and towns. Its financing formula puts a burden on the central core communities. The Massachusetts Bay Transportation Authority traditional deficit is borne largely by the 14 core communities, out of the 78 cities and towns served. This public transit agency is an inadequate substitute for the full transportation planning needed.

Local government policies are a principal source of aggravation of intergovernmental disparities. With property taxes the principal source of local government revenue, cities and towns engage in a tug of war to capture commercial and industrial enterprises. Braintree, for example, in the space of eight years, has increased its tax base by \$13 million largely by encouraging companies to move out of Boston and other core communities. Large lot zoning in some suburban communities limits the mobility of low income core community families. Urban development funds have not been used to limit disparities.

Some aspects of federal government policy aggravate inter-community disparities and negate efforts at regional planning. The federal government, for the most part, deals with individual communities rather than metropolitan or regional planning agencies --as in the case of housing. Federal government activities in housing disfavor mortgage insurance for central core communities, encouraging suburban growth.

Property tax exemption for government, religious and other nonprofit institutions works against the tax base of Boston central city, which houses a disproportionate share of these institutions by virtue of history, central city function, and the location of charitable institutions to service poor families which live in central city.

Very substantial expansion of federal and state aid, and effective regional and metropolitan planning, would be needed to offset these causes of intercommunity fiscal disparities. State or regional control over suburban land use would help, but this is hardly likely with the tradition of local government autonomy. New sources of revenue and new methods for their distribution would be required.

Remedial actions might include modification of the local power of zoning, changes in tax legislation and methods of revenue distribution, and a more rapid build-up of functions and resources for existing and new regional planning agencies. The most important remedial action, however, would be expanded aid by the federal and state governments, on a general basis as well as tied in with specific programs which bulk large in the older core community expenditure budgets.

Fiscal Disparities in the  
BUFFALO, NEW YORK  
Metropolitan Area

Excerpts from a Report by  
Seymour Sacks  
Syracuse University, Syracuse

<u>Major Fiscal Disparities, 1965</u>	<u>Central City</u>	<u>Outside Central City</u>
Per capita State and Federal aid	\$ 94	\$123
Per capita revenue from taxes	170	179
Per capita educational expenditure	74	157
Per capita noneducational expenditure	219	166
Total estimated population, 1964 (thousands)	505	813

In New York State half of the residents outside New York City live in unincorporated areas, served by a maze of special districts that perform vast numbers of functions, thus relieving the pressure found elsewhere in the United States to incorporate municipalities.

The two-county Buffalo SMSA is, accordingly, extremely complex. It is divided into the central city and a number of smaller cities or towns. The latter, in turn, contain both incorporated villages and unincorporated areas. Services can be provided to the unincorporated areas by county government, county special district, town government, town special district, a school district or other special authority.

Although Buffalo suffered a sharp decline in manufacturing employment and retail sales, it resembles its surrounding areas in many ways. Indeed, there are greater disparities in tax rates and income levels, for example, among the communities outside the central city than between Buffalo and its outskirts. The recipients of the greatest State aid to education are the poor rural communities; and the central city, despite its concentration of lower income citizens, receives almost as little aid, per pupil, as the wealthy suburbs.

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Conclusion

. . . Substantive governmental organization in the United States is basically established by the State, but there is the additional possibility that it may be modified by such local governments as the county or the town. In the Buffalo area intercounty differences in the number of functions, and the county distribution of county collected tax revenues both intensify and mitigate observed disparities.

In the Buffalo area it was shown that apart from the central city, most of the population lives in, and most of the recent growth has taken place in, unincorporated areas. This means that a restriction of the analysis to municipally governed areas would exclude a considerable portion of the population and would be misleading. Further, the principal differences are not among municipalities, but among these areas which, for the purposes of the analysis, were called the "town outside the village." Moreover, it is in this context that the great development of special districts has occurred, and where there is a multiplicity of overlying governments, each with its own characteristics--social, economic and fiscal, i.e., tax base and tax effort--which give rise to the observed disparities. The school districts, assuming that the dependent Buffalo school district can be treated in the same manner as the other such districts, are independent and not usually coterminous with town, village or even county boundaries.

In terms of the traditional and substantive governmental organization, the two-county Buffalo SMSA contains none of the dramatic contrasts in social or economic characteristics evident in other metropolitan areas. Further, it should be noted that these do not even emerge on an individual census tract basis. Only two census tracts had median family incomes over \$10,000 in the entire metropolitan area, these being \$11,550 and \$11,792, both in the unincorporated portion of the town of Amherst. The basic picture is thus one of homogeneity throughout the entire area. Differences exist, of course, but they are not striking except for the factors of racial makeup of population and age of housing stock, in both of which the central city differs considerably from its environs.

The pertinent questions are: "Which governments are responsible for the performance of the various functions? Which are responsible for their financing?" Thus, it is quite evident that the system of state aid and the county distribution of sales tax revenues have had a profound effect on the jurisdictions located in the Erie County portion of the Buffalo Standard Metropolitan Statistical Area. They operate in a manner which, one might say, is equitable to suburban and rural portions of the area. The poorer jurisdictions receive relatively greater amounts from the state in general and from the county than do their richer suburban neighbors. The exceptions are generally explained by special circumstances.

The basic problem emerges from the comparison of the suburban and rural portions of the metropolitan area to the central city. Here, a series of factors operate which make the overall working of the system much more questionable. First, it should be noted that Buffalo and other incorporated areas operate under a very restrictive set of tax and debt limits. This is especially true of the City of Buffalo. The suburban areas appear to have a system which makes their tax base accessible. This is evident by the ability of the unincorporated areas to provide local government services. The special district operates to make the demand effective. A similar situation exists in the case of education. The state aid formula has been kind to the suburban areas in which there have been inordinately high transportation costs caused by state-induced centralization. In quantitative terms, up to the present there is no major recognition of the special problems of the central city. The introduction of a "density correction" has had a minor effect on the relative share of aid received by the City of Buffalo.

The discussion of education is, of course, central to the problem not only of poverty, but of local government finances. The City of Buffalo may eventually undertake an artificial division of its school district as was done in New York City on a county basis. Further, it appears that a more accessible and responsive tax base, such as income, might help the central city. This has been suggested by members of the community as well as by others.

As is quite evident, not only does Buffalo appear on the low end of the spectrum in its per capita standardized valuation, but it appears to have a concentration of the poor and disadvantaged. The concentration of the disadvantaged has been accompanied by recent declines in its tax base. Only the sharp decline in population has improved its per capita base, but that is one of the poorest ways of solving the problem. State legislation withdrawing railroad properties from the tax rolls has played a major role in these declines. These factors place intense pressure on the city government which, in the case of Buffalo, also supports the schools. This pressure is reflected by the fact that the city has been very close to its tax limit, while providing the lowest cost of education of any of the school districts providing education in the Buffalo Standard Metropolitan Statistical Area.

Improved economic activity during the last few years has not enabled the City of Buffalo to provide more adequate services to its enlarged disadvantaged population, Negro and otherwise. The clue to the problem is in the inaccessibility of the central city to resources, as well as the depression oriented approach to local government finances. In the case of the City of Buffalo, 68 percent of its property tax goes to noneducational purposes. In no other case in the SMSA is the amount equal to 50 percent of the property tax and in many cases the figures are less than 30 percent.

The move to suburbia has been subsidized by the national government, which has underwritten the insured housing loans; by the State; and to a varying extent by the county government in their provision of a basic highway network which makes the various portions of the outlying area accessible to other areas, as well as to the central city.

In New York the State aid program has provided resources for the building and operation of that most important sector of the local public economy, elementary and secondary education. The New York State system is adequate in mitigating disparities in resources and needs outside the central cities. It might, in fact, be more than adequate.

All told, the prognosis is relatively bright for most of the Buffalo area. The exceptions existing outside the cities can be dealt with from local resources supplemented by the existing system of state aid and, in Erie County, by the distribution of the county sales tax. Even changes in functional responsibility, such as police, from the localities to the county would not place an undue burden on the inhabitants of the outlying areas. Individual area problems will continue to be solved on the basis of local initiative and ingenuity.

No such prognosis is possible for the City of Buffalo. The decline in population has not been associated with any decline in local demands; in fact it has been associated with an increase, most dramatically in education, where public school enrollment rose significantly. Further, the pressures on local salary levels will continue to be very clear-cut in the City of Buffalo. More imaginative approaches than have characterized the past will have to be undertaken. But these must clearly involve the state government, and for Buffalo as well as other major cities, the Federal Government.

Fiscal Disparities in the  
 PATERSON-CLIFTON-PASSAIC AND JERSEY CITY, NEW JERSEY  
 Metropolitan Area

Excerpts from a Report by  
 Morris Beck  
 Rutgers University, Newark

<u>Major Fiscal Disparities, 1965*</u>	<u>Central City</u>	<u>Outside Central City</u>
Per capita State and Federal aid	\$ 38	\$ 24
Per capita revenue from taxes	177	185
Per capita educational expenditure	76	101
Per capita noneducational expenditure	152	108
Total estimated population, 1964 (thousands)	283	988

These two New Jersey metropolitan areas lie across the very midpoint of the coming Boston-to-Washington megalopolis. Densely settled, a haven for immigration from the south as well as abroad, they exhibit the classic patterns of city-suburb disparities. Because the State shares very little responsibility for financing public services, the burden of public welfare falls with unusual severity on the municipalities, and inside and outside the central cities are some of the highest effective property tax rates in the nation: In the central city of Jersey City the rate on real estate for 1967 was 5.35 percent of full value; in Hoboken, also in the Jersey City SMSA, the rate was 8.07 percent!

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\* Paterson-Clifton-Passaic only; data are not available for Jersey City.

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## The Setting

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### The State-local-fiscal system of New Jersey

. . . Attention is directed to those features of the New Jersey fiscal structure which aggravate the disparities within metropolitan areas: heavy emphasis on local, rather than state level, financing of public services; the preeminence of property taxation at the local level, combined with unwillingness to permit cities to levy nonproperty taxes; the failure, prior to 1966, to employ a broad based revenue source at the state level of government; and the relatively low level of state aid to local government.

A few statistics will illustrate the problem. In 1964-65 the state government's share of state and local taxes was 29.9 percent--lowest among the 50 states. In the average state the share was 50.7 percent. The property tax component of New Jersey general revenue in 1964-65 was second only to Nebraska's, and has often in recent years been highest in the nation. In 1962 state aid accounted for 13.1 percent of local expenditures in New Jersey--less than half the nationwide average of 27.3 percent.

Has the fiscal outlook in New Jersey been significantly altered by the general sales tax adopted in 1966? Because of numerous exemptions to the sales tax base, the first year's yield of the sales tax will add a mere 10 percent to the combined state-local tax collections and somewhat less to total general revenue. Coming 30 years after the first attempt to enact a sales tax and on top of a huge backlog of deferred demand, the sales tax as presently constituted in New Jersey is not likely to solve the fiscal problems of state or local government.

. . . . .

Because New Jersey assigns to local government the major responsibility for financing public services, the tax differential between jurisdictions in a given metropolitan area is often severe. For example, the 1967 tax rate on real property in the City of Newark is estimated at 6.62 percent; in the rest of the Newark SMSA the rate will average 3.25 percent.

The concentration of welfare costs produces still another disparity. Public welfare expenditures in 1965 amounted to \$82.37 per capita in the City of Newark, and \$10.25 per capita outside the City (but within the three-county Newark SMSA). These figures include both "categorical aid," administered by county welfare boards, and "general assistance" which is administered by municipal agencies. For needy families not eligible for categorical aid, Newark spent, in 1965, \$16.21 per capita; the comparable outlay in the rest of the Newark SMSA was \$1.33, in the Paterson-Clifton-Passaic SMSA--73¢, and in all New Jersey municipalities--\$2.26.

### Fiscal Disparities in the Jersey City SMSA

. . . The Jersey City SMSA is densely populated throughout its 44-square mile area. Nearly all of its governmental jurisdictions face the fiscal problems characteristic of central cities. In 1965 Jersey City had an effective real property tax rate of 4.84 percent; outside the central city the rate averaged 3.99 percent, but it was significantly higher in three of the eleven "outside" municipalities:

Hoboken	6.75%
Union City	6.27
West New York	5.00



Outside the central city Hoboken, with \$2,121 worth of taxable property per capita, was poorest in fiscal resources and Secaucus stood first with \$10,249 of taxable property per capita, nearly all of it in real estate. The latter was the only municipality in Hudson County to experience substantial population growth since 1950.

#### Property tax rates in Hudson County

The Jersey City SMSA has some of the highest property tax rates in the country. For the entire SMSA the 1967 rate on real property will average 4.00 percent (arithmetic mean of effective rates in the 12 taxing jurisdictions). The central city rate (5.35%) is significantly higher than the average rate outside the central city (3.88%), but below that of Hoboken (8.07%) and Union City (5.85%). The effective rate falls below 3.00 percent in only three municipalities: Secaucus (2.50%), Kearny (2.38%), and Harrison (2.27%).

The fiscal pattern of the Jersey City SMSA is much like that of other SMSA's in New Jersey and around the nation. Its central city has higher expenditure requirements and a smaller tax base, relative to population, than the outlying portion of the SMSA. As a consequence, the central city tax rate (5.35% in 1967) is about a third higher than the OCC (outside central city) average rate of 3.88 percent.

The overall pattern, however, conceals some important divergences:

a. Compared with the central city, Hoboken has far more serious fiscal problems. On a per capita basis Hoboken is faced with large service requirements and a meager tax base. Only half of its dwelling units, compared with 75 percent in Jersey City, were rated "sound" in 1960. Its per capita expenditures for general assistance, financed mainly from municipal resources, are nearly four times as high as Jersey City's. Hoboken's tax rate in 1967, after equalization by the County Tax Board, will exceed 8 percent of estimated market value.

b. At the other extreme, Harrison and Kearny will enjoy 1967 tax rates of less than 3 percent mainly because of relatively low service requirements and a large industrial tax base. Secaucus, the only other low tax municipality, has a relatively small industrial component but receives a large contribution from owners of vacant land which accounts for more than a third of the tax base.

c. Finally, two of the high-tax municipalities--Union City and West New York--happen also to have the smallest industrial and largest apartment (more than four families) components of the 1965 tax base in Hudson County.

#### Fiscal Disparities in the Paterson- Clifton-Passaic SMSA

If the Jersey City SMSA is an anomaly among metropolitan areas, the Paterson-Clifton-Passaic (hereafter P-C-P) SMSA may be characterized as an enigma bearing only a superficial resemblance to the conventional SMSA. To illustrate:

1) Clifton, part of the central-city cluster, has all the earmarks of a low tax, rapid growth suburb and none of the problems of a blighted, struggling urban center. Geography alone--a tiny section of Clifton provides a link between Paterson and Passaic--can account for the designation of Clifton as a central city.

2) Few residents of Bergen County--the SMSA's outlying county--regard the Paterson complex as their center for social and economic activity. Less than a tenth of Bergen County's labor force works in Passaic County, but nearly a fourth of its workers find employment in New York, mainly in Manhattan. Bergen's economic and cultural ties to New York City are often cited as a major reason for that county's failure to support New Jersey programs which have a statewide, rather than local, impact.

In spite of these deviations from the SMSA norm, the pattern of fiscal disparities is approximately the same as in other SMSA's:

- 1) The central city property tax base (per capita) is considerably smaller than in the SMSA Ring;\*
- 2) Effective tax rates in the Ring are significantly lower than in the SMSA Core, despite the distortion caused by Clifton.
- 3) Per capita outlays for municipal functions (not including school district or county programs) are somewhat higher in the central cities than in the Ring. The expenditure pattern is reversed, however, when school and county expenditures are combined with municipal outlays.
- 4) Welfare expenditures are concentrated in the central cities of Paterson and Passaic, but the cost of welfare programs in the P-C-P SMSA is well below the per capita outlay in other SMSA's of Northern New Jersey.

. . . . .

Among the central cities Clifton had a tax base in 1965 of nearly \$8,000 per capita, against Paterson's \$3,945 and Passaic's \$4,823. Industrial property, which accounts for more than a sixth of Clifton's ratables, is an important part of the explanation for that city's favorable tax position; however, Clifton's residential property, predominantly owner-occupied, is also far more valuable than that of Paterson or Passaic.

Teterboro, with \$70 million of ratables (full value) and a resident population of 20 people (estimate for 1966) is a nationally known industrial enclave enjoying a property tax rate (effective) of less than 1 percent. The above list suggests that the Ring of the P-C-P SMSA contains a substantial number of tax havens, but more about this matter after we examine the Area's pattern of tax rates.

#### Expenditure variations

In 1965 per capita expenditure for local government services in the P-C-P SMSA amounted to \$246. The central city average was \$223 and in the Ring expenditures amounted to \$252 per capita.

Expenditures for public welfare in the central cities are significantly higher than in the Ring. In 1965, when the outlay for welfare amounted to \$9.30 in the entire SMSA, the central city outlay was \$33.80. In the Ring welfare expenditure amounted to \$2.42 per capita. Most of the funds for the financing of welfare programs come from nonmunicipal sources, but there is always a residual burden on property owners in the two central cities of Paterson and Passaic, because of the extreme concentration of welfare cases in those two cities.

Only 8 percent of families in the P-C-P SMSA, compared with 13 percent in Jersey City SMSA, had incomes below \$3,000 in 1959. Percentages in the three central cities are shown below:

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\* The 279 municipalities in Northeastern New Jersey may be combined into three sectors based mainly on population density: the Core--consisting of 70 major cities and older suburbs, characterized by high population density; the Inner Ring--consisting of 160 medium density municipalities; and the Outer Ring--containing 49 low density, undeveloped communities.

	Percent of Families With 1959 Incomes Below \$3,000
Paterson	18.4%
Clifton	7.3
Passaic	15.4

The income data confirm the point made previously, in connection with tax-base statistics, that Clifton is a relatively affluent community despite its designation as a central city.

#### Summary and policy implications

In both of the SMSA's covered by this report, the 1967 rate is significantly higher in the central cities than in the Ring of the SMSA. Moreover, the gap has increased sharply in the past year, as the following data indicate:

	Effective Tax Rate on Real Property	
	<u>1966</u>	<u>1967</u>
Jersey City SMSA		
Central city	4.95%	5.35%
Outside central city	4.04	3.88
Ratio of CC to OCC	123	138
P-C-P SMSA		
Central cities	3.02%	3.46%
Paterson	3.76	4.34
Clifton	1.90	2.46
Passaic	3.39	3.58
Outside central cities	2.43	2.53
Ratio of CC to OCC	124	137

The major cities of New Jersey have long been a haven for immigrants from the rural South, as well as from abroad. Acculturation of newcomers presented no financial problems to city governments so long as fiscal resources remained adequate. The evidence is overwhelming, however, that these resources are not expanding in proportion to the demand for governmental services. The situation is particularly acute in New Jersey because "home rule" (local responsibility for financing public services) continues to dominate fiscal policy. The sales tax adopted in 1966 has not materially altered this pattern.

A partial solution to the central city problem would be the transfer of the welfare function to the State government. Cities bear the brunt of "general assistance" costs and contribute to county governments a pro rata share of expenses for categorical assistance.

General purpose grants based on the height of the property tax rate would also alleviate the disparity between high tax cities and the low tax communities of the SMSA Ring. Although state grants to school districts are inversely proportional to taxable wealth per pupil, the formula is less helpful to the cities than to suburban school districts where the ratio of enrollment to population is relatively high.

FISCAL DISPARITIES IN NEW JERSEY SMSA'S

	Tax Rate <sup>a</sup>		Per Capita Tax Base, 1965 <sup>b</sup>		Per Capita Expenditures 1964-1965	
	1967	1965	All	Real	All	All
			Taxable Property	Taxable Property	Functions	Except Education
<u>Jersey City</u>						
Central city	5.35%	4.84%	\$3,369	\$3,035	\$324	\$231
Outside central city	3.85	3.99	4,630	4,355	279	195
<u>Newark</u>						
Central city	6.62	5.53	3,964	3,551	413	299
Outside central city	3.25	3.14	6,787	6,555	280	145
<u>Paterson-Clifton-Passaic</u>						
Central city	3.46	3.15	5,334	4,871	244	152
Outside central city	2.53	2.49	7,665	7,386	226	108

Notes: a. Effective tax rate on all real property.

b. Property tax base in 1965 consisted of equalized valuation of real property, fractional values of business personal property, and assessed valuation of Class II railroad property.

Source: N.J. Division of Taxation and Division of Local Government--Annual Reports, U.S. Census Bureau and ACIR tables.

Fiscal Disparities in the  
ATLANTA, GEORGIA  
Metropolitan Area

Excerpts from a Report by  
Richard M. Forbes and Carl J. Tschappatt\*  
Georgia State College, Atlanta

<u>Major Fiscal Disparities, 1965</u>	<u>Central City</u>	<u>Outside Central City</u>
Per capita State and Federal aid	\$ 53	\$ 63
Per capita revenue from taxes	128	89
Per capita educational expenditure	69	100
Per capita noneducational expenditure	227	114
Total estimated population, 1964 (thousands)	535	626

This southern city is also the State capital of Georgia, but even reapportionment has not brought much aid or understanding of its problems from the State legislature. Rural-dominated, at least until lately, the legislature is accustomed to dealing with the problems of municipalities by ad hoc special legislation. Attitudes on racial distribution, typical of the South, have heightened resistance to regional treatment of the problems of urbanization.

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\* Under subcontract with the Atlanta Region Planning Commission.

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General Description of the Atlanta SMSA

The Atlanta SMSA is composed of 5 counties, 44 municipalities, and 9 school districts. The City of Atlanta, with a 1966 population of 499,000, contains more than 40 percent of the SMSA population of 1,211,000. Other municipalities range in size from 40,724 people in East Point to 96 in Chattahoochee Plantation. Atlanta lies in Fulton and DeKalb Counties, Fulton being the SMSA's central county. The following table reflects the extent of urbanization in the five counties.

CITIES IN THE FIVE COUNTIES OF THE  
ATLANTA STANDARD METROPOLITAN STATISTICAL AREA,  
APRIL 1966

County	Incorporated Area Population		Number of Cities Having a Population		
	Number	Percent of Total	Under 5,000	5,000- 10,000	Over 10,000
Clayton	37,475	50.8%	5	-	1
Cobb	56,339	32.0	5	-	2
DeKalb	90,289	27.2	5	2	2*
Fulton	535,749	90.2	6	1	3
Gwinnett	17,319	32.2	13	-	-
Metro Area	731,169	60.4	34	3	7

\*One of these 2 cities is the DeKalb County portion of the city of Atlanta.

Source: Atlanta Region Metropolitan Planning Commission, Population and Housing, 1966, pp. 12-15.

More than 60 percent of the metropolitan area population lives in incorporated places, although a majority of the people in Clayton, Cobb and Gwinnett Counties lives outside municipalities. Approximately 75 percent of the cities in the SMSA have a population of fewer than 10,000 people, and nearly two-thirds contain fewer than 2,500 people. Fulton and DeKalb Counties are urban in nature; Clayton, Cobb and Gwinnett are substantially rural.

The Atlanta SMSA contains more than 1,700 square miles, nearly 400 square miles of which contain urban development. The central city contains approximately 130 square miles.

Atlanta is the communication and transportation hub of the southeastern region of the nation. The Atlanta SMSA is moderately industrial, containing two automobile assembly plants, an aircraft manufacturer, and a diversified list of smaller industrial firms. Nearly every agency of the state and federal government is represented in Atlanta. District offices of the Internal Revenue Service, the Federal Reserve System, the Department of Housing and Urban Development, and other national agencies offer many jobs to clerical workers. The Georgia State Government is centered in the city, and Atlanta's portion of state level governmental activity is substantial. In the private sector, manufacturers' representatives and district sales offices of industrial, insurance, and consumer service firms expand the city's total office space requirements to more than 8 million square feet as of 1967. All this activity is expected to expand steadily during the next ten years.

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## SUMMARY OF DISPARITIES

The many factors considered in this report are difficult to merge into a concise summary, but a number of differences have been observed among governmental units that appear to indicate disparities. The most obvious is that all governmental units employ different accounting procedures, making comparisons among them difficult at best. Other, more pertinent differences are considered in eight ways: (1) county-county; (2) county-city; (3) city-city; (4) central city versus suburban communities; (5) state government policies; (6) regional government policies; (7) local government policies; and (8) federal government policies.

### Relationships Among Counties

The two urban counties of the SMSA, Fulton and DeKalb, can be characterized as being high income, high education areas as compared to the three more rural counties. Their revenue and expenditure levels are generally higher on a per capita basis, and they contain refined county government units which offer many services. DeKalb County provides outstandingly high levels of fire protection and sewerage services, and Fulton County offers a sophisticated health and hospital system. Gwinnett County is at the other extreme, characterized by a low level of income and education and by a high need for welfare funds.

None of the counties has incurred a level of debt that might be deemed excessive, although Gwinnett County, the least wealthy of the five, is subject to a lower Moody's rating on debt obligations than the others. Debt ceilings imposed by the state have not created significant limitations upon counties in the SMSA (except for two board of education problems in Fulton due to low assessments), and a recent change leading to higher tax assessment levels will increase the ceilings far beyond the level of current needs.

The Total tax burdens upon property within all of the counties have been increasing in recent years, although a high dependence upon personal property taxes has kept the effective burden rate to a level between 1.05 percent and 1.33 percent. Only DeKalb County has been at the 1.33 percent level, with the other counties operating at a level of 1.25 percent or less. A 1967 move to effect uniform assessment among all Georgia counties may cause DeKalb County's assessment level to decline, while those of all other counties will increase. Intercounty tax burden disparities are expected to be lessened substantially by this action.

Fulton County has been the predominant industrial county in the SMSA for many years, followed by DeKalb and Cobb Counties. Clayton and Gwinnett Counties are not industrial centers, although Clayton does have a sizable amount of land zoned industrial.

County governments in the Atlanta SMSA provide a substantial portion of the area's governmental needs. The differences in activity level among them have not provided many points of common interest, and suggestions that nearby Douglas and Rockdale Counties should be made part of the SMSA have met with little interest. The counties cooperate in few areas, the most notable being the joint hospital (and some sewerage treatment) efforts between Fulton and DeKalb Counties.

### Relationships Between Counties and Cities

Joint county-city efforts to accomplish governmental goals are found only between the city of Atlanta and the counties in which it lies, Fulton and DeKalb. Virtually a complete separation of activities is found in Clayton, Cobb and Gwinnett Counties, and DeKalb County performs the lion's share of the services needed by most of its municipalities. These service differentials lead to a significant disparity among city dwellers

and residents of unincorporated areas. The city dweller in Fulton County must help pay for services provided to unincorporated areas of the county, while the resident of unincorporated DeKalb County helps pay for services rendered to municipalities (other than the DeKalb County portion of the city of Atlanta). This is also true of debt. In addition, Atlanta residents assist in providing the Fulton County Board of Education with operating funds. Both systems appear to have merit; however, a need for an optimal balance is indicated.

Atlanta provides water service to parts of unincorporated Fulton County, and it assists the county in maintaining fire and police protection. The city and the county work together closely in planning, and their separate school systems are likely to be merged within the next few years.

The county governments tend to operate at a much lower per capita cost in providing needed services than the cities. Only Doraville (DeKalb County) and Forest Park incurred lower total per capita expenditures than the highest cost county (DeKalb). These differences are most notable in the expenditure categories for general administration and sanitation and sewerage. The differences do not indicate efficiency or inefficiency; the categories merely indicate the governmental unit that provides these services.

#### Relationships Among Cities

Disparities among suburban communities with regard to sources of revenue and provision of services are few. The City of Marietta expends much higher per capita amounts for administration, police protection, and fire protection than do the other cities studied. The DeKalb County cities spend the lowest amounts, primarily because of the extensive service levels of the county.

A significant difference arises among communities with regard to the sale of power and water. East Point sells power to many commercial users and to the City of College Park, providing a large source of revenue. This eases the requirement for high property taxes, while bedroom communities such as Decatur and Forest Park must rely very heavily upon property taxes. A general conclusion can be drawn that city power distribution and sale operations are highly desirable, although East Point has the advantage of a large number of industrial power users to increase its revenue. Marietta also provides power, but its total revenues from power sales are significantly lower than East Point's, yet still higher than those of cities not providing such services.

#### Central City Versus Suburban Communities

Atlanta contains a variety of high and low income residents, with a high concentration of nonwhites. Welfare costs are exceptionally high in the central city, and the attendant problems of crime, public health needs, et al., are much more severe than those of the suburban municipalities.

A substantial portion of the SMSA's industrial and commercial activity is concentrated in the central city. The suburbs have been attracting some of this activity, however, and many problems have beset the city administration regarding the business of transporting people to and from their place of employment. The Negro has an identity in the central city, and although his job might move to the suburbs, he tends to remain an urbanite.

The central city has experienced higher per capita costs in the areas of administration, police, and parks and recreation. In fact, Atlanta is the only city in the SMSA that provides a sizable amount of recreational facilities.

Among all the differences between the central city and its suburbs, the major problem is that of caring for the low income Negro population. The city's top priority

problem is to develop a program for feeding, clothing, housing, training, transporting, and employing this segment of the population.

#### State Government Policies

The state of Georgia is a "nonurban policy" state. Legislation regarding consolidation of communities is strictly ad hoc, and matters dealing with annexation and other governmental affairs are usually treated through special (class) legislative acts. A leadership vacuum exists because of the lack of state policy regarding urban matters.

The state is attempting to equalize disparities among governmental units in a number of key areas, namely welfare, education, and health, but it has not taken action to allocate highway funds to the areas of greatest need. Within the Atlanta SMSA, Gwinnett and Clayton Counties obtain a greater per capita revenue for highways than the others, although Atlanta and Fulton County would appear to have a greater need. The state works to supplement federal funds rather than provide a comprehensive plan for all funds.

#### Regional Government Policies

Regional policy in the Atlanta SMSA results from nonpolicy decisions in most cases. Comprehensive plans for the region have been prepared, but they have not been adopted by the local governments. The lack of such a plan or policy drawn from a plan has led to significant imbalances in areas covered by water and sewerage services.

The Atlanta Region Metropolitan Planning Commission has worked to develop region-wide plans and programs, but intergovernmental jealousies have prevented significant coordination. The state has not entered this arena, and a significant reduction in local provincialism will have to occur before regional planning can become effective.

#### Local Government Policies

The counties and cities in the SMSA compete actively to attract heavy duty taxpayers. Zoning practices and property taxing (inventory) procedures are not consistent among governmental areas, and changes are made to accommodate the needs of individual land users.

The central city has worked to develop a plan for housing and employing its Negro population in light of the commercial and industrial shift to the suburbs. Rapid transit lines are proposed to transport central city Negroes to suburban jobs, and urban renewal efforts are being made to improve their living conditions. This is necessary in light of anti-integration pressures from the suburbs. The program will likely continue in this manner.

#### Federal Government Policies

The federal government is applying substantial pressures to eliminate the disparities between the central city and the suburbs. Anti-segregation of schools and of housing are required to obtain certain federal funds, and these funds are essential to Atlanta's growth and prosperity. The pipeline between federal agencies and the SMSA has been connected only to Atlanta, and Atlanta has expressed the desire to desegregate. Other cities are beginning to realize a need for federal funds, and their attitudes toward race will have to change to obtain them. The central city-suburb problem is one of Atlanta's most serious, and federal activities will likely provide an increasing amount of relief during the next few years.

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## RECOMMENDED REMEDIAL ACTIONS

### Public Actions

The problem of curing disparities will not really reduce itself to any simple action, or group of actions, by various public or private bodies. The remedy must be accomplished through a wide variety of activities performed at every level of government. Probably the most important activity is at the private communication (and conditioning of citizens) level. Until people become concerned, and through their concern express a willingness to act, disparities will continue to grow.

The elimination of all disparities is not the complete objective of the authors of this study. Certain disparities should be permitted--maybe even encouraged. Assuming that separate communities (public organizations and bodies politic) will continue to exist--at least in the short run--then it seems proper to permit the citizens of communities to have something to say about whether or not they should live with, for example, a concrete block city hall or a city hall finished in marble. Similar choices should be available in other aspects of government, but it is not the purpose of this study to detail the choices.

The authors are concerned with the quality of public services, especially as a higher or lower quality of service might create significant disparities in the metropolitan area. The various sources employed in this study did not disclose differences in finances that could be associated with facts demonstrating whether or not a service was being offered at an acceptable level. The authors have no way of determining from a financial report information about the quality of, and frequency of, garbage collection. The quality of the effluent from a sewage treatment plant was not described, nor was the percentage of a city's (or county's) sewage that gets treated, nor the quality of water downstream from a political jurisdiction. Obviously, a high quality of performance could breed a great disparity if most governments performed at a lower level or refused to undertake the function.

Probably the most significant action that can be taken to cure the financial disparities, and quality of service disparities if they exist, in the Atlanta metropolitan area--or in any other metropolitan area--lies in the field of education. Citizens, e.g., voters, must be educated, within and outside of the school system, to the problems of government. Too many times have Aldermen of the City of Atlanta campaigned for reelection on the grounds that property taxes were too high and should not be raised. It seems to the authors that public relations programs from the governments of the metropolitan area or from the state should be mounted to express the true costs of government--and the true level of public service being received by citizens. The "mystique" of high property taxes in the Atlanta metropolitan area is not justified by facts uncovered and analyzed by the authors. Yet, as this report is being written, citizens of Fulton County and Atlanta are protesting increases in annual taxes of about ten percent in most cases. Some of the most vigorous protests are apparently being delivered by people who are feeling the diminished effect of a homestead exemption when higher assessments are made. Some of the protesters are paying real estate taxes for the first time! The attitude that encourages such reaction to very modest taxes (or tax increases) should be overcome. Apparently the public officials of the Atlanta metropolitan area, including those of Atlanta and Fulton County, have not come to recognize the fact that it costs more to operate an urban or suburban government than it does to run a rural county.

The recommendations which follow are oriented to the philosophy that a series of actions must be taken at all levels of government. The fact that fiscal disparities among local governments do exist does not place the responsibility on any one level of government to cure them. Probably actions can be taken at any level to minimize the disparities with some effect, but cooperative and collaborative actions are required to

get to the bottom of the disparity problem--the nonequities and injustices of local government.

### Local Remedies

Many disparities are created by actions that are more than purely local. Therefore, very little can be accomplished locally to overcome them. The "economic accidents" of a tax base, or an industrial employer, or a commuting pattern, might have been important to the creation of a disparity in a locality. Other disparities might have been created by social attitudes--the race problem for example, but also the white suburban attitude. Little opportunity exists to overcome these attitudes by local actions. Atlanta's attitude about annexation presents another example of a strange attitude that really should be changed.

The following specific actions should be taken.

1. Adopt a unilateral annexation program for Atlanta.--Any territory that qualifies under the Plan of Improvement annexation procedure should be taken into the city as soon as possible--even areas which were once given an opportunity to vote. County lines should not be respected. Atlantans can no longer be worried about appearing to be "nice guys" and about the "we don't want you if you don't want us" attitude.

The justification for an Atlanta annexation program is based on the fact that Atlanta's governmental costs are increasing faster than the city's ability to raise money through taxes. While annexation by Atlanta will expose more people to overlapping taxing authority, the procedure would keep the taxpayers of Atlanta from bearing an even higher tax burden than is now the case. This would help minimize the growing disparity between the Atlanta taxpayer and all other metropolitan taxpayers. There is no good reason for the city of Atlanta to permit its citizens to carry increasing tax burdens when annexation would help to diminish that burden--if other taxpayers, in DeKalb County for example, can be annexed and made to share Atlanta's responsibilities.

The annexation authority available to the City of Atlanta through the Plan of Improvement provides a device through which some of the disparities associated with being a taxpayer of both the city and Fulton County can be minimized. Annexation of territory would permit the City of Atlanta to increase its tax base without diminishing the Fulton County base. An annexation program mounted by the city, coupled with a merger of the two school systems (Atlanta and Fulton County), would essentially combine the two governments. This idea was suggested recently in the public press by a departing county manager.

A formal merger of the governments of Fulton County and Atlanta has not been suggested by the authors because of the problems that might be created with regard to several of the small municipalities that exist within the county. Cities such as East Point with its 40,000 residents will suffer unique problems if the county is "taken out from under" them. The problem of College Park and Hapeville might also be difficult to resolve. City-county merger is a long range idea which might be very productive to pursue in long range terms. It obviously would provide one procedure through which certain disparities and taxing inequities that now exist between Atlanta, Fulton County, and some other cities of the county could be eliminated.

2. Merge the Atlanta and Fulton County school systems.--A merger would eliminate a small amount of tax overlap, i.e., the small tax paid by city residents, and it would permit the inequities between the two systems to be resolved.

3. Remodel the Atlanta city government.--The city is in need of a modification of its form of government. It should change to a strong executive form, probably by some sort of gradual process. The machinery as it now exists is clumsy and operates essentially without a chief executive. This accents the problem of inequities because the

government cannot be directed to solve a problem or mount a legislative program. Atlanta's city hall should be so arranged that it becomes known who is to "bell the cat" on issues.

4. Adopt a new attitude about property taxes.--All local governments should forget their past attitudes about property taxes. Data collected in this study have indicated that the tax burden on property is relatively low--certainly reasonable--and it can be increased in virtually all jurisdictions without economic damage. Virtually all other taxes that could be considered for local relief can be considered regressive, especially in Atlanta with its great collection of the urban poor people. A possible exception to this might be an Atlanta payroll tax.

One qualification is necessary: The problem with the property tax is that it is regressive. The tax applies to all property at the same rates, causing excessive hardship to those whose income flow has radically declined. The urban poor now need more subsidy than they are presently receiving but increases in the property tax will make it necessary to increase the direct and indirect subsidies now being made available to the poor and disadvantaged through grants, vocational education, public housing, and related programs.

#### Regional Remedies

Few opportunities exist to eliminate disparities through collective action at the regional (metropolitan) level. The existence of 5 counties, 44 cities and 9 school districts has helped to create the present disparities. It seems highly improbable to the authors that the units of government which have established the disparities would cooperate to eliminate them. It seems likely that regional action might take the form of functional consolidations of those services which the central governments of Atlanta, Fulton County, or DeKalb County have established at high performance levels. The authors suspect this because the smaller governments would be foolish to ignore the "free ride" available in the functional consolidation--for example, police services, fire protection, code enforcement and similar activities. It seems improbable, however, to expect the educational system to advance through consolidation because of racial problems which vary widely from one school district to another.

Considering the question of regional (metropolitan) remedial action in its true dimension--not on a cooperative basis--changes the reaction of the authors. The types of regional activity that might be undertaken through legislation enacted on the state level permits the development of certain new dimensions that might help to minimize some of the disparities. In the spirit of realism, however, the suggestions are offered in the context of existing governmental forms, regardless of how weak and fragmented they may be in many cases. These suggestions are also oriented to the basic concern that members of the Negro community may have for their base of power: a concentration in Atlanta which permits them to exercise considerable political "muscle." It is hard to believe that concerned Negroes will permit their voting strength to be diluted by wholesale annexation of tens of thousands of whites to the City of Atlanta, or that very many Negroes will migrate to the suburbs even if open occupancy legislation is passed and made effective. With this type of philosophy as a background, it seems reasonable to assume that metropolitan arrangements that preserve a measure of voting strength in each political jurisdiction while permitting regional dimensions in selected functions might solve the short range, or perhaps even intermediate, problem. A long term solution might reach into the metropolitan government arena, but the authors have avoided that for the present.

Regional actions that might be taken are as follows:

1. Establish a school tax base for the metropolitan area.--A school tax base would be designed to eliminate the very heavy discrimination now exercised by the state over the large systems operated by DeKalb County, Fulton County, and the City of Atlanta.

The school districts could remain separate (although Fulton County and Atlanta could merge), but the tax base could be regional--based upon uniform assessments. Funds could be distributed by a procedure based on the expense of the types of educational programs offered in each school district. Managing the distribution of funds would be difficult, but the advantage of the system is that resources of the region could be allocated to places of need. For example, the DeKalb Junior College could be supported because it trains technicians, and the Atlanta School District program of vocational and clerical training (which meets the training needs of the urban poor) could receive a high level of support. Other systems with more conventional programs would be supported at different levels of money input.

2. Establish regional land use management.--One of the problems found in all units of the Atlanta SMSA is the compulsion to gather industry and the "right" kinds of residential uses into the political jurisdictions. The disparities created by this competitive procedure, and the ungraceful, sometimes inefficient, land use patterns that emerge make a case for better land use control. One way of effecting this type of control would be through a state-established body, staffed by professionals, which would be given the authority to approve or disapprove local land use decisions. Implementing this type of procedure would involve thinking of land--at least within a metropolitan area--as a utility and conceiving of the regulatory body as a utility commission. Local initiative would be preserved in that conventional land use planning and zoning authority could be lodged in each of the local governments as it is now. The land use management agency, however, would have the responsibility of reviewing and making final decisions about private investments if they did not conform to the regional plan created by them, by the regional planning agency, or by the local planning agency. One of the advantages that would accrue to the metropolitan area is that local disputes about gaining an industry and the "trading" that transpires between an industry and a government seeking a taxpayer would be eliminated. With the proposed arrangements for a metropolitan school tax program, some of the local concern for the tax base might be lessened.

3. Establish regional capital improvement management.--Some of the inequalities that appear on the local government scene are related to the ability or inability of communities to pay for capital improvements. This is exaggerated by the problem of the state and federal grant system which ties funds to certain amounts of local efforts. Without the local effort, supporting funds from outside of the community frequently cannot be brought into the picture. The basic idea behind managing regional capital improvement investments is to provide a method of evaluating the place of greatest need and directing state and federal funds--for whatever purpose--to the projects of highest priority.

The procedure would not diminish local initiative regarding projects that any community wished to construct, if such projects were to be financed locally, unless, for example, a community chose to build a new city hall in the path of a proposed expressway. A project under consideration would be reviewed by the management agency to determine its eligibility for grant assistance from state or federal funds, and, if eligible, the funds could be made available.

The organization of the agency might be similar to the land use management agency suggested above. The two agencies could be divisions of a regional resources management agency, all of which would be staffed by professionals. Policy for the agency might be created by a board of ex-officio elected officials from the SMSA plus several ex-officio employees of state and federal governments.

#### State Remedies

The authors feel that the State of Georgia will not move into the leadership vacuum that has been created because of the fragmentation of the Atlanta metropolitan area. The state could exercise certain types of authority, but because of the state's reservations about racial problems and urban problems, and the fragmentation of the metropoli-



area's legislative delegations, distinct and definite action on anything but the most basic--or most compelling--issues cannot be expected. Accordingly, it may be necessary to coerce the state into action (legislators included) by making all federal grants to the state, to cities, to counties and to metropolitan facilities contingent upon special organizational arrangements--for example, the regional land use management and regional capital improvements management agencies.

The tasks that the state should undertake and the legislation that it should enact represent reasonably simple chores for a government with Georgia's vast resources at its command. Certain legislative measures should be passed, and certain supervisory functions should be assumed by a new state agency. In the context of local resources and the present input of money into most of the units of government of the metropolitan area, a fair distribution of funds might solve the most pressing financial problems. The massive financial problem associated with the construction of a meaningful rapid transit system might call for special financial consideration.

#### Recommendations for State action:

1. Adopt uniform accounting procedures.--The state should pass a law which requires all political jurisdictions, cities, counties, special districts, school districts, public service authorities and similarly created bodies, political and public, to use the same accounting procedure for all public funds administered by them. The law should contain a provision that all of the financial reports shall be filed for record with the state. The records should be reviewed periodically to provide background information for judgments made by legislators, public officials and citizens about the state of affairs in any public body--and to compare the various bodies when necessary.

This recommendation should be extended to include the development of a data processing system so that records could be programmed to permit the data to be available for analysis on short notice--for example, annually before the beginning of each legislative session. The availability of data in such a fashion would have materially aided this study and considerably increased its insights as well as strengthened its conclusions.

2. Establish a local government bureau.--This recommendation could be stated as the establishment of a regional (or local) services bureau, but that probably would not be a very popular title for Georgia legislators. This bureau would be an agency designed to be the custodian of the record system recommended above. It should be more than a record keeping operation, however. The bureau could undertake the task of constantly analyzing the problems (and procedures) of local governments and the services being operated by them. Cost, efficiency, qualitative and quantitative analysis of local and regional equalities and disparities could be a major role. There has been some discussion about the need to establish a local government service bureau, but the concept has been related to the type of agency that would furnish technical services to municipalities (possibly to other types of local governments), and the specific intent is not known to the authors. The two types of functions could well be combined, but the agency that is needed must be oriented to the development of facts about regional and metropolitan governments and the disparities that exist within and among governments and public agencies.

The bureau should have as one of its principal functions the making of recommendations to the governor on any matter deemed to fall in the area of regional service problems. It could also be used to make recommendations on matters of municipal or county legislative importance, and to study and comment upon requests for legislation from local public bodies.

3. Adopt general enabling acts on municipal and regional matters.--This recommendation could be reversed, to read, "Avoid adoption of special legislation. . . ." The state's propensity to deal with local matters on an ad hoc basis is destructive of cooperative action--at least in the case of metropolitan Atlanta. The solution of one

local problem by one provinciality in the Atlanta area does nothing to eliminate any disparity, fiscal or otherwise, because so many disparities now exist.

A legislative refusal to deal with individual problems is not likely because of the orientation to local legislation requested by each community's legislative delegation. The most recent experiences of the legislature indicate that this will be the case even in the more urban legislature created by reapportionment. The state, however, is not completely in the hands of the "city slickers," so an opportunity may exist for like-minded legislative statesmen to rise above their circumstances and develop ongoing policy relative to urban, regional and metropolitan problems. A use of the advisory agency recommended above would furnish guidance to such an effort. It is in this area that the state of Georgia has an opportunity to exercise leadership. A body of new enabling acts (and constitutional amendments if necessary) might help diminish disparities.

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### Federal Remedies

Federal programs that have been designed to aid city, county and state governments have been oriented to the financial grant. This has been of some significance in certain functional areas in which disparities appear. Not every unit of local government has taken advantage of all of the programs--sometimes because of the "strings" attached, sometimes because of prejudice and sometimes because of pride. Of course, it takes several full time experts to keep up with and to make application for all of the different kinds of programs--so ignorance is also a problem. The strings attached to many of the federal programs have caused the governments seeking help to establish standards and procedures that would permit the use of federal funds. These standards probably would not have been established in many of the cities and counties of the Atlanta metropolitan area without federal money as "bait."

One criticism that can be made of the federal procedure which was mentioned earlier in the report is that funds are not directed to places of greatest need--if the government involved does not apply. Thus, the funds may not actually relieve a disparity; they may increase the disparities which already exist in a metropolitan area. The authors are willing to agree that every community has a right (within reasonable standards) to reject help, or to live by lower standards, but it seems that highly significant communication and perception barriers still exist with regard to federal programs, including those which make money directly available to a local government. The communication problem may not rest completely with the federal government or the agencies responsible for administering grant programs; it may exist within the state house, in city hall, or the courthouse.

The fact is that the multiplicity of programs and agencies has not been conceived of as a "package" nor has it been communicated to cities, counties, states or school districts as a package, nor as a series of related programs. Usually the programs are not even coordinated, either at the executive level or at the congressional level. Accomplishing that might be an impossible task, but the communication job can be done.

Recommendations for federal action are as follows:

1. Establish a complete analysis of all federal programs designed to aid non-federal governments.--Ideally this might take the form of a loose-leaf notebook, updated annually, that would give basic program information. It could be submitted to the chief executive officers of major units of state and local governments. The authors suggest that the material need not be made available to all local governments because it is hoped that a state bureau of local service (recommended earlier) would perform the communication function. It might be a useful document for members of Congress, and high ranking officers of the executive branch. The information should be cross-indexed and

should include an inventory of programs and projects, even if the projects are not conceived of in the context of federal aids to localities. For example, the index might include an analysis of projects of the Corps of Engineers programmed or underway in the various states.

2. Establish state and metropolitan coordination and evaluation offices.--The need to make value judgments about the merits of one local program over another should ideally be made in a regional office manned by non-federal personnel. The recent designation of metropolitan planning commission staffs as the reviewing agency is a step in the right direction, but it may not go far enough, because not all programs are to be so reviewed. Ideally, the agency might include certain federal officials who have a coordination responsibility.

The review function should have the added responsibility of evaluating requests for funds or programs in the context of the disparities which exist in the metropolitan area--or in the state. The regional resources agency recommended earlier could fulfill that function. Unless broader judgments are made at the regional economic and quality level, misuse of funds will be assured. The physical perspective will not serve without effective evaluation of economic, social and temporal needs.

3. Develop and enforce a policy of no aid unless full regional evaluation is made at the metropolitan level.--In the opinion of the authors, the key to enforcing the principle of effective coordination of both local and federal funds in metropolitan areas is through the procedure described above. A gradual enforcement of the denial procedure would be necessary, but the coercion of such a program would materially aid in its establishment. The denial should include all funds--even those administered by the state, such as highway programs. The authors do not feel that more money should necessarily be used as the "bait" for the evaluation procedure, although the funding of the agency itself might assist in its establishment.

4. Establish the principle of "pooled" federal funds.--One of the very disturbing aspects of federal aid is the separateness of the funds. Federal funds cannot usually be used between programs to match other federal funds or to generate more federal funds. However, there exists a federal funds "gamesmanship" procedure that permits--even encourages--a community to engage in certain kinds of projects at the correct times so as to maximize the amount of federal funds that a project can generate. The gamesmanship aspect of federal programs probably causes distortions of priority and certain exaggeration of needs. It may cause a community to pull critically needed funds from one type of high priority project so that they can be placed in another which will permit greater proportions of federal aid. Many times, however, this second project may not be as necessary to the community.

It might be possible for a circumstance to develop in which a local program might become completely perverted in order to generate the greatest number of federal dollars for another, completely different kind of activity. For example, consider the impact of the very expensive rapid transit facilities upon urban renewal project areas. Station stops, serving lines and special spur lines into an urban renewal project area could generate enormous amounts of local credits for urban renewal projects for the community. In fact, the costs of transit are so great that it might be possible to finance entire urban renewal programs in a city through the judicious use of transit facility construction at the correct time. It might be that such activity will compromise at least the timing of the installation of rapid transit facilities. It could result in the delay of certain urban renewal projects which would otherwise be considered high priority. The tactic could also result in giving rapid transit a bad name because it was being used to provide all of, or a major part of, the financing for urban renewal projects. Lastly, it could result in a vastly increased cost of the transit network because of the location of rapid transit lines in urban renewal project areas--rather than in other more logical places where direct service might be needed.

The possibility of some of these circumstances arising in Atlanta is obvious. The city is engaged in a relatively large scale urban renewal commitment. MARTA, the area's rapid transit agency, is now planning a system. The goals and objectives of both efforts may or may not converge temporally or physically. Whatever the case, the use of federal funds should not be maximized for one program at the expense of the other. The federal programs of financial aid should be designed to maximize aid for both programs. The compounding of funds should not be based upon timing one construction project inside another; it should be based upon coordination between projects. The federal funds should be maximized on the basis of a planned, comprehensive effort to solve problems. Funds should not be related to gamesmanship at the local level and jousting with definitions at the federal level. Funds transmitted to a community should be in amounts that would be possible if the games and jousting were successfully accomplished with all of the necessary makebelieve.

The authors believe that some sort of averaging and pooling of funds should be possible so that time periods, priorities, locations, even political jurisdictions within a metropolitan area could be used to generate the maximum number of federal dollars. Such a procedure would permit the honest use of programs in the areas of greatest need at the correct time without the distortion of gamesmanship.

#### Private Action

Disparities are the ultimate result of the actions of people--people operating as individuals, corporations, groups or pressure groups in their own interests. It seems to the authors that private actions can be taken by these individuals and groups of individuals to overcome disparities. However, the effect of the individual activities would not overcome all of the problems. The disparities which exist in many cases are overwhelming in their scale and impact. Therefore, the only course of action is through collective effort--through public bodies.

Private action that can be taken, therefore, is that which is oriented to the support of public programs which will accomplish the objective of eliminating the damaging disparities.

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Fiscal Disparities in the  
LOUISVILLE, KENTUCKY  
Metropolitan Area

A Report by  
Roy Bahl  
Syracuse University, Syracuse

<u>Major Fiscal Disparities, 1965</u>	<u>Central City</u>	<u>Outside Central City</u>
Per capita State and Federal aid	\$ 41	\$ 51
Per capita revenue from taxes	113	79
Per capita educational expenditure	45	97
Per capita noneducational expenditure	123	61
Total estimated population, 1964 (thousands)	392	378

The Louisville Metropolitan Area encompasses three counties--two in Indiana--but Louisville and Jefferson county in Kentucky together contain 84 percent of the population. The metropolis fits the stereotyped picture of a central city packed with problems, surrounded by bedroom suburbs. Closer examination shows some interesting variations: The Negro population is concentrated in Louisville proper now, especially in a slum area at the core of the city, but it is beginning to move to the suburbs. Also, Kentucky has authorized, and Louisville has successfully imposed, a tax on earnings which brings in revenue from nonresidents organized reciprocally with its surrounding communities.

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## SUMMARY OF FINDINGS

1. Disparities in the socioeconomic structure between Louisville city and the surrounding communities in the SMSA are considerable and fit the stereotype central city-suburb relationship. The city of Louisville has a lower level of income, contains over 80 percent of the nonwhites of the SMSA, and over 90 percent of public assistance recipients. Within the central city, a slum area at the core of the city (40 percent of the central city population) contains 95 percent of the city nonwhites, and over two-thirds of city AFDC recipients. There are four balanced communities in the metropolitan area--most of the 57 incorporated municipalities are bedroom suburbs with populations less than 1000. Among the outlying communities a relatively high incidence of poverty is found in only two cases--both of which are unincorporated areas.
2. Central city-suburb expenditure differences show that the core city generally spends more per capita on the poverty-linked public services, while suburban areas spend more per capita for public education and recreation. This pattern is due to some combination of (a) the relatively greater and increasing proportion of the 18-65 age group in the outlying areas, which dictates a greater need for educational and recreational services, (b) the declining proportion of the central city population which is in the 18-65 age group and the increasing proportion of population at the poverty level of subsistence--which dictates a greater need for expenditures on the poverty-linked services, and (c) the drain on central city services created by non-resident trips to Louisville city to place of work, to shop, to the University of Louisville, etc., and (d) the nature of intergovernmental (state and federal) assistance which tends to reduce the central city-suburb disparity in the needs-resources gap for welfare related services, but increase the disparity in educational spending. Among the suburban communities, differences in public service levels are not observed--essentially because of inadequate and incomparable data.
3. A comparison of effective property tax rates demonstrates that the burden is greater in the central city than in the suburban communities of the central county. Where measureable, the variation among the outlying communities is erratic. The disparity in the fiscal ability of the central city and the suburbs would be considerably greater if the occupational license (levied on earnings at place of employment) were not a major source of revenue to the city and county governments, and to the two school districts.
4. State government policies have had considerable effect on intra-SMSA imbalances. First, state aid to education is higher on a per student basis to the county school district than to the city district, thereby having a disparity-increasing effect. Second, a recent court decision has resulted in full valuation of property, which gives local units some flexibility in tax rates. Though this measure could reduce the disparity in fiscal resources, it may result in an increase in central city-suburb difference in property tax burdens. Third, the state legislature has authorized the imposition of a county-wide occupational tax for educational purposes. These funds will be distributed on the basis of average daily attendance and therefore will tend to reduce the disparity.
5. The forecast for disparities in the SMSA is an increasing imbalance in socioeconomic composition between the central city and the suburban areas. Population projections to 1975 indicate a constant size central city but an increase in the balance of Jefferson county by nearly 100 percent. Further, income level is expected to increase by a greater amount in the suburban areas and nonwhite population will continue to be heavily concentrated in the central city. Within the central city, socioeconomic disparities could decline as a result of an imaginative model city

proposal aimed at the reclamation of the most impoverished area in the core city.\*

Fiscal disparities will also grow since the base of both major sources of revenue in the SMSA (the property tax and the occupational license) should increase by a greater amount in the area outside the central city. The projected imbalance in the growth of assessed value is due to the greater amount of new construction activity projected for the suburbs. Occupational license revenues should increase less in the central city because of a continued movement of employment to the outlying areas.

6. Recommendations:

- A. The incidence of poverty is high in the central city therefore a major fiscal problem is the financing of the poverty-linked services and the financing of the physical redevelopment of substandard and dilapidated areas. It has become increasingly apparent that considerably more federal assistance is needed in these areas.
- B. Two measures could be effective in reducing the wide disparity between the central city and suburbs in educational services. First, the state should adjust the distribution of aids to (a) reduce the expenditure disparity, and (b) reflect the higher cost of educating students in poverty neighborhoods. Second, local school districts should consolidate with the objectives of eliminating disparities in fiscal ability and reducing racial and class imbalances.
- C. The provision of welfare services in metropolitan Louisville should be coordinated to achieve the objective of the reduction of poverty.
- D. The use of the property tax by the Louisville city government may not be consistent with the objectives of the redevelopment of the core area. The property tax should be revised so as not to discourage new construction in the central city or to make potential sites in the outlying area more lucrative.

#### INTRODUCTION

Intergovernmental fiscal reforms in the Louisville metropolitan area have enabled local units of government to meet the most serious of the recent fiscal crises; however, the pattern of urban development in the SMSA has been a strong stimulus to the growth of substantial intercommunity fiscal and socioeconomic disparities. The most serious of these imbalances--created by the secular stagnation of the central city--is not unique to the Louisville area. The central city of Louisville is characterized by a constant or declining population and a relatively high incidence of poverty, while the suburban areas house the higher income residents of the SMSA and are attracting increasingly greater amounts of industry. The existence of this kind of disparity is not necessarily bad--the poor concentrate in the core city area because of the existence of the kinds of housing they can afford and the kind of jobs and social services which they require. Netzer points out that "Indeed, it is probably in the national interest that the poor be concentrated in central cities, for it is rather unlikely that their needs would ever be sufficiently attended to were they not so conspicuous."<sup>1/</sup> However, these imbalances

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\* The Louisville model city proposal was not approved for the first group of model city awards, announced on November 16, 1967.

<sup>1/</sup> Dick Netzer, "The Urban Fiscal Problem," Institute of Local Government, University of Pittsburgh, 1967, p. 7.



become serious when there develops a gap between public sector requirements (needs) and fiscal resources, which (a) differs among communities and (b) is accentuated rather than reduced by public policy.

Central to this paper is an intensive examination of the nature and magnitude of socioeconomic and fiscal disparities in the Louisville SMSA, a judgment of the degree to which public (state, local, and federal) action and policy have tended to accentuate or reduce these imbalances, and a disparity prognosis for the communities within the metropolitan area. The concluding section involves a general discussion of the kinds of public action which might be taken to reduce these intrametropolitan disparities.

The comparisons made in the following sections are designed to enable a more clear perception of the overall pattern of disparities in the SMSA. First, the central city of Louisville is contrasted with the balance of the SMSA and with the balance of the central county. Second, certain salient characteristics of selected individual communities (incorporated and unincorporated) within the SMSA are presented where data are available. Finally, certain data are available for a small area at the core of Louisville central city (approximately 40 percent of the city population) making possible an examination of intracity disparities.

#### DISTRIBUTION OF POPULATION AND LOCAL GOVERNMENT WITHIN THE SMSA

Louisville is the central city of a two-state, tri-county SMSA of approximately 750,000 inhabitants. The data in Table 1 show the distribution and growth rates of the metropolitan area population for each of the three counties and the city of Louisville. These comparisons do not indicate significant change among the counties in relative size over the decade, but do show that a significant redistribution of population did occur within Jefferson County.

The structure of local government within the metropolitan area is highly fragmented (Table 2). The SMSA contains 129 local governments of which 105 have property taxing power, while 60 of 69 local governments in Jefferson County have the power to tax property. Including the city of Louisville, Jefferson County is overlapped by 49 municipalities, of which only 11 have populations in excess of 1,000. The education function is essentially the responsibility of a city and a county school district, whose boundaries are not coterminous with city limits.<sup>2/</sup>

Other than the central city, there are four incorporated communities in the SMSA which are "balanced," in the sense of containing a reasonable mix of residential, commercial, and industrial land use (Table 3). Most of the remaining cities within the SMSA may be classified as suburban bedroom communities of varying income levels. These groupings are shown in Table 3 with 1960 and where available, 1964 or 1966 population estimates.

Of the balanced communities, St. Matthews is rapidly becoming a regional commercial center, while the city of Shively contains a major industrial component. Of the bedroom communities, Jeffersontown city and the Buechel area come closest to being balanced communities in that each contains a substantial commercial or industrial component. The south end of the Buechel area includes the large General Electric Industrial Park, which explains the relatively high proportion of nonresidential land use. However, the area in general does not fit the pattern of a balanced community.

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<sup>2/</sup> The county school district includes two zones within the central city of Louisville.

TABLE 1.--DISTRIBUTION OF POPULATION WITHIN LOUISVILLE SMSA

	<u>1960</u>	<u>1966</u>	<u>Percent Increase (Internal) 1960-1966</u>
Jefferson County, Kentucky	84.2%	83.6%	9.5%
(Louisville Central City)	(53.9)	(48.8)	(-0.1)
Floyd County, Indiana	7.1	7.0	9.2
Clark County, Indiana	8.7	9.3	18.8
Total SMSA	100.0	100.0	9.4

Source: U.S. Bureau of Census, Census of Population 1960; and Louisville Chamber of Commerce.

TABLE 2.--DISTRIBUTION OF LOCAL GOVERNMENT WITHIN LOUISVILLE SMSA

	<u>Jefferson County</u> <u>(Kentucky)</u>	<u>Clark County</u> <u>(Indiana)</u>	<u>Floyd County</u> <u>(Indiana)</u>	<u>Total</u>
All types, total (With property taxing power)	69 (60)	42 (34)	18 (11)	129 (105)
Municipal (With population less than 1000)	49 (38)	5 (1)	3 (2)	57 (41)
County	1	1	1	3
Township	0	12	5	17
School districts	3	14	1	18
Special districts (With property taxing power)	16 (7)	10 (2)	8 (1)	34 (10)

Source: U.S. Bureau of the Census, Census of Governments: 1962. Volume V--Local Government in Metropolitan Areas, U.S. Government Printing Office, Washington, D.C.

TABLE 3.--CLASSIFICATION OF SELECTED COMMUNITIES WITHIN  
THE LOUISVILLE SMSA: WITH POPULATION ESTIMATES

	Population Within Incorporated Limits		Population Within Census Tract Area
	1960 <sup>a</sup>	1966	1964
<u>Balanced Communities</u>			
St. Mathews, Kentucky	8,738	14,000 <sup>b</sup>	8,000
Shively, Kentucky	15,155	20,000 <sup>b</sup>	35,891
New Albany, Indiana	37,812	38,218 <sup>c</sup>	-
Jeffersonville, Indiana	19,522	20,060 <sup>d</sup>	-
<u>Suburban Bedroom Communities</u>			
<u>High Income</u>			
Indian Hills	601	-	6,941
Audubon Park	1,867	-	1,912
Anchorage	1,170	-	6,665
<u>Medium Income</u>			
Jeffersontown	3,431	7,000	17,230
Druid Hills	444	-	-
Okolona	- <sup>e</sup>	- <sup>e</sup>	14,356
<u>Low Income</u>			
Buechel	- <sup>e</sup>	- <sup>e</sup>	12,680
Newburg	- <sup>e</sup>	- <sup>e</sup>	9,136

<sup>a</sup>The Municipal Yearbook, 1964, Table III, pp. 92-145.

<sup>b</sup>University of Louisville Urban Studies Center.

<sup>c</sup>U.S. Bureau of the Census, Special Census of the Louisville SMSA, May, 1964. Therefore, New Albany population estimate is for 1964.

<sup>d</sup>Clark County Chamber of Commerce estimate for 1964.

<sup>e</sup>Unincorporated areas.

Indian Hills and Anchorage are representatives of high income bedroom suburbs although the Anchorage area also has a relatively high incidence of poverty in two predominately Negro sections. Okolona is a lower middle income area in the south end of the metropolitan area which has experienced rapid growth in the very recent past. Newburg is a low income (unincorporated) area in the southern portion of the county with a high concentration of nonwhites and the highest incidence of poverty in the SMSA outside the central city.

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## SOCIOECONOMIC DISPARITIES

### Disparities in Population Characteristics

Louisville represents the stereotype SMSA central city--little or no population growth and an increasing proportion of Negro population. Approximately 21 percent of the population of the central city is nonwhite while only 3 percent of the Jefferson County area population outside the central city is nonwhite. Of the 8,700 nonwhites living outside the central city, almost half reside in the low-income Newburg area while none of the other communities shown in Table 3 have substantial concentrations of nonwhites. However, since 1950 there has been a significant change in the distribution of nonwhite residence within the metropolitan area in the form of a movement of Negroes to the suburban areas--primarily to the Newburg area in Jefferson County. This movement is primarily due to redevelopment efforts in the central city and in part to the availability of new housing areas to Negroes. The clustering within the central city in the distribution of nonwhite population is even more marked than that between the central city and the SMSA. An area containing approximately 40 percent of the population of the city of Louisville, located at the center of the core city, contains approximately 95 percent of the central city nonwhite population.

The area of greatest population density in Jefferson County encircles downtown Louisville within one to two miles of its core. However, this area has been losing population for the past 15 years, primarily because of redevelopment and highway efforts, and density has been decreasing. Between 1950 and 1964 much of the central city population concentration was dispersed and low density horizontal residential development now covers much of the county.<sup>3/</sup>

Changes in the age structure of the population in the SMSA have generally followed the broad changes in the age structure of the nation as a whole. However, the central city of Louisville differs in that (a) the under 18 age group has increased at a slower rate than in the outlying areas, and (b) the 18 to 64 age group actually declined, while in the metropolitan area it increased. Consequently, the 18 to 64 age group in the central city will be called on to assume an increasing tax burden as this major wage earning and tax paying group decreases in number. The expenditure implications of these central city-suburb differences in age structure changes relate to increased needs in the suburbs for schools, recreational facilities, etc., and the increased needs in the core city for programs designed to accommodate the elderly--housing, health, welfare, etc.<sup>4/</sup>

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<sup>3/</sup> Louisville and Jefferson County Planning Commission, Interim Plan Report No. 5 - Population, 1967.

<sup>4/</sup> The Economic Base and Population: Survey, Analysis and Forecast for Metropolitan Louisville, Louisville and Jefferson County Planning Commission, 1964.

The sex composition of metropolitan Louisville has also followed a national pattern--fertility, birth, and death rates varying only slightly from averages for the nation as a whole. But in the city of Louisville, clerical and secretarial job opportunities have resulted in the female population increasing at a faster rate than the male population.

#### Disparities in Housing Characteristics

As expected, there is a strong association between the distribution of nonwhites in the SMSA and the distribution of substandard housing facilities. Approximately 4 percent of housing units in the central city are dilapidated as compared to only about 1 percent in the suburban areas of Jefferson County. The model city area within the central city contains 73 percent of all dilapidated housing units in Louisville, and over 7 percent of the housing units in the model city area are dilapidated (over one-half are considered substandard).

The age distribution of buildings in each area suggests that no consistent relationship exists between the age and the condition of buildings, since the lowest-income bedroom suburbs show both a relatively newer age distribution of buildings and the highest proportion of dilapidated units. Other housing characteristics follow the expected pattern among the bedroom suburbs--median value of owner-occupied units is lowest in the low income communities, multifamily dwelling units are relatively more prevalent in the low income areas, and the percent of dwelling units which are owner-occupied tends to be smaller in the lower income areas.

#### Disparities in Employment and Land Use Patterns

The employment-population ratio in the central city is approximately three times greater than in the suburban areas of Jefferson County, reflecting the extent to which nonresidents commute to the central city to work (Table 4\*). Further, the distribution of employment inside the central city is oriented much more heavily to manufacturing (31 percent as opposed to 12 percent in the suburbs). Among the suburban communities, lower income areas have greater proportions employed in manufacturing while employment in higher income areas is primarily in the retail and service industries. This pattern is not atypical. The higher income communities are generally located on the east side of Jefferson County, away from the major industrial areas. The fact that the lower income areas show greater proportions of employment in manufacturing suggests only that lower income workers tend to live closer to their place of work. When the General Electric Appliance Park (over 11,000 employees) constructed facilities in 1951, the nearest suburb was 1-½ miles distant. Ten years later, 15 percent of its employees lived within four miles, in areas including Newburg and Buechel. This pattern explains the wide variations in employment structure among suburban communities shown in Table 4\*. It is worth noting that two large industrial sites have been proposed for the east end of Jefferson County--if the General Electric effect applies, this could have a significant bearing on the nature of metropolitan area disparities.

#### Disparities in the Level and Distribution of Income and in Retail Sales

The level of income in the Louisville SMSA is generally greater in the eastern areas of the central county, but lower in the central city than the outlying areas. The Louisville central city, particularly the model city area, has both the lowest average income level and the greatest proportion of families in the less than \$3,000

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\* Table 4 omitted.

income bracket (Table 4\*). However, distribution of income, as measured by the size of the Gini coefficient, is shown to be less equitable in the suburban areas than in the central city.<sup>5/</sup>

Among the suburban communities, income levels and intra-area equity are affected substantially by large concentrations of nonwhites. The high income community of Anchorage, Kentucky is located in the eastern portion of the county; however, the very low income, predominately Negro communities of Griffytown and Berrytown are also located in this area. Consequently within this area of over 6,500 residents, more than 10 percent of the families earn less than \$3,000 while over 15 percent of the families have annual incomes in excess of \$15,000. There is a relatively large proportion of nonwhites in the low income Newburg area, while the Buechel and Okolona areas are lower income communities which have relatively smaller proportions of nonwhites.

Intercommunity differences in per capita retail sales (Table 4\*) generally reflect two factors: (a) income differences among communities, and (b) the degree to which a given community serves as a local and regional shopping center. Per capita retail sales in the central city exceed that for all outlying areas thereby suggesting the extent to which residents of suburban Jefferson County, and Clark and Floyd Counties, Indiana, travel to the central city of Louisville to shop. However, the data in Table 5 indicates a clear trend toward the decentralization of retail activity as all measures of retail activity show greater increases outside than inside the central city.

#### Disparities in the Incidence of Crime and Poverty

In the preceding sections were presented several factors which are at least partial measures of the distribution of poverty within the SMSA, e.g., income level, percent of families in the low income brackets, percent of dilapidated dwelling units, percent of nonwhite population, etc. The data presented in Table 4\* show both the distribution of welfare recipients (by type of assistance) and the central city-suburb disparity in the incidence of crime.<sup>6/</sup>

Both the total number of welfare recipients and the number of recipients per 100 residents are shown to be substantially higher in the central city than in the suburbs. Within the central city, the incidence of poverty is highly concentrated in the core (model city) area. The number of individuals receiving public assistance payments and the number of AFDC recipients (per 100 population) in the model city area are twice as great as in the entire central city, and over ten times as great as in suburban Jefferson County outside the central city. In general, the incidence of poverty measured in almost any terms is considerably greater in the model city area than in the balance of the central city (Table 6).

Poverty outside the central city is not distributed evenly, but in small pockets. The data in Table 4\* show the concentration of welfare recipients in the heavily non-white Newburg area, and in the relatively low income-predominately white Buechel and

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\* Omitted.

<sup>5/</sup> The relevant Gini coefficients are as follows: Louisville SMSA = 1.634; Louisville Central City = 1.599; Jefferson County = 1.664; Clark County, Indiana = 1.410; Floyd County, Indiana = 1.481.

<sup>6/</sup> The distribution of welfare recipients in Jefferson County was obtained by an analysis of address cards of welfare recipients in August of 1965 made available by the Kentucky Department of Economic Security. Residence of Recipients of State-Federal Public Assistance in Jefferson County, Kentucky, prepared by the Health and Welfare Council of Louisville and Jefferson County, December, 1965.

TABLE 5.--CHANGES IN THE SPATIAL DISTRIBUTION OF SELECTED MEASURES  
OF RETAIL ACTIVITY IN THE LOUISVILLE SMSA: 1954-1963

Item	1954	1958	1963	Percent Increase	
				1954-1958	1958-1963
<u>Number of Establishments</u>					
Louisville City	2,000	2,707	2,669	35.3 %	-1.4 %
Jefferson County (Outside central city)	224	409	832	82.6	103.4
<u>Number of Employees</u>					
Louisville City	13,020	13,471	12,179	3.5	-9.6
Jefferson (Outside central city)	1,033	1,416	1,606	37.1	13.4
<u>Sales Receipts</u> (in thousands of dollars)					
Louisville City	79,628	105,036	126,786	31.9	20.7
Jefferson County (Outside central city)	7,058	10,570	25,004	49.7	136.5
<u>Per Capita Sales Receipts</u>					
Louisville City	204.23	267.01	324.26	30.74	21.44
Jefferson County (Outside central city)	44.70	54.11	99.14	21.05	83.23

Source: U.S. Census of Business, Selected Services, 1954, 1958, 1963.



TABLE 6.--DISPARITIES WITHIN THE LOUISVILLE CENTRAL CITY: FOR 1965

	<u>City Total</u>	<u>Model Neighborhood Total</u>	<u>Model Neighborhood Total As a Percent of City Total</u>
Substandard housing units	35,900	27,590	76.9%
Percent of persons 25 years and over with less than 8 years of education	24.2%	33.2%	-
Infant deaths as a percent of births per year	2.5%	3.2%	-
Percent of males 14 and over who are unemployed	6.4%	9.3%	-
Percent of persons under 21 receiving AFDC payments	6.9%	13.6%	-
Number of families with incomes less than \$3,000	21,717	13,545	62.4

Source: University of Louisville Urban Studies Center.

Okolona areas. The large number of recipients in the high income Anchorage area is due to the existence of two low income Negro sections--Berrytown and Griffytown.

Statistics on crime rates are not readily available for individual communities or by census tracts within the SMSA. However, a breakdown is available for Jefferson County outside the central city, Louisville central city, and the model city (core) area. Comparisons of per capita total and juvenile arrests yield results which are hardly surprising--the crime rate in the core area is 75 to 100 percent greater than that in the central city, and three to six times greater than that outside the central city.

These statistics on crime rates and public assistance recipients would seem to be more than adequate indicators of the spatial distribution of poverty in the Louisville metropolitan area. In this respect, these data provide a potentially useful proxy for the requirements for certain types of public services and public investment within the SMSA.

#### LOCAL GOVERNMENT FISCAL DISPARITIES

The focus of the above analysis is on the identification and measurement of socio-economic disparities within the Louisville SMSA. It remains to examine the public finances of these areas in order to make some judgment about intermetropolitan variations in fiscal capacity, property tax burden, and existing levels of public service as measured by per capita expenditures. If it is shown that the lower income areas--which have, at the same time, greater need for certain types of public goods and lower fiscal capacities--are bearing the greatest property tax burden and are not receiving compensating intergovernmental assistance, then the role of state-local fiscal policy in reducing disparities in the resource-requirements ratio may be called into question.

The objective here is to examine intra-SMSA differences in the level and trend of expenditures by function, and revenues by major source. Two kinds of comparisons are possible here: (a) among selected governmental units--municipalities and school districts--as shown in Table 7 and (b) between the central city and the area outside the central city in general, as shown in Table 8. Unfortunately, not all Kentucky cities are required to file an annual financial statement with the state finance commissioner. Therefore, 1966 revenue and expenditure data are available for only a small number of local governments within the SMSA. However, since detailed fiscal data for most units of government are available in the 1962 Census of Governments,<sup>7/</sup> certain statistics will be presented for that year. Though outdated in some cases, these statistics are presented in standardized form, e.g., per capita or per \$100 of assessed value, and therefore may yield useful information about intercommunity disparities at a given point in time.

#### Expenditure Disparities

Analysis of intergovernmental variations in per capita general expenditures within an SMSA is complicated by differing degrees of financial responsibility to such an extent that comparisons may be meaningless. For example, the fact that Druid Hills city spent \$2.25 per capita in 1962 while Shively spent \$44.41 per capita (Table 7) may indicate only the greater breadth of functional responsibility assumed by the Shively city government, and may not imply a differential in public service levels. Even if local governments did assume financial responsibility for a similar package of public

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<sup>7/</sup> U.S. Bureau of the Census, Census of Governments: 1962, Vol. VII, No. 17, Government in Kentucky, U.S. Government Printing Office, Washington, D.C., 1964.

services, there remains the assumption that equal per capita dollar expenditures mean an equal quality of services. These shortcomings in the data are especially serious for this inquiry since the real question at hand is whether the level of public services provided differs among communities and among areas in the Louisville metropolitan area.

The data in Table 7 show a comparison of per capita amounts for certain functional classes of expenditures among Louisville city and selected municipalities in the central county. Because of the aforementioned data limitations, only certain expenditure and revenue data are available for 1966 (though 1962 summary data are presented for selected municipalities in the county). Even bearing in mind the incomparabilities in these data, one might draw the inference that per capita costs of most of the common functions are higher in the central city than in the individual suburban communities. However, because of the substantial number of people commuting into Louisville to work or to shop, central city cost per resident is probably considerably higher than central city cost per person serviced. The data in Table 8 show per capita expenditures inside and outside Louisville central city and reinforces the contention that per resident costs of certain services are decidedly larger in the central city.

Per student expenditures by the three school districts show a generally inverse relationship with income level--the relatively small Anchorage district spending substantially more than either the Jefferson County or Louisville city districts. Over the period 1963-1966, per student expenditures by the city and county school districts actually declined while that of the Anchorage district increased slightly. Meanwhile average daily attendance increased by 3 percent in the Anchorage district, 2 percent in the Louisville city district, and 19 percent in the Jefferson County district. Therefore, while expenditures in the county system grew (though they did not keep pace with enrollment), city system education expenditures actually declined.<sup>8/</sup>

Enrollment in parochial schools in both the central city and in Jefferson County outside the central city is considerable: in 1966 approximately 33 percent of enrollment in the central city was in parochial schools while the corresponding figure for Jefferson County outside the central city was 21 percent. Over the 1964-66 period, enrollment in parochial schools declined in the central city but increased slightly in the county. Consequently, while the existence of private schools presently reduces the education burden on the public systems more for the central city than the outlying areas, the trend in parochial school enrollments inside and outside the central city is in the opposite direction.

#### Revenue Disparities

The major sources of local government revenue in the Louisville SMSA are the property tax and an occupational license. State grant assistance to local units is significant only for education, though financial responsibility for the highway and welfare functions are highly centralized.

Average per capita assessed value is substantially larger in the suburbs than in the central city, and among the suburbs, is greatest in the high income Anchorage and Audubon Park areas. Effective property tax rates,<sup>9/</sup> on the other hand, are higher in the central city than in most suburban areas--Louisville city at \$6.36 per \$1,000 assessed value is 3.8 times greater than the medium income Shively community. Effective tax rates computed in this fashion on 1962 data may be misleading since property was

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<sup>8/</sup> Local revenues for education in the central city fell from \$11.1 million in fiscal 1963 to \$9.6 million in 1966. Public School Financial Analysis, Kentucky Department of Education, Bureau of Administration and Finance, 1966, p. 37.

<sup>9/</sup> Computed here as property tax revenues per \$1,000 assessed valuation.

TABLE 7.--DISPARITIES IN FISCAL CHARACTERISTICS<sup>a</sup> AMONG MUNICIPALITIES AND SCHOOL DISTRICTS IN THE LOUISVILLE SMSA: FOR 1962 AND 1966

	Louisville (Central City)	St. Mathews	Druid Hills	Shively	Jefferson- town	Audubon Park	Anchorage	Indian Hills	Jeffersonville (Indiana)	New Albany (Indiana)	School Districts		
											Louisville City	Jefferson County	Anchorage
School population, 1960 <sup>b</sup>	390,639	8,738	444	15,155	3,431	1,867	1,170	601	19,522	37,812	44,876	55,347	266
School population, 1966 <sup>b</sup>	390,100	14,000	-	20,000	7,000	-	-	-	20,060 <sup>c</sup>	38,218 <sup>d</sup>	45,777	65,844	273
Per capita expenditures													
1962	\$125.50	\$20.60	\$2.25	\$44.41	-	\$20.89	-	\$36.61	\$50.51	\$55.04	\$ 376	\$ 441	\$ 601
1966	143.10	15.82	-	32.96	\$21.53	-	-	38.53	-	-	363	423	620
Per capita general revenues													
1962	126.76	23.00	-	47.72	-	20.35	-	54.91	53.53	47.82	376	441	601
1966	-	24.70	-	30.94	21.64	-	-	48.43	-	-	363	423	620
Per capita intergovernmental revenues													
1962	18.00	-	-	2.89	-	-	-	-	8.91	9.09	127	141	115
1966	28.83	-	-	-	-	-	-	-	-	-	154	161	137
Per capita property tax revenues													
1962	26.24	16.25	-	22.04	-	20.35	-	39.93	27.61	23.33	249	300	486
1966	23.61	11.54	-	10.41	12.18	-	-	45.73	-	-	209	262	483
Per capita assessed value													
1966	4,090	4,977	-	6,278	5,481	7,244	-	6,397	-	-	12,430	12,668	17,269
Effective property tax rates													
1966 <sup>d</sup>	6.26	2.45	-	1.66	2.22	-	-	6.00	-	-	1.68	2.07	2.80

<sup>a</sup>Municipal characteristics are expressed on a per capita (1960 and 1966 population) basis, school district characteristics on a per student (1962 and 1966) basis.

<sup>b</sup>Average daily attendance for school districts in 1962 and 1966.

<sup>c</sup>Estimates of 1964 population.

<sup>d</sup>Property tax revenues per \$1,000 of assessed value.

TABLE 8.--ESTIMATES OF PER CAPITA EXPENDITURES INSIDE LOUISVILLE CENTRAL CITY, IN JEFFERSON COUNTY, KENTUCKY,<sup>a</sup> AND IN THE ENTIRE SMSA:  
FOR FISCAL 1965

<u>Function<sup>b</sup></u>	<u>Louisville Central City</u>	<u>Jefferson County</u>	<u>Total SMSA</u>
Police	\$ 12.65	\$ 10.05	\$ 9.16
Fire	10.46	6.09	5.94
Streets	4.74	4.62	5.48
Sewerage	5.68	5.78	5.62
Health	7.92	8.71	12.77
Welfare	0.00	3.59	5.03
Debt	341.58	343.96	326.16

<sup>a</sup>Including Louisville Central City.

<sup>b</sup>Includes only current expenditures, except for the police and fire functions where no breakdown is possible.

Source: Louisville data from Operating Budget, City of Louisville, 1964-65. County and SMSA data from U.S. Bureau of the Census, Local Government Finances in Selected Metropolitan Areas for 1964-65, Series GP-No. 9, U.S. Government Printing Office, Washington, D.C., 1966.

assessed on a fractional basis in that year and the median assessment ratio was not the same in the city and the county. However, the great differences observed in Table 7 suggest that property tax burdens were, in fact, higher in the central city than in the suburbs.

Among the three school districts, Anchorage, with only 279 students in average daily attendance, has a per student assessed value and (equalized) effective property tax rate greater than that of either the central city or county school districts. Though the Jefferson County district has a per student assessed value only slightly greater than the Louisville city district, the (equalized) effective tax rate is substantially higher in the county.

#### PUBLIC POLICY AND SMSA DISPARITIES

The questions raised in this section are not why core city-suburban disparities in socioeconomic characteristics have arisen, but whether or not governmental policies have had the effect of accentuating or reducing imbalances in needs-resources gaps. In question here is the involvement of state, federal, and local governments in the metropolitan area fisc and the manner in which public action has effected both socioeconomic and fiscal disparities in the Louisville SMSA. Of secondary concern is the effect on the disparities of nonpublic action.

##### Direct State Assistance

There are three general methods for states to render direct financial assistance to urban areas--direct grants, shared taxes, and direct state expenditures. State assistance to local units in Kentucky takes the form of education grants and direct expenditures for certain programs, most notably welfare and highways. Direct state expenditure for highways has at least a neutral effect on intra-metropolitan disparities; however, for the poverty-linked welfare and health functions, it is probable that state funds have been distributed between the central city and the suburbs and within the central city so as to have a disparity-reducing effect.

The serious central city-suburban imbalances in socioeconomic composition which were described in the preceding sections are reflected in the achievements of students in the local school systems. In 1966, approximately 77 percent of ninth graders in the county school system were going on to complete high school, while only 64 percent in the city system were completing the twelfth grade. One-half of the 1966 graduates of the county school system entered college while only 35 percent graduating from city schools did so, and less than 1 percent of 1965 graduates from county high schools are estimated to be unemployed while the estimate for central city graduates is over 9 percent.<sup>10/</sup>

It would appear that these disparities have been accentuated rather than reduced by the state distribution of aids between the two school districts. Both per student revenues from local sources and per student state aids are higher outside the central city (Table 9). Therefore, the state is making a greater per student contribution to the county school district which has the greater resources at its disposal and whose students are already achieving at higher levels.

Furthermore, if the per student cost of education is greater in the poverty areas, the central city-suburb disparity is even greater than the difference in the dollar amount of per student outlay.

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<sup>10/</sup> Holding Power and Graduates, Division of Research, State Department of Education, Frankfort, Kentucky, March, 1967.

TABLE 9.--PUBLIC SCHOOL FINANCES: SELECTED STATISTICS FOR 1963 AND 1966

		<u>Louisville City School District</u>	<u>Jefferson County School District</u>	<u>Anchorage School District</u>
Average daily attendance	1962	44,876	55,347	266
	1966	45,777	65,844	273
Per student equalized assessed value	1962	\$13,325	\$12,183	\$18,349
	1966	12,430	12,668	17,269
Effective tax rate <sup>a</sup>	1962	.619	.856	1.049
	1966	.542	.724	.989
Per student state revenue	1962	127	141	115
	1966	154	161	137
Per student local revenue	1962	249	300	489
	1966	209	262	483
Per student total revenue	1962	376	441	601
	1966	363	423	620

<sup>a</sup>Total revenue produced by local taxes divided by the equalized assessed value of the total property in the school districts.

Source: Public School Financial Analysis, Bureau of Administration and Finance, Kentucky Department of Education, 1966, p. 37.

## State Action and the Local Property Tax

The state government in Kentucky provided a partial solution to the fiscal problems of the Louisville area and the growing central-suburb disparities, through action taken at a special session of the state legislature in September of 1965. The special session was called to consider two major problems: (1) The State Court of Appeals had ordered one year earlier that all property in the state be assessed at 100 percent of fair market value, instead of the existing median state ratio of 27 percent (34 to 38 percent in Jefferson County). One purpose of the special session was to consider adjustments in the property tax rates to compensate for the court requirement of full value assessment. (2) The two Jefferson County school districts were facing a serious financial crisis after local residents had twice defeated proposals to raise additional revenues for the education function.

The Kentucky statutes limit the property tax rate of all school districts and cities to \$1.50 per \$100 of assessed valuation, and the rate of county governments to \$0.50 per \$100 of assessed value. Since property was assessed at approximately one-third of full value prior to the court decision, effective property tax rates of local governments in the Louisville SMSA varied roughly between \$0.50 and \$0.17 and there existed no upward flexibility in these rates.

The court ordered local assessors to inflate assessed valuation by the reciprocal of the existing assessment ratio (e.g., 2.63 is the reciprocal of a 38 percent assessment ratio). However, only median assessment ratios had been computed in the state, and to apply a constant multiplier to each parcel of property would only magnify the existing inequity. To achieve a greater degree of assessment equality, an office reappraisal was concurrently undertaken by the office of the Jefferson County Tax Commissioner.<sup>11/</sup> Local governments were ordered to reduce property tax rates by the same multiple as assessed value was raised in the county, i.e., in such a way that the property tax yield would be the same before and after the 100 percent ruling. Local units would then have the option of raising the rate, provided that the estimated yield for the property tax would not increase by more than 10 percent. Both the Louisville city and Jefferson County school districts, and the Louisville city government exercised this option in 1966, while the Jefferson County government did not choose to increase rates. The same 10 percent optional maximum yield increment is in effect for 1967. What action the local units will be allowed to take on property tax rates after 1967 has not been decided at this writing.

The effects of this court decision on local finances in the Louisville area may be seen from Tables 10 and 11 which indicate the actual increments in assessed value and tax rates. With reference to the central city-suburb disparity in property tax ability, the court ruling probably has the effect of lessening a growing imbalance. Prior to the full value decision, the city government had reached the legal rate ceiling and the contribution of new construction to the tax rolls was considerably less in the central city than in the suburban area (note the rates of increase in assessed value shown in Table 10). Given that the natural increase in assessed value outside the central city will continue to exceed that inside the central city, the court ruling provides the city of Louisville with some (rate) flexibility which tends to reduce the disparity in property tax ability. But since property tax burdens in the central city are already greater than burdens in the suburban areas, further increase would only enlarge this disparity. Conversely, this state action will make it possible for the city school district to reduce the disparity in effective property tax rates between the city and county school districts.

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<sup>11/</sup> For a more complete discussion, see J. E. Lockett, "The Administrators Response to Full Value Assessment," Proceedings of the Fifty-Ninth Annual Conference on Taxation of the National Tax Association, 1966, pp. 190-203.



TABLE 10.--EFFECTS OF 100 PERCENT ASSESSMENT  
ON ASSESSED VALUATIONS IN JEFFERSON COUNTY  
(Dollars)

	<u>Louisville (Central City)</u>	<u>Jefferson County (Total)</u>	<u>Jefferson County (Outside Central City)</u>
<u>Total Assessed Valuation</u>			
1966	\$1,595,525,750	\$3,123,733,350	\$1,528,207,600
1965	535,002,240	1,039,264,299	504,262,059
1964	529,518,760	1,002,081,760	472,563,000
<u>Per Capita Assessed Value</u>			
1966	4,090	4,669	5,497
1965	1,373	1,569	1,849
1964	1,361	1,540	1,807
<u>Average Annual Percent Increase in Total Assessed Valuation</u>			
1957-1965	2.1%	4.2%	5.5%
1965-1966	198.0	200.5	203.0

TABLE 11.--EFFECT OF 100 PERCENT ASSESSMENT ON ACTUAL  
PROPERTY TAX RATES IN JEFFERSON COUNTY

	<u>Actual Rate 1965</u> <u>per \$100</u>	<u>Actual Rate 1966</u> <u>per \$100</u>
City of Louisville	\$1.50	\$0.501
City School District	1.50	0.547
Jefferson County	0.50	0.171
County School District	1.50	0.570

### State Action and the Occupational License

A second purpose of the special legislative session of 1965 was to consider the problem of financing education in the Louisville metropolitan area. The result of the session was that the Legislature authorized school districts in Jefferson County to impose the same kind of occupational license tax as that administered by the city and county governments, not to exceed one-half of 1 percent of (a) salaries, wages, commissions, and other compensations earned by persons within the county, and (b) the net profits of all businesses, trades, occupations, and professions, for activities conducted within the county. The revenues are to be shared by the two school districts on an enrollment basis.

Given the differential in fiscal capacity between the central city and the suburbs, and the fact that per student direct state aids are greater to the county school district than to the city, it may be argued that the net effect of this state authorization is in the direction of reducing the disparity.

The occupational license has been levied by the Louisville city government since 1949 and by the Jefferson County government since 1961 (at a rate of 1.25 percent), and accounts for over one-fourth of all general revenues of both the city and the county. In all cases, the collection is administered by a Sinking Fund Commission. Workers employed within the city are not subject to the county tax and, in cases where income is earned in both the city and the county, the tax is prorated between the units.

### Division of Responsibility Among Local Governments

Prior to 1960, the city of Louisville had been saddled with responsibility for a number of what might ordinarily be expected to be county government functions. Further, the county contribution for the support of a number of joint agencies was considerably less than that made by the city. The basic reason for this division of financial responsibility was the limited fiscal ability of the county government. The effect was in part a drain on central city funds to support certain public services outside the central city when, in fact, per capita needs were greater in the central city.

The primary source of county revenue before 1960 was the property tax, the rates of which, as indicated above, are limited by the Kentucky Statutes to \$0.50 per \$100 of assessed valuation--a ceiling which was reached by the county government more than a decade ago. Though receipts from the property tax increased substantially over the 1950-1960 decade because of a rapid increase in population outside the central city, there remained a need for additional funds. Consequently, in 1959, the county enacted a 1.25 percent business and occupational license tax to be administered along with that of the city by the Sinking Fund Commission. The data in Table 12 indicate the relative importance of the occupational license as a source of revenue to both the city and the county.

As a result of the increased revenues of the county government, there occurred a shift in the degree to which the city and county shared in the financing of certain functions. The county immediately assumed major responsibility for local welfare assistance, and the county appropriation to the University of Louisville increased from \$40,000 in 1959 to \$570,000 by 1965. Similarly, the county appropriation to the Board of Health and Public Libraries increased by significant amounts.

The net effect of this balancing of the fiscal abilities of the city and county governments is a reduction of the disparity in the resources-requirements ratio between the areas inside and outside the central city. Given that the level of needs for certain public services is greater inside the central city in part because of the higher incidence of poverty, and that fiscal resources are greater outside the central city--this redistribution of functional responsibility resulted in the city government having a greater proportion of revenues free to devote to internal needs.

TABLE 12.--OCCUPATIONAL LICENSE AND PROPERTY TAX REVENUES OF  
LOUISVILLE CITY GOVERNMENT AND JEFFERSON  
COUNTY GOVERNMENT: FOR 1966<sup>a</sup>

	<u>Louisville City</u>	<u>Jefferson County</u>
Occupational license tax collections:		
Total	\$13,809,959	\$6,482,260
Per capita	35.40 <sup>c</sup>	23.32 <sup>b</sup>
Percent of total revenue	.21%	.33 <sup>c</sup>
Property tax collections:		
Total	\$ 9,209,342	\$5,596,500
Per capita	23.61	8.36
Percent of total revenue	.39%	.37%

<sup>a</sup>Fiscal year.

<sup>b</sup>Per capita occupational license collections for county government are on a basis of population in Jefferson County but outside the central city. For county government property taxes, the per capita base is the entire population of the county.

<sup>c</sup>The occupational license is administered and collected by the City of Louisville Sinking Fund and not all collections in a given year are transferred to the city and county general funds. Therefore, occupational license revenues as a percent of total general revenues is lower than would be a comparable statistic computed on a basis of occupational license collections.

### Municipal Development Policies

Core city-suburb and suburban inter-community disparities have been affected to a great extent by recent state and local actions concerning incorporation and annexation. As noted above, the Louisville SMSA is fragmented politically by 129 local governments (67 of which are located in Jefferson County). A comparison of Census of Governments<sup>12/</sup> statistics indicates a growth in this fragmentation over the 1957-1962 period. These data reveal that Jefferson County was overlapped by 48 local governments in 1957, which means a net increase of 21 local units over the five year period. Most of this increment was due to the incorporation of 15 municipalities (9 of which had 1962 populations of less than 1,000) outside the central city in Jefferson County.

In addition to this municipal incorporation, the city of Louisville has annexed approximately 2.17 square miles in the period 1959-1967.<sup>13/</sup> The net effect of this annexation has probably been in the direction of reducing central city-suburban fiscal disparities. Since most of the annexations were initiated by subdividers,<sup>14/</sup> it would seem reasonable to assume that the annexed areas were primarily new residential developments. Hence the contribution to the central city tax base most probably exceeds the incremental costs of serving the new areas. In contrast, recent annexation by the city of St. Matthews works in the direction of increasing central city-suburb differences in tax burden and in resource capacity. New incorporation and annexation would have a considerably greater impact on disparities, if the city of Louisville relied more heavily on the property tax as a source of revenue. But because over 20 percent of municipal revenues are derived from the occupational license which is levied on earnings at the place of employment, residents of suburban communities escape only the city property tax if they commute to work in the central city.

### Regional Government Policies

Governmental consolidation, the formation of special districts and increased interlocal cooperation in the Louisville area have resulted in a greater uniformity in public service levels (especially in the provision of water and sanitary sewer services) within the SMSA. Up to 1965, the Louisville Water Company furnished a relatively high quality and low cost service to residents of the central city and some suburbs, while a number of small distributor systems in the county furnished a generally lower quality service at higher rates. However, in the past two years the Louisville Water Company has purchased all but two of the smaller distributor systems. Though this consolidation has probably resulted in a reduction of variations in the quality of services, and in a reduction of water rates in the county, user charges are 20 to 35 percent lower inside than outside the central city area.

Disparities in sewerage services in the SMSA have also been reduced through the provision of this service on an areawide basis. The maintenance, operation, and extension of sewer facilities is the responsibility of the Louisville and Jefferson Metropolitan Sewer District. Approximately 90 percent of operating revenues of the MSD are derived from metered service charges of the Louisville Water Company. However, the effectiveness of the MSD in equalizing service levels in the county had been limited by the

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<sup>12/</sup> U.S. Bureau of the Census, U.S. Census of Governments: 1957, Vol. I, No. 2, Local Government in Standard Metropolitan Areas, U.S. Government Printing Office, Washington, D.C., 1957 and U.S. Bureau of the Census, Census of Governments: 1962, Vol. V, Local Governments in Metropolitan Areas, U.S. Government Printing Office, Washington, D.C.

<sup>13/</sup> John C. Bollens, "Annexations of One-Fourth Square Mile or More," The Municipal Yearbook, The International City Managers Association, 1959-67.

<sup>14/</sup> Ibid.

restrictions placed on its powers in areas beyond the Louisville city limits. Prior to 1964 legislation, the MSD was limited to contracting for sewer extensions into unincorporated areas of the county. In order to make an extension (which would be financed by special assessments) feasible, full financial participation by the property owners was needed. Thus a minority in a given area could effectively block an attempt to extend the city sewer system.

A 1964 bill, drafted by legislators of both parties, authorizes the MSD to set up construction subdistricts and build sewers within the confines of those areas. The extensions are to be financed by revenue bonds tied to user rentals and charges in the subdistrict. The bill provides for alternative methods of financing: (a) sewer assessments based on either area or assessed valuation, and (b) payment to the sewer district by the subdivider (who in turn passes the cost on to home buyers). Placing the initiative and the burden of the cost on the benefited parties removes the objections of central city residents who have reacted against suggestions of areawide financing of extensions of the existing system into the county. Since 1965, 23 construction subdistricts have been created in Jefferson County to finance the extension of sewage disposal facilities. Further, the MSD has assumed (by contractual arrangement) the maintenance and operation of 37 smaller treatment plants in the county. These measures have raised the quality of service in suburban areas and have reduced the wide service level variations among suburban units.

Yet a third general type of regional government policy which may have a substantial effect on disparities within the SMSA is a strengthened areawide planning effort and increased interlocal governmental cooperation. Recent state planning enabling legislation (1966) was enacted to correct deficiencies in the old legislation and make uniform provisions for planning in cities of all classes. Basically, the new law provides for (a) broad guidelines whereby cities and counties may organize to establish countywide and regional planning programs, (b) the minimum requirements and procedures for a comprehensive plan, and (c) administrative procedures, enforcement procedures, and penalties.<sup>15/</sup> Since this legislation, practically all communities with active planning programs have reorganized to comply with the new requirements. The Louisville and Jefferson County Planning Commission is, under statutory authority, the only official planning body for the city of Louisville, Jefferson County, and all other municipalities within the county. All public improvements of any type undertaken by any public body, commission or agency must be certified by the Planning Commission as being in accordance with the urban area's comprehensive planning, *i.e.*, the officially adopted Master Plan, any approved interim component of the plan, or any approved adjustment to the plan.

This establishment of a comprehensive planning effort in the Jefferson County SMSA is potentially a factor which will tend to reduce central city-suburb disparities primarily through the adoption of a long range plan for the location of new community facilities and the replacement of outmoded public facilities. Included in the public facilities plan are parks and recreation, schools and other educational and cultural facilities, utilities, fire stations, police stations, jails, and other public offices or administrative facilities.

In addition to the efforts of the Planning Commission, disparities may also be reduced through interlocal cooperation with the SMSA. Because of the fragmented nature of local government in the metropolitan area and because the Louisville SMSA includes two Indiana counties (Clark and Floyd), the kind of interlocal cooperation required for the solution of urban problems is especially complex. However, much progress has been made since early 1965 in areawide planning and in the areawide provision of certain public services through interstate and interlocal cooperation among local governments.

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<sup>15/</sup> Kentucky Department of Commerce, Planning Legislation, 1966 (Frankfort, Kentucky), 1967.

Even though the Kentucky and Indiana portions of the Louisville SMSA are physically separated by the Ohio River, the interaction between local governments in the two states is substantial and has important implications for the provision of public services. It is estimated that approximately 9 percent of Jefferson County employment commutes from the Indiana counties while approximately 8 percent of Clark County and 7 percent of Floyd County employment reside in Jefferson County.<sup>16/</sup> In addition to net in-commuting to place of employment, it is also probable that there is a net inflow to the Kentucky side of the SMSA for other purposes, e.g., shopping, entertainment, and commuting to classes at the University of Louisville. These interactions suggest immediately that a major job requiring interstate cooperation of local governments is that of developing and coordinating an adequate transportation network. State highway departments have long had an agreement on the division of responsibility for the maintenance of the bridges over the Ohio River. A comprehensive metropolitan areawide transportation study is now underway, being jointly undertaken by local governments in the SMSA and the highway departments of the two states.

For public functions other than transportation, e.g., law enforcement or fire fighting assistance, the interaction between the states has proceeded on an informal basis. Recently, an advisory body has been created to promote interlocal cooperation on a more formal basis in the metropolitan area. The Falls of the Ohio Metropolitan Council of Governments is a newly-established organization having a broad mandate for study, planning, and action. Its organization is partially an outgrowth of a new federal emphasis on requiring comprehensive regional planning on a metropolitan level as a prerequisite for continued and expanded grants to local communities. In this regard the function of the council is to serve in an advisory and coordinating capacity in evaluating and defining the planning needs of an area, establishing policies in regard to the planning program, and in designing a continuing planning program.

The governments of the city of Louisville and Jefferson County jointly finance a number of public agencies. Among these are The Youth Commission, the Public Libraries, an Air Pollution Control District and a Department of Traffic Engineering. In almost all cases, the city government contribution is substantially larger than that of the county --though this difference has been reduced in recent years. The provision of sanitary sewage services (see above) is now made on an areawide basis in that the Metropolitan Sewer District has assumed the maintenance and operation of 37 small treatment plants and distribution systems in the county. Ninety percent of the operating revenues of the MSD are derived from user charges, though financial support for the other agencies comes primarily from the city and county appropriations.

Finally, the Kentucky Interlocal Cooperation Act was established to enable cooperation among local governments in the provision of public services. This Act permits localities to enter into an agreement for joint or cooperative action, and to borrow money and issue negotiable revenue bonds to defray costs incident to the performance of the designated function.<sup>17/</sup>

#### Other Local Government Policy

Two local government policies which bear examination in that each affects disparities within the SMSA are (a) local governments' use of service charges, and (b) local governments' use of federal funds for urban development.

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<sup>16/</sup> Charles Garrison, Intercounty Commuting in Kentucky, Bureau of Business Research, University of Kentucky, Lexington, Kentucky, 1961.

<sup>17/</sup> See Kentucky Law and the Cities, Informational Bulletin No. 5, Kentucky Legislative Research Commission, Frankfort, 1966, p. 32.

The city and county occupational license might be considered a user charge in that it is a payment for the privilege of working in the central city (or in the county). In this respect, this method of financing has greatly reduced one of the most serious of the disparities, *i.e.*, the growing gap, inside the central city, between expenditure requirements and fiscal resources. This gap is created partly by the high levels of need in the central city for poverty-linked services and partly by the low fiscal abilities of the central city, and is magnified by the cost of providing services to nonresident communities. If the city relied more heavily on the property tax, the needs-resources gap would most certainly be greater; however, the license fee results in an assessment on these nonresidents for the use of city services.

In addition, the city of Louisville received approximately 11 percent of operating revenues from user charges in 1966. Both the Louisville Water Company and the Metropolitan Sewer District also derived a majority of their income from user charges. However, in both cases residents outside the central city generally were assessed a higher rate.

Local governments in the Louisville area have made extensive use of federal funds for urban redevelopment. Because this rebuilding is aimed primarily at low income slum neighborhoods, the renewal projects must be considered as contributing to the reduction of disparities within the SMSA. Approximately 1,004 acres are included in the six urban renewal projects currently in execution, with local governments contributing approximately 32 percent of total federal-local support. In addition, the city's Housing Code Compliance program has brought a total of 5,400 dwelling units--in the core city--from substandard status to conformance with Code standards. During 1966, over 17,000 dwelling units were inspected, 4,100 of which were found in noncompliance with the Housing Code. It is estimated that over 5,000 units will be brought into compliance during the year 1967.<sup>18/</sup>

#### Federal Government Policies

Federal government involvement in local finances may take the form of (a) a grant or loan directly to the local area for health and hospitals, education, highways, and welfare, or (b) urban development assistance--either matching grants or lending and insurance activity in the private housing area. Table 13 shows federal aids in the Louisville area by general function for the fiscal years 1966 and 1967. The largest single portion of these funds is devoted to highway construction and distributed through the Kentucky State Highway Department. The net effect of these funds on central city-suburb disparities is probably neutral. The over \$8 million in federal aids for education purposes is distributed in such a way as to equalize disparities, since the city school district receives two to three times more than the county districts (it is worth noting, however, that the city district received 3.3 times more than the county in 1966 but will receive only 2.3 times more in 1967). The great majority of federal grants for health and welfare in the metropolitan area are distributed within the central city and therefore tend to have the effect of reducing disparities. In sum, the disparity reducing effects of federal funds used for education and health-welfare are obvious.

The effect of federal assistance for community facilities, including highways, on intrametropolitan disparities is less apparent. Aids for urban renewal, neighborhood facilities, and low rent public housing assistance reduce imbalances by redeveloping or rehabilitating dilapidated areas in the central city. Conversely, federal assistance for sanitary and storm sewers results in the provision of a more homogenous countywide level of services--in some cases by upgrading facilities outside the central city.

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<sup>18/</sup> City of Louisville Model City Application, Abstract, University of Louisville Urban Studies Center, Louisville, May, 1967.



TABLE 13.--FEDERAL GRANTS IN THE JEFFERSON COUNTY AREA:  
FISCAL 1966 AND 1967  
(Dollars)

	<u>1966</u>	<u>1967</u>
Education	\$ 8,687,000	\$ 9,970,000
Community facilities	25,551,195	48,897,387
Highways	9,700,000	11,400,000
Interstate highways	9,000,000	10,800,000
Low rent public housing	130,000	2,821,000
Urban renewal	8,077,195	11,752,387
Health and welfare	2,136,000	2,570,400
Other	104,000	260,000
Total	\$36,478,195 <sup>a</sup>	\$61,697,000 <sup>a</sup>

<sup>a</sup>1966 figures include \$5,461,000 of approved loans. 1967 figures include \$2,856,000 of approved loans and \$1,977,400 of grants applied for but not yet approved.

Source: Survey by William Warner for Urban Development Committee of the Louisville Chamber of Commerce and published in Louisville Business Trends (Louisville Chamber of Commerce, Louisville, Kentucky), February, 1966.

## A FORECAST OF THE TREND IN SMSA DISPARITIES

The pattern of population growth and industrial development in the Louisville SMSA will probably increase many of the disparities discussed above. The centrifugal pattern of residential growth and the continued movement of industrial and retail activities to outlying areas will increase socioeconomic and fiscal disparities between the areas inside and outside the central city. Conversely, an imaginative plan for the redevelopment of the Louisville slum areas should substantially reduce the disparities inside the central city.

### Central City-Suburb Disparities

The Jefferson County area is characterized by substantially higher incomes in the suburbs than in the central city, and among suburbs, higher incomes in those located in the eastern end of the county. It is forecast that this pattern will continue to describe the distribution of income within the county over the next decade and will intensify since it is predicted that the east end of the county will enjoy the most rapid residential growth and generally the greatest in-movement of high income families.<sup>19/</sup>

In addition to the outward movement of residents, industry has been increasingly locating in sparsely settled areas in the urban fringe, especially in prestige locations along freeways or planned freeway routes. The metropolitan area transportation plan defines a system of freeways in the county which makes suburban industrial locations increasingly feasible. With the movement of population and industry to suburban location, the commercial and service sectors have migrated from the central city in significant numbers and the prospects are that this trend will increase.

~~This suburban migration of population and commercial and industrial activity is not without its effect on the local fiscal structure. On the revenue side, this growth pattern tends to increase the central city-suburb imbalance in the capacity to finance. Local governments servicing the area outside the central city will benefit from suburban industrial and residential growth via increments in assessed value, and increments in occupational license collections stemming from greater employment levels. However, this growth will also result in greater requirements for public facilities in these suburban areas and hence greater fiscal needs. The imbalance between the city and county in the financing of the education function will not be affected as substantially by suburban growth because of the special arrangement for the use of the occupational license for education purposes--collected on a countrywide basis but distributed between the two districts on the basis of enrollments.~~

A projected increment in the gap between the fiscal ability of the central city and the suburbs does not necessarily present a disparity which should be corrected by public action. Rather the important question is whether the fiscal resources-expenditure requirements gap is becoming increasingly different between the central city and the suburban areas. Accompanying the decentralization of economic activity in the Louisville SMSA will be an increasing reduction in the extent to which nonresidents provide a drain on municipal services (via the trip to work, shop, entertainment, etc.). But, on the other hand, the prevalence of poverty in the central city requires public services which may cost more per unit of population served.

In summary, because the city government levies an occupational license, and because local support for public schools is distributed between the school districts

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<sup>19/</sup> Demographic Data Summary for Metropolitan Louisville: Planned Sprawl, Test Projections (Louisville and Jefferson County Planning and Zoning Commission, Louisville, Kentucky), 1966.

is distributed between the school districts partially on a basis of needs rather than where the revenues are raised, the growing socioeconomic and fiscal imbalances between the central city and the suburbs do not have consequences as serious as would be the case otherwise.

#### Disparities Within the Central City

The hard core poverty area of the SMSA is a predominately Negro section containing approximately 40 percent of the central city population. Louisville's model city proposal is designed to reduce this intracity disparity through redevelopment of this slum area. The original model city proposal was a five year plan designed to re-make approximately one-fourth of the central city, but this proposal was reduced by three-fourths after a HUD directive that not more than 10 percent of the city population should be included in the model area. Louisville's proposal calls for the development and improvement of educational, vocational, health, recreational, cultural and social services in the model city area. As noted, it was not included in the first group of model city grants. Great emphasis is placed on developing multipurpose educational, health, and community centers.

In addition to the model city proposal, there are six Urban Renewal Projects presently in execution and two in the planning phase--involving both clearance and rehabilitation and covering about one-fifth of the central city area. The area presently contains 4,990 units of low rent public housing while 305 additional units for the elderly are now being constructed. The end result of this redevelopment should be a substantial reduction in the variation in neighborhood living conditions within the central city.

#### POLICY RECOMMENDATIONS FOR THE REDUCTION OF DISPARITIES

The preceding sections are involved with identifying and measuring socioeconomic and fiscal disparities within the Louisville SMSA and with forecasting the nature of these imbalances. The function of this concluding section is to suggest a direction for future public and private policy such that undesirable disparities (either socioeconomic or fiscal) may be reduced.

#### Local Policies

Three measures might be taken by local governments to reduce disparities in the SMSA: (a) Consolidation of the city and county school districts. (b) Reduction of fragmentation in the provision of welfare services. (c) Reexamination of the rationale of the local fiscal structure, particularly the use of the property tax as a method of financing central city services.

Consolidation of school districts.--As shown above, there is a considerable disparity between the central city and county school districts in both the level of output and the financial support. While the city system shows a higher dropout rate and smaller proportions going on to college, per student measures of both locally raised revenues and state assistance are higher to school districts outside the central city. It has been suggested that reorganization of the county school system might be used partially to correct these imbalances.<sup>20/</sup> The proposal would consolidate the local school systems in

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<sup>20/</sup> See "Preliminary Evaluation Report on Louisville and Jefferson County Public Schools," University of Louisville Urban Studies Center, April, 1967.

Jefferson County and form a small number of administrative units within the single school system. These smaller units would be wedge shaped: the points in the central city and the bases extending out into the county. Enrollment at high schools in these wedge shaped units would then be a mixture of the central city poor and the wealthier from the suburbs. The long run objectives of this plan would be a reduction of racial and class imbalances within the SMSA. An additional result of school district consolidation would be the elimination of differences in the resources available for the central city and county educational services.

Consolidation of welfare services.--Local governments might reduce central city-suburb disparities in the incidence of poverty by the coordination of social services and welfare assistance in the SMSA. As a result of the existing fragmentation of services, it is alleged that the Louisville program suffers from a lack of comprehensive planning for family problems (as opposed to individual problems), an inadequate definition of problems, limited financial resources, and administrative practices which tend to limit services available.<sup>21/</sup> At present there are 22 non-OEO funded welfare agencies and departments (public and private) operating in the Jefferson County area, each of which tends to structure social service programs in terms of individual capabilities, rather than focusing on the problems of clients.<sup>22/</sup>

The end result of this fragmented approach to the provision of social services is less of a reduction in poverty conditions than would be possible under a comprehensive social plan, where the activities of all social and welfare agencies would be integrated and coordinated to achieve some common goal. The objective of integration of activities is most likely to be achieved by the definition of a comprehensive plan, the creation of an areawide coordinating commission for social service programs, and possibly the creation of a social service exchange where persons receiving services from any agency could be registered to avoid duplication of service and to assist in agency referrals.

Reexamination of the local fisc.--Local government action might also be taken to reduce imbalances in the fiscal structure within Jefferson County. Three considerations would seem relevant here. The first grows out of a recognition that it costs more to supply certain types of public services in poverty areas; the second relates to the need to plan for the long run decline in the taxable base of the central city; and the third involves balancing the property tax effort exerted by residents inside and outside the central city, and rethinking the role of the property tax in the long run reduction of SMSA disparities.

In the preceding section it was hypothesized that a combination of the movement of population and industry to suburban areas might have the effect of further eroding the fiscal base of the central city via the effect of this migration on both employment (the occupational license) and assessed valuation (the property tax). Simultaneously, residential migration--to the extent the underprivileged do not migrate--will tend to accentuate central city-suburb disparities in the proportion of population below the poverty level. It has been argued that the cost of providing a given quality of public services in these poverty areas is higher than in the suburbs; for education because the disadvantages under which children of poor and minority-group families suffer produce requirements in the way of special services, very small classes and the like to assure a performance in school equivalent to that of the suburban middle class child,<sup>23/</sup> for fire protection because of the high density of population and the number of dilapidated and

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<sup>21/</sup> City of Louisville Model City Application, Abstract, . . . , pp. 17-18.

<sup>22/</sup> "Louisville and Jefferson County Community Action Commission Evaluation," Technical Supplement No. 5, Non-OEO Funded Activities, Urban Studies Center, University of Louisville, Kentucky, 1967.

<sup>23/</sup> Dick Netzer, "The Urban Fiscal Problem," . . . , p. 7.

substandard houses; for street cleaning and refuse collection because of commercial activities, intensity of use of local roads and streets, dilapidated neighborhoods, and so on.

Then the combined effects of these forces--out-migration of industry and higher income residents, and the higher cost of providing public services to the poor who remain in the central city--is an increase in the resources-requirements gap in the central city area. Local governments might take a step toward reducing this potential disparity by rethinking the role of the property tax in the redevelopment of the central city. Netzer notes that the real fiscal problems connected with city rebuilding programs relate to the choice of fiscal instruments used for the financing rather than to the fiscal capacity of the city.<sup>24/</sup> High central city taxes on business or taxes which discourage rebuilding in the core area are in the long run a deterrent to the increase in both economic activity and real property values in the central city. As shown in Table 7, effective property tax rates in the Louisville central city are two to three times larger than in some areas outside the central city. If an effective central city redevelopment program requires private investment in housing, then the property tax as presently used in Louisville is at cross purposes with the restructure of the core city and the reduction of disparities.

#### State Policies

The most obvious of the actions which might be taken by the state of Kentucky to reduce imbalances in the Louisville SMSA relates to aids for education. As shown above, both per student locally raised revenues and per student state aids are higher for the school district outside the central city than for the Louisville city school district. Therefore, the state allocation of education assistance apparently works to accentuate disparities between the two school systems. Not only should this allocation be reexamined, but the state aid distribution formula should in some way be corrected to reflect cost differentials, i.e., to account for the higher cost of educating children in poverty areas. To some extent this traditional deficiency in state allocation formulas has been corrected by the Federal Aid to Education Act of 1965, which provides grants to larger central city schools.

#### Federal Policies

The potential role of the Federal government in reducing SMSA disparities lies generally in the area of providing more financial support for the poverty linked services, e.g., education, health and welfare, and urban redevelopment. Federal involvement in the Louisville Urban Problem has been primarily in the area of urban development, and the most important potential reduction of disparities in the Louisville SMSA is based on the city of Louisville Model City application to HUD. The ultimate objective of this program is the rehabilitation of a hard core poverty area (10 percent of the city population). A second need in the SMSA is a continued federal program of urban renewal and continued federal involvement in the provision of low cost housing.

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<sup>24/</sup> Ibid.

Fiscal Disparities in the  
CHICAGO, ILLINOIS  
Metropolitan Area

Excerpts from a Report by  
James M. Banovetz, W. John Pembroke and Peter J. Fugiel  
Loyola University, Chicago

<u>Major Fiscal Disparities, 1965</u>	Central City	Outside Central City
Per capita State and Federal aid	\$ 65	\$ 47
Per capita revenue from taxes	203	123
Per capita educational expenditure	67	109
Per capita noneducational expenditure	191	91
Total estimated population, 1964 (thousands)	3,520	3,071

Cook County, in which Chicago is located, contrasts wealth with stark poverty. So dense is the area that the close-in suburbs share many of the central city's problems--aging housing, racial concentrations, poverty--in a pattern that varies directly with the age of the community.

The city itself is large enough to bargain successfully with the county, the State and the Federal Government for assistance, and it is expected that the older suburbs will follow the same path.

Within Cook County and the five less urbanized counties are good examples of the five categories in the ACIR classification: Robbing--a highly disadvantaged community; Park Forest, which makes a valiant effort, although it is comparatively disadvantaged; Aurora, balanced at an average level of services; Franklin Park, which can provide superior services on an average tax load; and the highly advantaged community of Oak Brook, which needs only a minimal tax effort to provide superior services.

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## THE EXTENT OF THE DISPARITIES

. . . There are distinct differences in the capacity of governmental units to support governmental services and in the willingness of different kinds of socioeconomic communities to tax themselves for such support. Generally speaking, the high income bedrooms, the industrial enclaves and the commercial enclaves, have adequate tax bases with which to support a high level of urban services while middle and lower income communities must work considerably harder for the same purpose. Further, communities characterized by low income or large numbers of children have a considerably more difficult time providing adequate levels of urban services.

There are also wide disparities in the willingness of different groups to support community services. Generally speaking, the white collar upper income communities are most willing to provide high levels of support, followed closely by the white collar middle income communities which are willing, but not as able, to provide such support. Blue collar workers are generally less willing to tax themselves to the same extent for the support of municipal services, and they are generally willing to provide only enough tax funds to maintain an average level of educational services.

In gross figures, the range of disparity between the communities studied is considerable. In terms of assessed valuation per capita, for example, the range ran from Winnetka, with a valuation of \$7,122 per capita, down to a low of Robbins, \$1,205.

The situation is just as bad on other indices. In terms of sales tax receipts per capita, the range runs from Oak Brook, with a high of \$166 per capita, to a low in Flossmoor, \$1.35 per capita. In terms of the municipal revenues collected per capita, the range runs from a low of \$62 per capita in Robbins to \$215 per capita in Winnetka, a range of better than 300 percent.

A similar wide range of discrepancy can be found in the levels of support provided in education. For secondary school pupils, the high ranges from Winnetka, \$1,110 per pupil, to a low in Oak Brook, \$567 per pupil. For elementary school pupils, the range is from a high of \$802 per pupil in Niles to a low of \$334 per pupil in Winnetka. Conceivably, both Chicago and Aurora, which operate integrated elementary and secondary school districts, provide levels of support which are even lower than the lows just mentioned.

In short, the following general conclusions can be drawn:

1. There are extremely large disparities between communities in the metropolitan area in terms of access to taxable resources, levels of support for municipal and educational services and the nature of the demands imposed upon municipal governments and school districts.
2. The disparities between the suburbs are greater than the disparities which exist between the core city, Chicago, and individual suburban communities.
3. The City of Chicago falling between the extremes typified by suburban communities, may be considered an "average" community. There are two exceptions to this: Chicago provides a higher level of support for municipal services than most communities and it provides a level of educational spending per pupil which is considerably lower than most, if not all, suburban communities.

Still undefined, however, is the range of disparities within the City of Chicago and how this range compares with the range of disparities existing within the

suburban portions of the metropolitan area. This topic will be the subject of the following chapter.

### Disparities within Chicago

The City of Chicago, as the core city of the metropolitan area, is the key to understanding the area's growth and population patterns with its concomitant implications. It is the City of Chicago which first experienced the radical socioeconomic disparities spawned by modern American urbanism. And it is Chicago which continues to witness the great bulk of racial and class movement from community to community in the metropolitan area.

Although the city contains within its borders some of the most obvious social and economic disparities, still the extent and significance of the disparities are not the same as found among the suburbs.

The most apparent characteristic of the city's development is the radical population displacement of whites by Negroes in central city areas. But the obvious difference between population movements in the city as compared with the suburbs is that there is little difference in kind among most of the new growth areas in Chicago. For with the exception of some quality neighborhood construction on the North and Northwest side of the city, all the other new white areas are modest, lower-middle-class types whose sole advantage is their all-white status. This is in contrast to the wide range in types of suburbs which have sprung up outside the city.

What this suggests is that these new neighborhoods are growing not because of an influx of families whose economic status is significantly improving with time, but rather because they are moving from new Negro, but not necessarily declining, neighborhoods in the central city. This movement is an old one in Chicago since some of these "new" Negro neighborhoods were originally settled by whites a generation ago who then were moving from racially changing neighborhoods.

The total effect this continuous race replacement has had on the city is a highly artificial white-black neighborhood pattern which has constantly led to fast-paced neighborhood decline whenever whites have left areas in great numbers over a short period of time. On balance this process has brought about both a qualitative and quantitative reduction of good neighborhoods in the city.

The extent of socioeconomic disparities in the City of Chicago is based upon the changing composition of the total population of the city. Although there is a significant percent of high-income, white-collar neighborhoods on the far South and Northwest sides, as well as along the entire lakefront, it is evident that the middle class is increasingly leaving the city to the very rich, whose ability to prevent neighborhood decline is a proven fact, and to the burgeoning lower and lower middle classes which are caught between the high cost of suburbia and the continuous shortage of desirable low cost housing in the city.

There is of course some compensation for the enormity of the Chicago disparities since the very size of the city can absorb some of its most extreme problems; and where the problems are too extensive for Chicago to help itself, the city is large enough to have sufficient bargaining power with county, state and federal government officials to secure intergovernmental aids. It is apparent, though, that as the city's middle class continues to drain off to the suburbs, continuing and increasing outside help will be necessary to finance even the city's most basic needs for education, housing, welfare, and aid for the elderly.

What the Chicago experience bodes for the suburbs is perhaps even worse than the actual Chicago story. For it has already been the case in several older, declining Cook County suburbs that revenues for municipal government decline just as social

service needs increase, especially those related to the special needs of low income families and the elderly.

This new suburban experience can only be expected to spread throughout the inner suburban ring of towns in Cook County within the next decade. Suburbs which are now undergoing increases in the percent of Negro, low income, or elderly residents cannot respond to their new needs as adequately as has the City of Chicago. Municipal finance in Illinois, especially the financing of highly residential municipalities, is limited and limiting. Regardless of their size or politics, suburban villages and cities will have to learn from the Chicago experience that local monies are not enough to counter the large socioeconomic movements that seldom respect the governmental boundaries that proliferate in a metropolis.

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## STATE POLICIES

An entire book could be written on the adverse effect which numerous state government policies, programs, and traditions have had upon the development of fiscal disparities within the Chicago Standard Metropolitan Area. Special mention here will be made only of those which are deemed to have had the greatest impact.

State revenue assistance.--States customarily offer two kinds of revenue assistance to their local units of government: shared taxes and state aids. In Illinois, state aids are generally restricted to the fields of education, welfare, and highways. There are no other state aid programs of particular consequence, either for general or specified purposes. The impact of state aids on fiscal disparities is described in greater depth in the next major section of this chapter.

There are two statewide taxes of significance to the local government finance picture. The first of these is the state highway users tax or gasoline tax. This levy is collected by the state, but a portion of the proceeds are returned to the taxing jurisdictions from which they were collected. There is no necessary relationship between the source of gas tax payments and the need for additional street and highway construction--many commuters travel through Chicago daily by car, but purchase their gasoline at filling stations located near their suburban homes--this tax does little to alleviate the discrepancies between fiscal base and economic need. In fact, as shall be seen in the next major section of this chapter where state highway aids are discussed, the highway user tax aid program tends to increase rather than lessen fiscal disparities.

Certainly the major cause of increase in fiscal disparities, however, is the sales tax picture. Illinois has traditionally levied a 3-1/2 percent sales tax and permitted its municipalities to levy, at their option, an additional 1/2 percent sales tax which the state would collect and refund to the community from which the tax was paid. Needless to say, virtually all Illinois governmental jurisdictions took advantage of this taxing opportunity. During the 1967 legislative session, the sales tax was expanded: the state yield is now 4-1/4 percent while local governments may now levy 3/4 percent per dollar.

The figures in Part II, Chapter 3, vividly demonstrate the inequities stemming from this sales tax arrangement: there is simply no relationship between the volume of commercial business transacted in a political jurisdiction and that jurisdiction's need for fiscal resources. Among the case communities cited, proceeds from the sales tax ranged from \$1.35 per capita in Flossmoor in 1965 to a total of \$166 in Oak Brook. In fact, due to its major commercial shopping center, the City of Oak Brook received enough proceeds from the sales tax to eliminate the need of a property tax. Other communities with a much higher demand for public services and without a major shopping center, however, find this tax source of little help in meeting their fiscal problems. Further,

developers tend to locate major commercial centers in or near the more affluent suburbs where per capita family income is higher. Since there is generally an inverse relationship between per capita family income and the need of local governments for additional revenue sources, this natural commercial development tendency, when combined with the state's present sales tax policy, simply tends to further increase the disparities caused by this fiscal tool.

Municipal boundary control.--The State of Illinois has a poor record when it comes to providing the laws necessary to insure integrity in the establishment of local government boundaries. Not only has the state failed to establish either statewide or local boundary commissions which could set and enforce standards for incorporation, annexation, and dissolution, but it has also failed to modernize its incorporation and annexation laws. As a result, present standards for the incorporation of new municipalities are very minimal and largely ineffective in preventing the formulation of new municipalities in the metropolitan area. Territorial expansion by existing municipalities is discouraged, and municipal control of land adjacent to its boundaries is hindered. Some years ago, the Illinois Legislature did give the state's communities the power to zone land within a mile and a half of their boundaries, but this power was made applicable only where the county or counties involved did not, themselves, have zoning laws. Since many Illinois counties have zoning laws, but fail to enforce them properly, this authorization has frequently been of little consequence in preventing the unwise development of unincorporated land adjacent to the boundaries of existing municipalities.

State planning.--A major cause of the inequities has to be the absence of any overall scheme for urban development, any plan to give a sense of integrity and balance to the development of land and the formulation of political jurisdictions. The absence of planning is certainly evident in Illinois, from the state level down to local units. The only principles governing urban development in the state are those of economics, and the profit seeking of the entrepreneur.

State laws.--Finally, the general legal structure in Illinois does not encourage sound, innovative, or constructive local government. The state legislature has a tradition in Illinois of dominating local government: home rule in the state is a fiction to which some lip service has been given, but which has found little recognition even in a form of state legislation allowing local discretion in the implementation of state law. This legislative domination has been particularly destructive on the development of governmental activities within the city of Chicago.

Characteristic of the unfortunate state legal situation in Illinois is the system of statutory limitation on local government taxing powers. As a consequence of so-called Hodge-Butler bills in the late 1940's, the state has been left with a series of statutory tax limitations which impose a different limit on each county in the state with neither rationale nor consistency behind the system. Further, in many instances, the tax rate limitation in Illinois is not the statutory maximum, but rather a rate computed through the use of a formula. This has brought confusion and frustration to the tax rate limitation process, with the consequence that many municipalities use incorrect limits and, in others, tax rate limits are "negotiated" by interested parties. This variance is purely arbitrary: it does not reflect the wealth of the jurisdiction's tax base, its access to alternative sources of revenue, or the nature of demands imposed upon it for governmental services. Thus, fiscal disparities exist in part because the extent of authority to levy taxes varies from community to community.

#### LOCAL GOVERNMENT CONTROL

One of the major impediments to sound urban development in Illinois is the absence of viable political systems to direct county governments in the state. In the metropolitan area, there are two systems of county governments. The first applies to

Cook County, where the county legislative authority is vested in a board of commissioners composed, arbitrarily, of ten representatives from the City of Chicago and five representatives from the balance of the county. None of the board members are elected at large in the county. The county board president is elected at large, but he must also be elected as either a suburban or a central city representative.

Cook County is reputed to have a good zoning law system, but the mechanics of the political system have rendered the law relatively useless in controlling urban development in the unincorporated portions of the county. This is because legislative control of the county board is vested in representatives elected from the City of Chicago. These representatives frequently have been more responsive to the demands of private developers, who frequently live and vote in the City of Chicago but undertake developments in unincorporated areas, than they have been to the needs or desires of the unincorporated areas which would be affected by proposed developments. As a consequence, private developers have been freed to impose their own schemes on unincorporated suburban areas.

The second form of county legislative organization in the metropolitan area is the township supervisor system. In each of the other five metropolitan counties, the county board, which holds legislative authority, is composed of representatives elected from the individual townships within the county. Too often these county boards invoke a system of "legislative courtesy" in making decisions about urban development which affect only a single township in the county. In other words, the county board as a unit will usually defer to the judgment of the supervisors representing the affected township.

In both of these instances, the integrity of county board decisions affecting urban development is prone to suffer from lack of a countywide perspective in the decision-making process. Decisions are made in response to pressure from portions of the county, and too often these pressures take the form of special pleading by the contractor or developer seeking changes in zoning laws, special use permits or zoning variances, subdivision proposals, or similar kinds of decisions from the county board.

This tendency is especially disruptive in those counties which have countywide zoning. As noted above, the municipality in such counties does not have zoning control over the development of land adjacent to their boundaries. Thus, such development too frequently proceeds in a manner inimical to the best interests of the municipality, with the municipality left helpless to object.

#### LOCAL DEVELOPMENT POLICIES

Many tax based disparities in the Chicago SMSA stem from the intentionally formulated and executed plans of the residents of the suburban areas. Many suburbs shun the heterogeneity of the tax base which characterizes the central city, preferring instead to retain a homogeneity, a consistency of life style, or a particular "community character." Thus, in its development, Park Forest sought intentionally to restrict development to that which would be consistent with the general character of the remainder of the suburb. Oak Brook, with its very rich tax base, is also a totally planned community, with strict allocations of land to particular kinds of commercial development and other allocations of land to narrowly specialized kinds of residential and recreational use. Many such communities intentionally shun industrial development, or at least that industrial development which does not conform to very particularized and specialized standards.

Other communities, however, start out seeking to develop in accordance with specified criteria, but later find this impractical and then seek to diversify their tax base. Such was the case with Hoffman Estates which started out as a strictly

residential community, but then found that this generated severe fiscal problems. As a result, the suburb is now seeking industrial development.

The attitude in the Chicago SMSA about the desirability of high or low density zoning varies from community to community. Some communities shun high density residential uses, but generally this is motivated more out of a desire to retain the single family character of communities than it is to avoid undesirable fiscal patterns. Elsewhere, however, communities have sought high density residential development as a means of bolstering their property tax base. For example, Naperville in DuPage County approved 943 new residential units in multiple family homes because the development promised to produce a revenue surplus for the community's fiscal situation.

There is no evidence of tax competition for industrial development between communities in the Chicago SMSA. The state of Illinois, generally, is one large tax haven for industrial development. This factor, combined with the economic desirability of a Chicago location, has reversed the situation, allowing communities to pick and choose among the industries they want to locate within their jurisdictions rather than requiring them to compete among each other for any potential industrial development. Industrial developers in Illinois will frequently negotiate with various communities that offer potential sites, but such negotiation is generally directed at ascertaining the community's response to the development rather than any attempt to formulate a "deal."

### Comprehensive Planning

Although some fiscal disparities are intentionally caused by planning, the great bulk of them are caused by a lack of adequate planning. On an areawide basis, the Chicago SMSA does have the Northeastern Illinois Planning Commission, but the Commission is strictly advisory and totally dependent upon community donations and state and Federal grants for its financial support. These twin factors, plus the Commission's relative newness, have combined to minimize the contribution which the Commission has been able to make thus far.\* Some counties in the SMSA have developed formal planning programs, notably Kane and Lake Counties, but such programs have been notably absent in both Cook and DuPage Counties where the bulk of the urban development has occurred. Finally, community planning is a rather spotty undertaking: some communities make intensive efforts at planning while other efforts are rather desultory.

For instance, the communities of Park Forest, Oak Brook, Evanston, and Oak Park, all of which rank as either fiscally sound or as having coped successfully with their problems, have all undertaken large scale, intensive planning operations. Other communities, however, such as Maywood and Robbins, neither of which is fiscally secure, have made relatively little effort in the planning field. In other words, there is some correlation between the intensity of comprehensive planning and the fiscal soundness of individual communities.

### Private Sector Forces

All available evidence indicates that forces in the private sector of the SMSA's economy tend to increase rather than lessen local government fiscal disparities. Private industry, for example, shows a strong preference for locating in concentrations along major transportation routes. The trend toward fewer and larger commercial shopping centers in the suburbs tends to further increase the disparities. Finally,

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\* Ed. note: This Commission has been designated to perform the "areawide review and comment" function required under Sec. 204 of the Demonstration Cities and Metropolitan Development Act of 1966.

developers in the Chicago SMSA have shown little inclination to develop housing for the lower middle and lower income groups in suburban areas. This, in turn, tends to retain the concentration of these groupings in the older housing located in or near the city of Chicago, further adding to the economic woes of the older communities.

Several case examples drawn from the Chicago scene demonstrate effectively the long range impact of private sector trends upon the fiscal well-being of individual communities. The first of these deals with the location of commercial shopping centers, a factor of crucial importance given the present state sales tax system, which allows communities to tax all retail sales taking place within their jurisdiction. The result is competition for shopping centers. Thus, when it became known that a large new shopping center was planned for an area adjacent to the DuPage County communities of Lombard, Wheaton, and Downers Grove, these and other adjacent communities all became interested in trying to annex the incorporated land on which the center was to be built. Ultimately, despite clandestine attempts by several suburbs to encourage the annexation of the land to their communities, the land was annexed to Lombard, giving that village total rights to the anticipated \$3 million in total local sales tax receipts which the center would provide. Thus, despite the fact that shoppers would be drawn from all of the surrounding communities, and despite the fact that business would be attracted away from the existing downtown shopping centers of the surrounding communities, sales tax proceeds from the new center would accrue solely to the benefit of Lombard residents. Not only could Lombard residents expect to receive this one windfall, but other surrounding communities could expect to experience a decline in their own sales tax receipts as business in their own shopping centers suffered.

The shopping centers located in Hillside and Oak Brook have had similar impacts on the surrounding communities. Both of these shopping centers are located at the junction of the Tri-state Tollway with the East-West and Chicago's Eisenhower Expressway, making the centers accessible to residents from a wide geographic area. Yet the sales tax proceeds from both of the shopping centers remain solely with the community in which they are located. Thus, although the community of Maywood, which lies adjacent to Hillside, is in desperate need of more fiscal resources, and although its residents regularly shop in the Hillside and Oak Brook shopping centers, Maywood itself receives no assistance and is only hurt by these adjacent shopping centers.

A second comparison of interest is the impact of private industrial development upon community tax bases. Two different industrial enclaves were studied in this survey: the community of Franklin Park which is a relatively new industrial enclave located near O'Hare airfield, and the community of Summit, an older industrial enclave located near Chicago's Midway airport. Both communities, as noted in Part II, have a high percentage of their property devoted to industrial usage. Despite the relative wealth of its tax base, however, the community of Summit is deteriorating. Its property is aging, its downtown shopping center is declining, and its level of public services is falling below needed levels.

In contrast to this is the community of Franklin Park, which has developed in response to many of the same industrial-transportation needs that gave rise to Summit. Its development has been more recent, however, with the result that there is still undeveloped land in the community. However, all of the remaining undeveloped land is zoned for industrial purposes. One Franklin Park official, in an interview with the field researcher, summed up the community's attitude toward residential development when he justified the existing zoning pattern with the statement, "We don't want to have to bother with any more residences in this community."

In short, given this kind of attitude towards residential development, a tax base made wealthy by heavy industrial concentrations appears to be no guarantee for the long range support of desirable residential communities.

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## OTHER IMPACTS OF THE DISPARITIES

Fiscal disparities in metropolitan areas have many consequences for public policy. These have generally been well acknowledged and documented in the literature on metropolitan government. Many of them, too, have been mentioned at other points in this report. Rather than run the risk of redundancy, this section will not attempt to repeat these impacts, but rather it will dwell on those impacts which are generally less well acknowledged, but whose existence and seriousness was pointed up by the data gathered for this particular report. These include a fuller discussion of the particular disparities associated with the core city of Chicago, the relationship between the age of the community and fiscal disparities, and the relationship between a community's tax base and its spending patterns.

### Chicago's Disparities

Chicago's peculiar economic and sociological disparities have already been noted. Part II, Chapter 3, for example, commented on the disparity between the very high expenditure per capita for municipal services in Chicago as contrasted with the very low expenditures per student for educational purposes. It also noted that Chicago's tax base, contrary to many popular conceptions, is not wealthier than that of its suburban neighbors, that the taxable wealth provided by its great industrial and commercial centers is more than offset by its unusually large percentage of families with incomes near or below the poverty level of \$3,000 per year. Part II, Chapter 4, then noted the vast sociological disparities in Chicago and the unfortunate but accurate correlation between the racial composition of a neighborhood and its comparative level of affluence. Finally, it documented, with its charts, what is probably the most disturbing fact of all, and the most glaring disparity between Chicago and its suburban neighbors, namely the fact that Chicago has a disappearing middle class while the middle class forms the backbone of suburban citizenship.

This flight of Chicago's middle class partly explains Chicago's poor record of expenditure per pupil enrolled in its public schools. A second cause is Chicago's large Roman Catholic population and its massive Catholic school system. As the suburban data show, it is the upper and middle classes that demand good school systems, but Chicago's schools are stricken with an affluent class that can afford private schools and with a middle class that is largely either fleeing the city or focusing their concern on the parochial school system. Together, all of these groups are little concerned about the level of the city's educational services, but very concerned with the city's level of municipal services. Thus is derived Chicago's peculiar level of resource allocation between the municipal and educational services.

Even if consumer demands for public services should shift in Chicago, and Chicago's large impoverished population should demand higher levels of spending for educational purposes, it is doubtful that the city could do much to change its present resource allocation formula. In the first place, with its property tax base per capita declining and with the daytime commuters' continuing need for services compelling a high floor below which per capita spending for municipal services may not go, it is doubtful that Chicago can raise, from its own tax base, large amounts of additional revenues for educational purposes. To be sure, it could make a greater tax effort than it previously did; among the communities studied, Chicago's tax rate levy for educational purposes was the lowest. It is quite apparent, however, that Chicago needs outside assistance if it is to revitalize its educational program.

Not only do Chicago's daytime commuters need intense levels of municipal services, so also does Chicago's large and rapidly growing underprivileged population. Chicago has in fact already begun to serve as a large collection and training center for the area's educationally and economically deprived citizens. Unfortunately, however, its success in acculturating and returning these people to middle class society will

depend in part upon the ability of these people to move into the middle class neighborhoods to which they aspire. For many of Chicago's residents, however, such mobility is not now available. The statistics cited earlier document the fact that housing for the nonwhite is at a severe premium in the suburbs. Furthermore, those nonwhites who do live in the suburbs tend, for the most part, to live in nonwhite clusters, rather than scattered through the white communities. Unfortunately, the progress currently being made toward open occupancy in the SMSA has been slow.

At any rate, the effectiveness with which Chicago performs this human development role will depend upon the degree to which middle class aspirations are realistic for members of minority groups and the extent to which the city receives outside financial assistance for the particular service burdens imposed upon it by the nature of this special function.

#### Community Age and Fiscal Disparity

From the standpoint of age, there are two different categories of communities that were included within the scope of this study: those that were primarily developed before World War II and those that have undergone their greatest surge of development since that date. Those communities which were developed prior to the second World War now find themselves falling a victim of age. With age has come such trends as declining per capita property tax valuations, a decline in the socioeconomic level of the community's residents, in-migration of nonwhite minority groups, and the emergence of a need for such specialized urban services as urban renewal, remedial education programs, and poverty war programming.

Trends of this kind have long been associated with the core city in metropolitan areas, and this is certainly the case in the Chicago SMSA. However, the same trends are equally apparent in many of the older suburban communities built prior to World War II. Specifically, these trends are already apparent in the cities of Evanston, Oak Park, Maywood, and Summit, all of which are suburbs located on or near Chicago's city limits. In other words, the problems traditionally associated with the core city are in fact spreading outward and, in the Chicago SMSA, are already beginning to engulf the older cities lying on Chicago's borders. To a lesser extent, many of these same trends are found in the older communities, such as Aurora and Woodstock, which are now part of the metropolitan area but which are not close to Chicago itself.

Each of the four aging communities near Chicago's borders is a unique case, and as a result its response to the aging process has been somewhat different. In Evanston's case, for example, the community has fallen from its former status as a high income suburb to its present status as a middle income community. Because of its rising pattern of service demands and the falling valuation of its aging property, however, the city has been confronting financial problems of increasing severity. Offsetting these problems has been the city's relative success in bringing property formerly classified as tax-exempt back on the tax rolls. Thus, although the socioeconomic level of its residents has fallen, Evanston has been able to slow down the worst impacts of aging and maintain a viable, progressive governmental system.

Oak Park's situation is roughly comparable to that of Evanston. Oak Park, too, has slipped from the status of an upper income community to that of a middle income community. With its inherent level of affluence, however, Oak Park has also been able to retard the worst consequences of the aging process by undertaking selective urban redevelopment programs, most notably the replacement of old single family homes with new multiple dwelling units that are attractive to young Chicago commuters. Thus, although like Evanston the city is now in a financial bind, it also has been able to maintain its fiscal soundness up to this point.

Summit, too, has been able to maintain its fiscal soundness, but this is because it, unlike Evanston and Oak Park, has failed to respond to the changing pattern of service demands made upon it. Thus, its residential and commercial neighborhoods are deteriorating rapidly, the socioeconomic level of its residents is falling, and the per capita level of its assessed valuation is also declining. Because it is an industrial enclave, however, Summit does, if it chooses to do so, have the capacity to respond to the challenges now confronting it.

The case of Maywood is entirely different. Maywood was once a middle income community, but its housing stock has aged, its streets have become cluttered with traffic, it has felt the in-migration of nonwhites, and it has gradually fallen from a status of a middle income to a low income bedroom community. As its housing stock ages, furthermore, its property tax per capita valuation has also declined, with the consequence that the community finds itself increasingly hardpressed to supply the services it has traditionally provided its residents. Furthermore, it is also confronted with the need to respond positively with new kinds of service programs. In an effort to rebuild its tax base, the community has undertaken urban renewal programs to clear some of its land, hoping to attract industrial or commercial development. However, these efforts have not succeeded and the land clearance programs have simply resulted in a further decline of the community's assessed valuations. Thus, Maywood appears to be confronted with a dilemma: it lacks the property tax base to undertake a level of services demanded by its changing socioeconomic structure and by the aging stock of community buildings, but it also finds that attempts to rebuild the community with new industrial or commercial properties has not been successful. Thus it is facing the prospect of a chronic deterioration, not only of its tax base, but of its ability to supply the services needed by its residents.

Obviously, these communities stand in stark contrast to the newer, more affluent neighbors. They also serve as an omen of things to come, for there is no reason to suspect that the outward movement of core city problems will stop with the first or second ring of suburbs; in fact, there is every reason to believe that their movement may be accelerated in many of the newer, bedroom communities which lack a diversified tax base and in which the housing stock promises to age quickly.

Thus, age becomes a factor of major significance in differentiating between the financial condition of various communities. It also becomes a major causal factor for fiscal disparities within metropolitan areas. Further, the different patterns of success in coping with age, exemplified by communities such as Oak Park and Maywood, also point to the need for better balanced tax bases in the development of suburban communities.

#### Governmental Spending Patterns

There are disparities in the amounts different communities spend for such basically essential services as police protection, streets, utilities, and other public works programs, but there are even greater disparities in the percentage of their budget allocated to such "non-basic" expenditure items as libraries, recreational programs, and similar amenities of the "good life." Interestingly enough, however, the percentage of a community's budget allocated to such amenities is not determined by the comparative wealth of the community's tax base, but rather it is a product of either of two factors: (1) the age of the community, or (2) the socioeconomic level of the community's residents. Thus, for example, the older communities, such as Aurora, Evanston, Oak Park, Summit, and Woodstock devote a relatively high percentage of their municipal budget to such functions. Similarly, such upper income and middle income, white collar, bedroom suburbs as Flossmoor, Oak Brook, and Park Forest devote a similarly large percentage of their income to such factors. (Interestingly, the most affluent suburb, Winnetka, does not devote a large percentage of its income to such non-essentials, but this might be partly explained by the fact that Winnetka is located on the shore of Lake Michigan and is able to provide excellent swimming and other recreational facilities to its residents

at a relatively modest cost. If this is true, it would then mean that geographic location is another factor of consequence in determining the comparative disparities between communities within a metropolitan area.)

Presumably, such suburbs as Franklin Park, Summit, Niles, and Hillside, with their wealthy tax bases, could provide such nonessential services if they chose to do so. The fact that they have chosen not to do so, however, is apparently indicative of a conscious choice on the part of their residents, largely middle or lower income blue collar workers. Such choices legitimately belong to residents in any metropolitan area, but it raises problems for those who would seek to alleviate disparities. Should the provision of such amenities as library facilities and swimming pools, desirable as they are frequently deemed, be considered a part of the "essential package of municipal services" to be taken into account when determining a given community's need for supplemental financial assistance from outside sources?

#### PROJECTIONS AND RECOMMENDATIONS

As demonstrated in Part III, the existing disparities in fiscal resources among units of government in the metropolitan area are severe. They generate major differences in the quantity and quality of public services which different governmental jurisdictions can provide with the same level of tax effort, or enable other communities to acquire considerably more public services than their neighbors by approximately equal tax effort.

It is also significant that, as pointed out in Part II, the sociological disparities between neighborhoods within the City of Chicago is much greater than are similar disparities between suburbs outside the central city. In fact, if the suburbs were subjected to the same disparities existing in the core city, it is entirely probable that the present system of government would break down completely. That the present government survives amidst these disparities in the City of Chicago at all can be attributed solely to the high degree of diversification within the central city, a diversification of industrial and commercial property so great that the central city has to import thousands of workers daily to fill the jobs in its stores, factories, and office buildings.

However, the suburbs do not have this kind of diversification in their tax base, and so the question remains: "What of the future?" The purpose of the following paragraphs is to answer that question and to suggest guidelines which, if followed in the formulation of future public policy for metropolitan areas, might help create better socioeconomic and fiscal balance in metropolitan areas and thus retain the viability of the nation's basic local governing system.

#### PROJECTIONS

##### The General Conclusion

A look at current trends in the State of Illinois and the Chicago Standard Metropolitan Statistical Area can lead to only one conclusion: the disparities now apparent among governments in the Chicago SMSA are becoming worse and can only be expected to continue getting worse given the continuance of existing public policies relating to metropolitan growth, development, and government.

This conclusion is based upon: (1) statistics on existing financial trends, (2) the absence of any trend towards balanced tax bases in suburban governments, (3) the predictions of the Northeast Illinois Planning Commission about the future of the Chicago SMSA, (4) the impact of age upon community well-being in the suburbs, and (5)

present, observable trends in Illinois state law. Each of these will be discussed further.

### The Underlying Rationale

Statistical trends.--Many statistics can be cited in support of this argument, but there are few that refute it. Only the more significant of these statistics will be repeated here.

Perhaps most disturbing are the trends in the assessed valuation per capita of the various communities studied in the Chicago SMSA. Many communities in recent years have experienced an increase in their assessed valuation per capita, thus providing improvements in local budget flexibility, but, ominously enough, too many communities have suffered just the opposite experience. Of the 18 communities studied, the following experienced increases in their assessed valuation per capita during the early years of the 1960's: Evanston, Flossmoor, Fox Lake, Franklin Park, Hillside, Hoffman Estates, Park Ridge, Robbins, and Winnetka. Suffering a decline during the same period in their assessed valuations per capita were the following: Chicago, Maywood, Niles, Oak Park, Park Forest, Summit, and Woodstock. The per capita assessed valuation in Aurora remained virtually constant during the period.

A significant fact in this listing is this: Those communities experiencing an increase in their tax bases, with but three exceptions, are those that are now providing their existing levels of municipal services without placing a great deal of strain on local taxpayers. Those whose assessed valuations per capita are falling, however, are, with one exception, the same communities that now find themselves hard pressed to provide their existing levels of municipal and educational services. The single exception among those communities whose tax base per capita is falling is the city of Niles where assessed valuations are hurt by the gradual decline of the suburb's traditional commercial strip development along its main streets and highways. In Niles, however, this decline is offset to a considerable degree by the rapidly increasing sales tax receipts provided by the suburb's major shopping centers.

There are three exceptions among those communities whose assessed valuation is rising: Evanston, Hoffman Estates, and Robbins. There is at least a partial explanation for Evanston: the community in recent years has had considerable success in adding to its property tax roles parcels that were previously listed as tax exempt because of their affiliation with Northwestern University or other charitable, religious, or educational institutions. These increments to the tax base have tended to offset the decline in value of other property within the suburb. The increases in the tax bases of Hoffman Estates and Robbins can only be viewed as a healthy exception to an otherwise disturbing pattern of change.

Thus, the strained fiscal condition of many of the SMSA's presently hard pressed communities, including the core city of Chicago, is threatened to become progressively worse in the years immediately ahead, thereby further aggravating the governmental problems stemming from the existence of fiscal disparities.

There is a second element of concern in the statistics. With the exception only of Evanston, an exception which is at least partially explainable, all of the older communities included within the scope of this study have found themselves beset in recent years with a declining property tax base when measured in per capita terms. This includes Chicago, Maywood, Oak Park, Summit, and Woodstock. The remaining older balanced community, Aurora, has also failed to register an increase in the per capita wealth of its tax base. The fact that this same experience is being shared by virtually all of the older communities included within the study seems to indicate that other suburban communities, as they grow older, can expect to experience deterioration in the wealth of their tax base. The deterioration in the communities just mentioned is offset, at least in part, by the comparative balance in their tax bases, but such will not

be the case when bedroom communities begin to experience the declining effects of old age. When this happens, the situation may very well parallel the experience of Maywood, the most bedroom-type of the older suburbs included in the study. As noted earlier, the fiscal situation in Maywood has been seriously deteriorating despite the best efforts of community leaders to reverse these trends.

Trends in sales tax receipts also point to a worsening of disparities. As noted earlier, the existing sales tax system in Illinois which returns a portion of the sales tax to the community in which the financial transaction takes place is the cause of some of the worst fiscal disparities among Chicago area municipal governments. Past statistics indicate that those communities receiving the greatest amount of sales tax revenue per capita have increased their returns from this tax source at a much faster rate than those communities which received relatively little per capita from this source. Thus, for example, the per capita sales tax proceeds of Oak Brook and Hillside have been increasing while the same per capita receipts of Winnetka and Robbins have been falling.

There are other causes, as well, which point to a worsening of the disparities. One of these is the increase in the amount of the sales tax voted by the 1967 session of the Illinois legislature. Since the local share of the sales tax has been increased, or rather since the state legislature has authorized municipalities to increase their sales tax rate from  $1/2\%$  to  $3/4\%$  per dollar, those communities already receiving disproportionate help from this source will find themselves disproportionately helped, with the result that the gap in revenue receipts between the highest and lowest ranked communities will widen.

Second, the disparities from the sales tax can also be expected to increase as present marketing trends continue to make their impact felt. In recent years, there has been a marked tendency for commercial activities to shift from smaller, more numerous, and widely scattered shopping centers to a few large and elaborate suburban shopping complexes. This concentration of suburban shopping in fewer commercial centers means, ultimately, that fewer communities will enjoy the sales tax proceeds provided by commercial activity.

Community development trends.--The case study of economic disparities among suburban communities indicated that, as a general rule, those communities which had the greater amount of industrial and commercial development, or those communities which tended towards a "balanced" classification, tended to be financially better off than those communities in which the development was primarily if not exclusively residential. Also as noted earlier, most suburban development in the Chicago SMSA has tended to take place along transportation corridors, thereby encouraging each community to have its own commercial and industrial developments. In the future, however, this pattern can be expected to change as communities begin to develop in the interstices between transportation corridors. Further, the increasing inclination of both industrial and commercial development to occur in "clusters" rather than in a scattered or strip pattern will tend to proliferate the development of industrial, commercial, and bedroom enclaves.

Finally, two trends affecting the traditional community central business district are also relevant here. First, new communities tend to be developed without a central business district. Second, even traditional CBD's are tending to become centers for a diversity of community activities, rather than simple commercial areas. Therefore, even in existing communities, the community central business district is a changing or disappearing entity, yet it was just this entity that tended to give suburban bedroom communities the degree of balance which they have possessed in the past.

Thus, development patterns seem to clearly point toward the formation of increasingly specialized tax bases in the suburban communities of the future. To the extent that this specialization is residential in nature, it will lead to the development of communities which have structurally unsound tax bases.

The study of case communities pointed out that bedroom communities do not necessarily have structurally unsound tax bases: the tax bases in the high income bedroom suburbs were among the wealthiest in the Chicago SMSA. However, the promise of the future is not toward high income residential bedroom communities, but rather toward the middle income bedroom communities--the same style of community that currently finds it so difficult to support adequate levels of both municipal and educational services. There is evidence which indicates that, as the suburban expansion grows, it is increasingly the lower middle class white collar worker and the blue collar worker who is fleeing the central city for suburbia, giving increasing rise to the demand for suburban development which caters to the economic capabilities of these groups. The composite of these trends all seems to indicate that the newly developed suburban community of the future will be developed with tax bases which fail to provide adequate fiscal capacity for the support of municipal and educational services.

Predictions of the Northeastern Illinois Planning Commission.--In a recent report entitled "Population and Housing," the Northeastern Illinois Planning Commission projected a number of trends relevant to the future pattern of disparities and growth within the metropolitan area. Perhaps most important, the Commission concluded that "the projections in this report indicate considerable further dispersion of the northeastern Illinois population by 1980 because they assume a continuation of the present type of controls on land use, and continued financial advantages in home ownership, and the use of the automobile in going to work."<sup>4/</sup> Among the Commission's projections most important for present purposes are the following: (1) Chicago's population is expected to stabilize by 1970 at a level of approximately 3.4 million people; (2) the population of the suburbs is expected to grow by over 900,000 persons per decade, reaching a total of approximately 4.56 million by 1980; (3) home ownership is expected to continue its present growth patterns, increasing by about 200,000 homes per decade; (4) the dispersal pattern of the suburbs is expected to continue, with urban growth constantly extending farther out; and (5) the apartment boom of the 1950's and 1960's is expected to subside in the 1970's and 1980's in the suburbs, with the pattern shifting to a further expansion in the number of single family dwellings.

Given these patterns of population growth, the amount of land devoted to urban residential purposes will increase greatly. With the absence of better controls over land annexation by existing municipalities or the incorporation of new municipalities, the number of separate suburban governments can be expected to increase very rapidly. Thus, in the light of other trends, it can only be anticipated that the number of bedroom communities will increase with similar rapidity.

The anticipated decline in apartment houses, which tend to add more revenues than expenditures to municipal budgets, means that this revenue source will not be as available to help bolster suburban tax bases. This trend could be particularly severe in the old suburbs, such as Oak Park, which currently have been able to maintain themselves in large part through the construction of multiple family dwellings on sites previously occupied by single family homes. Future decline in the apartment house construction industry probably means that older communities will be less able to retard the decline in their tax bases.

The impact of aging.--Given the experiences of the older communities, Evanston, Maywood, Oak Park, and Summit, and especially in Maywood where the property tax base has been traditionally less balanced and closer to the typical bedroom community, only a bleak future can be predicted for aging suburbs. Relatively few suburbs in the Chicago SMSA are now experiencing this kind of decline, because relatively few suburbs in the Chicago SMSA were built prior to World War II. The most rapid suburban expansion occurred after World War II, in the late 1940's and continuing on through the

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<sup>4/</sup> Northeastern Illinois Planning Commission, "Population and Housing," April, 1965, p. 6.

1950's and 1960's. During the 1970's and 1980's, however, those suburbs built after World War II will begin the process of aging and tax base deterioration. When this occurs, a great many suburbs in the Chicago SMSA may find themselves in serious financial difficulty unless some means is found to mitigate the impact of the present lack of balance in their property tax bases.

Trends in Illinois State Law.--Recent sessions of the Illinois legislature have not demonstrated any notable changes in the inclination to develop legislation needed to either substantially improve the fiscal situation in Illinois communities or to develop more sophisticated machinery for guiding or controlling urban growth and development. The 1967 session of the legislature did provide Illinois municipalities with more sales tax revenue, but this has simply inflamed rather alleviated disparities and will provide little relief to many sorely pressed communities in which little commercial activity takes place.

Other similar examples could be cited. The 1967 legislature seriously threatened to disestablish the Northeastern Illinois Planning Commission which, though it may have serious defects hindering its effectiveness, still represents a modest beginning towards the formulation of thoughtful, area wide approaches to area problems. Perhaps the most hopeful legislative development in 1967 was the decision to hold a statewide referendum on calling a constitutional convention. Such a convention might lead to major long term relief for the problems of local government in the state.

The results of reapportionment in Illinois legislative politics has done very little to ease the plight of urban areas. In fact, there is evidence which indicates that urban areas might have suffered as a result of reapportionment. Reapportionment has increased suburban representation partly at the expense of representation from Chicago, and suburban representatives have shown little inclination to resolve their disparate philosophies into coordinated programs for the solution or amelioration of urban problems.

## RECOMMENDATIONS

The disparities described in this survey seem to emanate from three different sources: (1) from variations in the fiscal resources of the different communities, (2) from inadequate land development policies and controls, and (3) from choices intentionally made by the communities themselves. There is probably little that should be done about disparities that are a matter of choice--unless, of course, that such disparities threaten the well-being of the area as a whole. Other disparities, however, can and should be controlled. Suggestions on how this might be accomplished are offered in the following paragraphs.

### Alleviating Economic Problems

Theoretically, there are a number of ways in which the economic problems of local units can be minimized. Such units can be given greater taxing authority; they can be given grants-in-aid; changes can be made in their taxing powers relative to their existing tax bases; or even the basic structure of local government can be changed to reduce at least the worst impact of tax base fragmentation. Three techniques which appear to be realistically achievable will be discussed here: creation of larger special districts, the development of equalization aid programs, and the provision of other aids through grants or shared taxes.

Special Districts.--One proven way when properly used, of reducing or eliminating the disparities between taxing jurisdictions is the special district. To be sure, special districts have certain undesirable features; they are less subject to popular control, they tend to further fragment the tax base, they make coordination of



governmental service activities more difficult, and, in Illinois, they are prone to corrupt or inefficient practices. Nevertheless, such districts have proven to be effective means for overcoming disparities in the tax base. The Chicago Sanitary District, for example, provides a roughly equal level of sewerage collection and treatment service for the urbanized portions of Cook County and does so at a cost which is equally spread over all of the assessed valuation in the district.

A comparison of educational services in suburban Cook County adds strength to the claim that large special districts can overcome the worst consequences of tax base fragmentation. The secondary districts in suburban Cook County are generally several times larger, geographically, than are the elementary districts. Significantly, the disparities in taxable resources of the various secondary districts is far less than it is for the elementary districts and the disparities in the level of services provided by the secondary districts is also much less than it is for the elementary districts. In short, the larger school districts have provided a less disparate level of educational services and have enjoyed more equalized fiscal resources than have their smaller elementary counterparts.

Special Metropolitan Taxing Districts.--The worst consequences of special districts--the problems relating to the coordination of services and the provision of political control--might be overcome through the formation of a new kind of special district, the metropolitan taxing district. Such a district would levy taxes for the support of one or more public services, but would simply rebate the tax funds collected to the existing governmental jurisdictions which would, in turn, provide the required services. Such districts might be established on an intra-county, a county wide, or an inter-county basis. Any number of services might be included in the list of functions which they finance, or alternately they might provide funds to be used, at the local units discretion, for any proper purpose. They would thus draw funds from a large, diversified economic base and rebate them through some agreed upon formula to all of the governmental jurisdictions included therein.

These metropolitan taxing districts would pose certain problems of design, but none of these are insuperable. Some decision would have to be made regarding the nature of political representation and control on their governing body. District boundaries would have to be defined. Decisions on the functions which such districts would finance would need to be made. Some ultimate limitation or restriction on their taxing powers would have to be imposed. Finally, the range of taxes available to such districts would have to be established. They could levy taxes, for example, only against property or they could serve as the basic unit to which other taxes, such as the sales tax or a local share of an income tax, might be returned for redistribution to local units of government. Finally, some basis would have to be prescribed for allocating funds among the units of government included in the district.

For example, a taxing district might encompass all of the communities in suburban Cook County. This district, once established, might levy a property tax and serve as the collecting agency for the local share of all local sales taxes collected within suburban Cook County. The proceeds from both the sales tax rebates and the district's property tax collections might then be allocated among the municipal governments in accordance with a per capita or other kind of formula. Such a district would neither affect local control over municipal services nor the independent property tax powers of the municipalities, but it would equalize tax resources by overcoming, at least in part, the fragmentation of the county's tax base.

Equalization grants.--As noted earlier, the school equalization tax formulas do have a positive effect upon the tax base inequities of the very small jurisdictions--the elementary school districts. This gives credence to the belief that some form of equalization formula could be derived which would equalize the tax resources of both larger school districts and of other units of local government. If such a formula could be derived, a grant-in-aid program based upon it would constitute a major step forward toward the elimination, or at least the alleviation, of these inequities,

regardless of whether the aid was provided by the national government, the state government, the county government, or a special metropolitan taxing district.

Aid programs.--Since any basic restructuring of local government boundaries would meet with insurmountable opposition, some other means must obviously be found to reduce discrepancies where they presently exist. This means ultimately that some form of aid program must be found, to be administered either by existing units of government or the special metropolitan taxing district. One possible formula upon which an aid program can be based, obviously, is the per capita formula such as that currently used by New York State. Such aid programs do not really reduce disparities, but they do help hard pressed units of local government provide a minimally adequate level of services. For this reason alone, they are certainly preferable to no aid system at all.

Ideally, however, any formula used either as a basis for distributing grants-in-aid or as a basis for sharing state or nationally collected taxes should embody three principles: (1) such revenue rebates should be for general rather than specified purposes; (2) they should be based upon need as determined by the demands for services made upon the individual units of local government; and (3) they should be based upon need as measured by the relative ability of the individual local government to finance its own service programs. Any distribution formula based upon the source from which the taxes were collected will, like the Illinois sales tax, ultimately increase rather than decrease the disparities currently existing in governmental tax bases.

Sources of aid funds.--This analysis has made no distinction between the source of aid funds: such aids could come either from the national government, the state government, a county government, or a special metropolitan taxing district. The important point is that the money be obtained from some source, not that it be obtained from some specific source.

Better land use controls.--The results of this study have provided additional support to the well established principle that any local government's ability to finance its public services is directly related to the wealth and diversity of its tax base. Thus, the commercial enclaves, the industrial enclaves, the high income bedroom communities, and the balanced communities have shown themselves better able to provide acceptable levels of services without undo strain upon local taxpayers than middle and low income bedroom communities. This being true, and taken together with the lack of adequate regulation over the development of unincorporated land adjacent to urban communities, it becomes clear that some effective area-wide planning and coordination of land development is needed. Such planning and coordination must seek to (1) retard or stop land development and utilization schemes which threaten to pose severe urban problems in future years, (2) promote more broadly based tax bases within individual units of local government, and (3) exercise some control over actions affecting local government boundaries, including annexations, incorporations, and consolidations of existing governments. Any political organization given such responsibilities ought to be so constituted that its members reflect areawide rather than strictly parochial interests.

These principles can be realized in a variety of different ways. Again the important point is not the specific form that is used to achieve them, but that some form be developed which can perform these functions.

#### Other Forms of Assistance

In Illinois, and undoubtedly in a great many other states with metropolitan areas, there are a number of other actions which, although not directly related to disparities, can, if taken, help to offset these disparities. For example, local governments would be aided if either the state or county governments would provide centrally for such functions as purchasing, training of local officials and employees, and record keeping, perhaps through the development of central computer facilities for all units of government. Such services can be directly related to disparities if charges for the

use of such services or facilities were varied, depending upon the ability of an individual local government to pay for them.

Within the State of Illinois, there are several additional steps that could be taken immediately to minimize the impact of such disparities. First and most important, of course, would be a change in the basis used to redistribute sales tax proceeds to municipal governments. Second, the state should take measures to enforce collections of personal property taxes, or else eliminate the personal property tax system. Present enforcement of the tax is haphazard: some taxpayers pay it and others do not. The tax has been virtually ignored in the City of Chicago for years by residential taxpayers. If the tax were properly levied and enforced, Chicago's sagging revenue picture would undoubtedly receive a major shot in the arm.

#### The Role of the State and Federal Government in Alleviating Disparities

It makes little difference whether the state or national government provides the aids now so sorely needed by some units of local government. What is important, rather, is that some aid come from some source. But other changes are also needed, changes such as the development of better controls over land development and utilization. Realistically, however, there appears to be scant hope for such positive action in the near future by the Illinois legislature. It is, in fact, entirely probable that such action will not be forthcoming until such time as the national government stimulates it through such incentives as federal aid programs. For this reason alone, federal action which would encourage progressive state legislation regarding the governance of metropolitan areas is sorely needed.

Thus, unpopular though it may be, federal action now appears essential if comprehensive programs aimed at the elimination of fiscal disparities in metropolitan areas are to become a reality.

Fiscal Disparities in the  
CLEVELAND, OHIO  
Metropolitan Area

Excerpts from a Report by  
Frederick Stocker  
Ohio State University, Columbus

<u>Major Fiscal Disparities, 1965</u>	<u>Central City</u>	<u>Outside Central City</u>
Per capita State and Federal aid	\$ 58	\$ 53
Per capita revenue from taxes	151	169
Per capita educational expenditure	81	105
Per capita noneducational expenditure	188	145
Total estimated population, 1964 (thousands)	811	1,023

In the summer of 1966 the Hough area of Cleveland was the scene of a violent riot. In the fall of 1967 the city became one of the first two in the United States to elect a Negro Mayor.

Cleveland is blocked from expansion by a ring of incorporated municipalities, and suffers the classic syndrome of rapidly increasing low income population, vanishing middle and upper income residents and obsolescence. In the outskirts is a wide range of community types: An industrial enclave with a grotesquely high per capita valuation, exclusive suburbs where the "power elite" of Cleveland reside, low income bedroom communities, and rural settlements suddenly caught up in rapid and radical change.

The financial problems of Cleveland were underlined in December 1967, when the new Mayor told the astounded City Council that the previous city government had bestowed upon the tenth largest city in the nation "no reserves, no cushions," and a \$100,000 deficit.

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## THE CLEVELAND METROPOLITAN AREA

The Cleveland Metropolitan Area (SMSA) consists of Cuyahoga County, Lake County, to the Northeast along Lake Erie, Geauga County on the Southeast, and Medina County on the Southwest.<sup>1/</sup> The City of Cleveland is located in Cuyahoga County. Adjacent to Cuyahoga County on the South is Summit County, constituting part of the Akron SMSA. Adjacent on the west along Lake Erie is Lorain County, which constitutes the Lorain-Elyria SMSA. The SMSA thus consists of four counties, but several other adjacent counties would probably be defined as part of the Cleveland SMSA but for the fact that they have been designated separate SMSA's. The present study considers only the four counties in the Cleveland SMSA proper.

The urbanized area almost completely blankets Cuyahoga County. . . .

### POPULATION

The Cleveland SMSA (four counties) had a 1960 population of 1,909,000, or 24.6 percent more than a decade earlier (Table 1-1). By 1965, population is estimated to have increased to 2,087,000. Population growth in the decade of the 1950's was concentrated in the portions of the SMSA that lie outside the City of Cleveland. The City itself declined 4 percent in population from 1950 to 1960, with the result that, whereas in 1950 well over half the population of the four-county area resided in Cleveland, in 1960 more than 60 percent of the population of the area resided in the area outside the central city.

A special census of the City of Cleveland, as of April 1, 1965, found that the decline in population had accelerated. Between 1960 and 1965, total population fell by 7.4 percent, from 876,000 to 811,000.

#### Racial Composition

A significant indicator of a variety of economic and social problems that give rise to need for government programs is found in the changing racial composition of the area. Cleveland typifies the national pattern of Negro concentration in core-city areas as whites flee the central city to the more segregated suburbs. The Negro population of the Cleveland SMSA and of the City itself has been increasing steadily. As recently as 1950, Negroes represented only 10 percent of the SMSA population, and 16 percent of that of Cleveland itself. By 1960 this percentage had increased to 13.6 percent for the SMSA as a whole; in the City of Cleveland it had increased to 28.6 percent.

The special 1965 Census of Cleveland reveals the extent to which the racial composition of the City's population is changing. The net loss of 65,000 in population reflects the loss of 91,000 white residents and the influx of 26,000 additional nonwhites. The increase in Negro population tends to be concentrated in a few neighborhoods. Between 1960 and 1965, marked increases in the Negro population were evident in the Glenville and Mount Pleasant neighborhoods. The famous Hough area experienced a small decrease in Negro population, while losing about two-thirds of its white residents. The population decline in this area was in part attributable to demolition of dwellings in connection with the city's urban renewal program.

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<sup>1/</sup> Geauga and Medina Counties were added to the SMSA in 1960. Data for the SMSA from the 1960 Census, however, cover only Cuyahoga and Lake Counties.

TABLE 1-1.--POPULATION OF CLEVELAND SMSA, TOTAL AND NEGRO,  
BY COUNTY, 1950, 1960 AND 1965

County	1950	1960	1965	Percent Change		
				1950-1960	1950-1965	1960-1965
Total SMSA	1,532,574	1,909,483	2,086,585	24.6	36.1	9.3
Cuyahoga	1,389,532	1,647,895	1,759,001*	18.6	26.6	6.7
Cleveland	914,808	876,050	810,858	-4.2	-11.4	-7.4
Geauga	26,646	47,573	59,321*	78.5	122.6	24.7
Lake	75,979	148,700	189,519*	95.7	150.0	27.5
Medina	40,417	65,315	78,744*	61.6	94.8	20.6
Negro population, total SMSA	153,407	258,917	n.a.	68.8	n.a.	n.a.
Cuyahoga	151,187	255,310	n.a.	68.9	n.a.	n.a.
Cleveland	147,847	250,818	276,376	69.6	86.9	10.2
Geauga	803	1,032	n.a.	28.5	n.a.	n.a.
Lake	931	1,963	n.a.	110.8	n.a.	n.a.
Medina	486	612	n.a.	25.9	n.a.	n.a.
Percent, Negro of total SMSA	10.0	13.6	n.a.			
Cuyahoga	10.9	15.5	n.a.			
Cleveland	16.2	28.6	34.1			
Geauga	3.0	2.2	n.a.			
Lake	1.2	1.3	n.a.			
Medina	1.2	0.9	n.a.			

\*July 1, Ohio Department of Development.

Source: U. S. Department of Commerce, Bureau of the Census, except as otherwise indicated.

The picture, in summary, is one of rapidly growing population in the OCC portions of the SMSA; gradually declining population in the central city; a heavy influx of Negroes into the central city, with the impact concentrated in a few ghetto neighborhoods; and a marked exodus of whites from the central city.

While it is not readily evident in census data, the Cleveland social milieu is complicated further by the existence of closely knit white ethnic groups, many of which hold strong antipathies toward outsiders and especially toward Negroes. This situation presents points of conflict that are potentially explosive; it also poses an obstacle to coordinated efforts on the part of the community and its local government (especially the City of Cleveland) to ameliorate social distress.

. . . . .

#### Composition by Age and Sex

The growing requirements for public services in the City of Cleveland are indicated also in the changing age and sex composition of the population. Between 1960 and 1965, the proportion of the city population that was below 14 years or over 65 of age increased from 38.5 percent to 40.2 percent.<sup>3/</sup> During the same period the proportion of males 14 years old and over declined from 34.7 percent to 33.5 percent.<sup>4/</sup> School enrollment increased greatly despite the overall decline in population; city-wide the increase in the five-year period was 18 percent.<sup>5/</sup> In heavily Negro neighborhoods the increases ranged up to almost 50 percent.

Public service needs are reflected also in the proportion of families below the poverty level. In 1965, throughout the city as a whole, 1 out of 6 persons was a member of a poverty family. Within the selected neighborhoods examined in the Census study, the proportion was almost 1 out of 3. Among Negroes the proportions were still higher, in the West Central neighborhood approaching 50 percent. In every one of the selected neighborhoods, poverty among Negroes was more prevalent in 1965 than in 1960.

#### ECONOMIC BASE

The industrial orientation of the Cleveland SMSA is shown in the pattern of employment. In Cuyahoga County, 45 percent of those on payrolls in 1964 were employed in manufacturing, with the transportation equipment, nonelectric equipment, and primary metals processing industries dominant (Table 1-4). Each of the other counties in the SMSA showed relatively greater concentration of employment in manufacturing industries than is characteristic of the nation as a whole.

. . . According to 1960 census data, the Cleveland work force (those working in the city) of 488,400 includes 200,000 nonresidents of the city (Table 1-5). Four out of five commuted into the city from other parts of Cuyahoga County. Ten percent commuted from the three counties that comprise the balance of the SMSA (as presently defined); (this figure probably has increased since 1960). The private automobile was the dominant form of transportation. Almost 80 percent of commuters used this means, while only a little more than half of those living and working in the city drove to work.

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<sup>3/</sup> U.S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P-23, No. 21, Table 1, pp. 10-11.

<sup>4/</sup> Ibid., Table 2, pp. 12-13.

<sup>5/</sup> Ibid.



TABLE 1-4.--EMPLOYMENT PATTERN, BY INDUSTRY AND BY COUNTY, CLEVELAND SMSA, 1964

	Employees on Payrolls		Percentage In:								Total
	1962	1964	Contract Construction	Manufacturing	Transportation Utilities, and Sanitary Services	Wholesale Trade	Retail Trade	Finance, Insurance and Real Estate	Services	All Other	
	--(thousands)---										
Cuyahoga	555,456	577,735	4	45	6	8	15	6	16	-	100%
Geauga	5,037	6,579	4	59	4	2	17	3	10	1	100
Lake	24,658	28,314	5	56	3	3	20	3	10	-	100
Medina	8,682	9,585	4	41	4	4	22	8	15	2	100
U.S. average			6	37	7	7	19	6	16	2	100

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Dominant Industries		Employment (thousands)	Percent of Total Employment	Dominant Industries		Employment (thousands)	Percent of Total Employment
Cuyahoga County	Transportation equipment	48,047	8.4%	Lake County	Chemicals and allied products	1,527	17.8%
	Nonelectric equipment	36,561	6.3		Nonelectrical machinery	2,618	9.2
	Primary metals processing	<u>36,467</u>	<u>6.3</u>		Fabrication, special metal products	<u>1,626</u>	<u>6.1</u>
		121,075	21.0		Total	9,371	33.1
Geauga County	Rubber and misc. plastics	1,800	27.4	Medina County	Rubber and miscellaneous products	1,520	15.9
	Stone, clay and glass	389	5.9		Fabrication, special metal products	756	7.9
	Electrical machinery equipment	<u>358</u>	<u>5.5</u>		Medical and other health services	<u>684</u>	<u>7.1</u>
		2,548	38.8			2,957	30.9

Source: U.S. Bureau of the Census and Social Security Administration, County Business Patterns, 1964, as summarized by the Office of Economic Opportunity Information Center.

TABLE 1-5.--RESIDENCE AND PLACE OF WORK OF WORKERS, CLEVELAND SMSA, 1960

Cleveland Work Force by Place of Residence

	<u>Total</u>	<u>Transportation by Auto</u>
Living in Cleveland	288,819	158,714
Living elsewhere in Cuyahoga County	160,631	123,134
Living elsewhere in SMSA		
Geauga County	4,225	4,072
Lake County	13,687	12,708
Medina County	3,559	3,319
Living elsewhere, in place not reported	<u>17,479</u>	<u>14,134</u>
Total	488,400	316,081

Cleveland Resident Workers, by Place of Employment

Working in Cleveland	288,838	158,722
Working elsewhere in county	23,161	18,201
Working elsewhere in SMSA		
Geauga County	279	262
Lake County	907	839
Medina County	90	90
Working elsewhere, in place not reported	<u>17,444</u>	<u>2,575</u>
Total	330,719	180,689

Source: U.S. Census of Population, 1960, Journey to Work, PC (2)-6B, pp. 24-25.

Seven out of eight of employed persons living in Cleveland worked in the city. Most of those who commuted out of the central city worked elsewhere in Cuyahoga County.

#### LOCAL GOVERNMENT IN THE CLEVELAND SMSA

According to the Census of Governments, local government in the Cleveland SMSA in 1962 was in the hands of 205 separate units of local government, not counting the Federal and State governments and their agencies (Table 1-6). Between 1957 and 1965 the number of local units decreased by ten, reflecting the elimination of 11 school districts and the creation of one new special district. The number of school districts remained unchanged between 1962 and 1966, but one municipality and one township passed out of existence as a result of consolidation and annexation.

#### Local Finances

Local government in the Cleveland SMSA, with an estimated 1964 population of 1,958,000, spent about \$550 million for public services, and raised about \$510 million in general revenue in fiscal year 1965. Public education represented by far the largest single category of local expenditure; highways, public welfare, health and hospitals and police protection were, in that order, the next largest categories of local public expenditure. Revenues were derived predominantly from local sources--the property tax and charges and miscellaneous sources. (The income tax had not yet made an appreciable impact in the SMSA.) About one of every five revenue dollars came from intergovernmental transfers, nearly all from the State government.

On a per capita basis local expenditures in the Cleveland SMSA averaged \$281 in 1964-65, and general revenue, \$261. In both respects Cuyahoga County was slightly above the average for the SMSA as a whole. Cuyahoga County per capita spending was slightly below the SMSA average for public education and sewerage, and slightly higher for public welfare, public safety and sanitation other than sewerage (principally garbage and rubbish collection). Long term debt per capita was slightly above the SMSA average.

Cuyahoga County property taxes (per capita) averaged higher than those of the SMSA as a whole; the same was true of intergovernmental revenue, because of distinctly higher per capita receipts from the Federal Government.

The City of Cleveland itself raised \$153 million in general revenue in 1964. General expenditures totaled \$158 million. Neither school revenues nor school expenditures are included in these amounts, as the Cleveland School District is an independent governmental unit. In 1964, a relatively small amount of welfare expenditure was included in the city budget, but this function has now been centralized in the County.

The largest expenditure items in the city budget were highways, police protection, fire protection, and sewerage. The property tax was the dominant tax source in 1964 (although the local income tax is likely soon to rival the property tax in total productivity). The city also received large amounts from nontax revenues, especially from sewerage charges and operation of the municipal water system. Both services are supplied by the city to many suburban communities at charges that cover or more than cover the cost. The city's control over the water and sewerage system gives the city some revenue from its suburbs, as well as a degree of control over the pace and direction of suburban development.

In comparison with the average of 38 metropolitan areas for which the U.S. Bureau of the Census reports government financial data, the Cleveland SMSA appears to be distinctly below average both in revenue and in expenditure per capita. Expenditure per capita was more than \$20 below the 38-area average, with lower than average amounts being spent for education, public welfare, health and hospitals, police and fire protection and

TABLE 1-6.--NUMBER OF UNITS OF LOCAL GOVERNMENT, CLEVELAND SMSA, 1957 AND 1962

Type	Cuyahoga			Geauga			Lake			Medina			Total SMSA		
	1957	1962	1966	1957	1962	1966	1957	1962	1966	1957	1962	1966	1957	1962	1966
County	1	1	1	1	1	1	1	1	1	1	1	1	4	4	4
Municipality	58	58	57	5	5	5	17	17	17	9	10	10	89	90	89
Township	4	4	4	16	16	16	7	6	6	18	17	17	45	44	43
School district	32	32	32	13	8	8	9	9	9	13	7	7	67	56	56
Special district	4	4	n.a.	1	1	n.a.	1	2	n.a.	4	4	n.a.	10	11	n.a.
Total	99	99	n.a.	36	31	n.a.	35	36	n.a.	45	39	n.a.	215	205	n.a.

Source: U.S. Census Bureau, Ohio Education Association, and reports of the Auditor of the State of Ohio.

several other categories of expenditure. The Cleveland SMSA was above the 38-area average in per capita expenditure for highways and sewerage. The significance of such comparisons is of course open to question, as they involve areas with different price levels, different local government structures and different degrees of direct involvement by the State in performance of public services. It is unlikely, however, that the "price per unit of government service" is less in the Cleveland area than in the average of other SMSA's; nor is the State of Ohio noteworthy for its degree of State assumption of responsibility for administration of State-local functions.

The conclusion indicated is that the Cleveland SMSA, as a whole, supports its public services and facilities at a distinctly lower level than the average of other SMSA's throughout the country.

However, in comparison with other Ohio SMSA's for which data are reported, the Cleveland area appears to be relatively high both in per capita general revenue and in per capita direct general expenditure.

### Local Politics

Intergovernmental relations in the Cleveland area are closely bound up with party politics, only a few facets of which can be dealt with here. The City of Cleveland is traditionally Democratic. The state government has, with brief exceptions, been dominated in recent years by Republican or conservative Democratic administrations. The situation has produced many of the large city-state government conflicts that tend to characterize urban states.

Despite the long-standing ascendancy of the Democratic party in the City of Cleveland, the political climate is one of turmoil. For many years the dominant political factor was Mayor Anthony J. Celebrezze, who succeeded in gaining and retaining the support of most of the various and contending factions within the Democratic party. Though he is not generally regarded as having been a strong leader, during his administration the city developed close ties with the Federal Government and enjoyed its close cooperation on urban renewal and other federally aided urban programs.

Following Mr. Celebrezze's appointment as Secretary of Health, Education and Welfare, Frank S. Locher took office. During his administration many of the city's problems--problems that had been developing for years--broke into the open. The collapse of the city's urban renewal program early in 1967, and the summer-1966 rioting in the Hough area, are only two symptoms of a more deep-seated political impotence. . . .<sup>6/</sup>

### Local Tax Structure

In Ohio as elsewhere, the property tax provides the bulk of revenue for local governments. Many Ohio municipalities, however, have developed local earned income taxes as a supplement to property tax revenues. Cleveland long held out against the earned income tax trend. On January 1, 1967, however, the city began collecting a 1/2 of 1 percent levy on incomes earned within the city, provided however that, in the case of a commuter, 25 percent of the amount collected would be returned to the municipality of residence, if that city imposed a similar tax and reciprocated with respect to Cleveland residents. Since then most of the 57 municipalities in Cuyahoga County have enacted earned income levies. This tax development dominates the present and prospective fiscal situation not only of the City of Cleveland but of the entire metropolitan area, and indeed of the state as a whole.

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<sup>6/</sup> See Robert H. Giles, "How to Become a Target City," The Reporter, June 15, 1967, pp. 38-41; also the Skow article in The Saturday Evening Post (*op. cit.*).

The income tax.--Cleveland was the last of Ohio's large cities to join the local earned-income tax movement, which started 20 years ago in Toledo and has since spread to about 140 Ohio cities and villages. For a long time the city was deterred from enacting the tax by opposition in the suburbs, which insisted on a share of the revenue being returned to the community of the taxpayer's residence. Cleveland is sometimes described as a classic example of a community in which the power elite has moved to the suburbs. In this case, it was politically impossible for the city to put across an income tax without the support of the newspapers and leading citizens organizations, but this support was conditioned on an acceptable arrangement being worked out with the suburbs. The latter was proven in 1965 when Cleveland's first income tax proposal was defeated.

Delay may also have reflected some hope that the State might come up with some form of assistance for the city, but such hopes were obviously not well founded!

Finally in 1966, in an action many observers say was long over due, the city accepted the inevitability of both an income tax and a sharing arrangement, and enacted the tax outlined above. The provision for return of 25 percent of the tax to the municipality of residence was deemed the price necessary for wide-based support. Such a provision, of course, creates a strong incentive for enactment of a similar levy by each and every suburb, because the reciprocal sharing applies only between municipalities having such a tax. Only in this way can the suburb be sure to receive its full share of the revenue. Predictably most of the municipalities in Cuyahoga County have now levied an income tax. Serious administrative problems have been created notwithstanding the establishment of a centralized collection setup that handles administration on a contract basis for most municipalities. Compliance problems are also troublesome for the business firm that must withhold taxes for employees from perhaps 40 different jurisdictions, and for those that must apportion their business net income for taxation among the taxing communities in which they produce, sell, or have employees.

Despite the intergovernmental tangle to which it has given rise, the local earned income tax has contributed somewhat to moderating fiscal disparities. The income tax is expected to bring in desperately needed revenue to the City of Cleveland. In its first year of operation, the tax is expected to bring in \$11,250,000 or the equivalent of 3.89 mills on the local property tax base. In the suburbs the revenues are expected to be less significant; in several, it was indicated that the revenues will be used to increase policemen's and firemen's salaries, and that no expansion in public services or reduction in property taxes is in prospect.

The local income tax is, however, open to abuse in ways that may aggravate fiscal disparities. If Cuyahoga Heights,<sup>1/</sup> for example, were to enact an income tax (as of now it has not, but there is no reason why it could not) it would pour revenue into the Village treasury, most of it being paid by commuters whose home communities, with far higher tax rates and lower levels of per capita expenditure, would benefit only to the extent of the minor fraction of the revenue returned to them. Such a step would merely give industry a still more advantageous tax position, at the expense of the commuting work force. Such a situation has already developed elsewhere in the State.

Property taxation.--The property tax provided 59.1 percent of all local general revenue in the Cleveland SMSA in 1964 (Table 1-12). This was considerably above the average for the State of Ohio as a whole, and Ohio in turn was well above the national average in the proportionate reliance of local governments on the property tax. In Cuyahoga County the percentage was still higher--59.9 percent. The greater relative dependence of local units in the SMSA on the property tax partly reflects the absence (until recently) of local earned income taxes, which had by that time become prevalent in the rest of the State. This is shown in the relatively low "other taxes" percentages in the

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<sup>1/</sup> As discussed below, this community is an industrial enclave with an enormous tax base, low tax rates, and high levels of public expenditure per capita.

TABLE 1-12.--SOURCES OF GENERAL REVENUE OF LOCAL GOVERNMENTS,  
OHIO TOTAL, CLEVELAND SMSA, AND CUYAHOGA COUNTY, 1964  
(Thousands)

	<u>Ohio Total</u>		<u>Cleveland SMSA</u>		<u>Cuyahoga County</u>	
	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>
All local general revenue	\$2,310.5	100.0%	\$510.8	100.0%	\$444.5	100.0%
Intergovernmental revenue						
From state	52.0	2.3	7.2	1.4	7.2	1.6
From federal	587.7	25.4	101.9	20.0	86.5	19.5
Ohio sources	1,670.9	72.3	401.6	78.6	350.8	78.9
Property tax	1,147.8	49.7	301.7	59.1	266.4	59.9
Other taxes	124.6	5.4	8.0	1.6	6.8	1.5
Charges, miscellaneous	398.5	17.2	92.0	18.0	77.6	17.5

Source: U.S. Department of Commerce, Bureau of the Census, Governmental Finances in 1964-65 and Local Government Finances in Selected Metropolitan Areas in 1964-65.

SMSA and in Cuyahoga County. In part also it reflects the lower relative amounts received from the State and Federal Governments.

Millage rates on property in 1966 averaged \$4.74 per \$100 of assessed valuation for the SMSA as a whole (Table 1-13). Estimates by the Ohio Tax Study Commission of the average effective rate (rate or full value) on real estate show Cuyahoga County at 1.64 percent, the highest of any county in the State. The State average in 1965 was 1.36 percent.

The property tax base for local levies includes real estate, tangible personal property, and public utility property. Ohio uses a classified property tax system, under which (at the present time) real estate is assessed at a target ratio of 40 percent, tangible personal property at ratios of 50 to 70 percent, depending on the class of property, and the personal property of public utilities is assessed at 100 percent. Tangible personal property assessed for taxation consists only of business property. The result is that business property--tangible personal property and public utilities property, and commercial and industrial real estate--represents an unusually high proportion of the property tax base. In view of the tendency for business property to be distributed very unevenly among local jurisdictions, the concentration of such property in the Ohio property tax base must be considered as an important contributor to interlocal disparities in assessed value per capita.

The fiscal position of local governments in Cuyahoga County--especially that of the City of Cleveland--has been greatly influenced by a 1964 decision of the State Supreme Court in the Park Investment Case. This case held illegal the long-established practice in Cuyahoga County of assessing commercial and industrial real estate at higher fractions of true cash value than were applied to residential real estate. The practice appears to have been totally without statutory or constitutional foundation, but long went unchallenged.

The immediate impact of the Park Investment decision was to reduce commercial and industrial real estate assessments by 15 percent for all categories. The county tax duplicate was cut back from \$4,359 million (the valuation proposed as a result of the 1964 reappraisal) to \$4,072 million--a reduction of 6.6 percent. This produced an actual decline in tax base from 1963. By 1966, the County tax base had not yet regained its 1963 level (Table 1-14).

In the City of Cleveland the cutback was even more severe--a reduction of about 10 percent from what had been tentatively established. In 1966 the Cleveland tax base was still 6.6 percent below 1963.

Cuyahoga Heights, with its enormous concentration of industrial property, experienced the greatest percentage reduction as a result of the decision. Other selected communities with greater residential concentrations were less affected.

The full impact of the decision was not felt in the 1964 tax year. Despite the across-the-board reduction it occasioned, many owners of commercial and industrial property have since received further reductions, on their showing before the County Board of Revision that their property is valued more than 10 percent above the stated target level of 40 percent. As a result, the tax base in many parts of Cuyahoga County, and especially in Cleveland itself, is showing little or no growth.

While communities vary widely in the amount of taxable property within their borders, assessment of property is comparatively centralized in Ohio, so that variations between localities at assessment level are relatively minor. Real estate is assessed at the county level by the county auditor, instead of by a large number of independent city or township assessors as is the case in many other States. Ohio also relies heavily on the use of private appraisal firms in carrying out periodic (sexennial) reappraisals. As a result, variations within counties in the level of assessment of real estate are less pronounced than in most other States. Among the counties of the State, Cuyahoga showed



TABLE 1-13.--ASSESSED VALUATION AND LOCAL PROPERTY TAX LEVIES,  
CLEVELAND SMSA, BY COUNTIES, 1966

	<u>Total Valuation Real, Public Utility, and Tangible Personal Property</u> (million)	<u>Total Taxes Levied</u> (thousand)	<u>Average Rate on Assessed Valuation</u> (percent)	<u>Estimated Average Effective Rate on Real Estate*</u> 1965
Cuyahoga	\$ 6,096	\$ 291,786	4.79%	1.64%
Geauga	149	6,862	4.61	1.49
Lake	555	24,936	4.49	1.54
Medina	206	8,370	4.06	1.32
Total SMSA	7,006	331,954	4.74	n.a.
State total	33,111	1,235,319	3.73	1.36

\*Ohio Tax Study Commission.

Source: Ohio Department of Taxation, Board of Tax Appeals, Division of County Affairs.

TABLE 1-14.--EFFECT OF PARK INVESTMENT DECISION ON LOCAL  
TAX BASE, SELECTED CUYAHOGA COUNTY JURISDICTION  
(Millions)

	<u>1963</u>	<u>1964 As Submitted</u>	<u>1964, As Ordered Under Park Investment</u>	<u>1966</u>
Cuyahoga County	\$4,106	\$4,359	\$4,072	\$4,263
Cleveland	1,805	1,847	1,677	1,686
Cuyahoga Heights	35.0	40.0	34.3	35.3
Lyndhurst	43.5	47.1	46.3	49.2
Hunting Valley	5.8	7.0	7.0	6.6*
Garfield Heights	71.0	77.1	74.5	78.9

\*Decline results from reductions in land value as a result of action of the County Board of Revision.

Source: Ohio Department of Taxation, Board of Tax Appeals.

the smallest coefficient of intra-county dispersion in 1963--the latest year for which data are available--and Lake County was second lowest. Geauga and Medina Counties were near the State average.

Like most states, Ohio assesses public utility property at the state level, so that there is general uniformity throughout the state in this matter. The State, however, "situs" a large fraction of public utilities valuation to individual localities, so that great disparities are created among communities in the amount of public utility property in the local tax base.

Ohio is unique among the states in assessing tangible personal property at the state level. This system also tends to produce a high degree of uniformity. Again, however, such property is distributed very unevenly among local governments.

Statewide, more than 68 percent of property taxes levied in Ohio go to school districts.<sup>8/</sup> In Cuyahoga County the proportion in 1966 was 57.1 percent. Because of this predominance of school levies, disparities in the level of property taxation are thus largely a reflection of the fragmentation of the metropolitan area among a multiplicity of school districts.

The assessed value of property is subject to local tax levies. Under the State Constitution, these levies are limited to an aggregate of 10 mills, except as voted in referenda. Most charter cities, such as Cleveland and 21 other municipalities in Cuyahoga County, may have municipal charters that authorize for higher property levies. Nevertheless, the typical pattern in Ohio involves frequent referenda at which the electorate is asked to vote the levies necessary for the continued operation of schools and other local services. In recent years there has been growing resistance on the part of the voters to authorizing additional levies. This system has produced a generally low level of property taxes in the State of Ohio. It should be noted, however, that the Northeast part of the state and especially the Cleveland area has traditionally had higher levies than are found in most other parts of the state. In part this is a reflection of the absence (until recently) of earned income taxes in this area.

A significant feature of Ohio law regarding local finance is the so-called "preemption doctrine." This doctrine, which rests on a long line of judicial decisions, holds that the state legislature in enacting any state tax, implies its intent to preempt this revenue source to the exclusion of local governments. The result is that local units are barred from enacting piggyback local supplements to state taxes such as the retail sales tax. Up to the present time, Ohio has avoided the many kinds of local taxes that developed in many other states, complicating the state-local tax structure and creating disparities in both kinds and amounts of taxes levied in different parts of the state.<sup>9/</sup> The preemption rule, however, in combination with very restrictive property tax limits, has forced many metropolitan areas, most recently the Cleveland area, to resort to local earned income taxes.

State aid.--The extent of fiscal disparities is influenced by the structure of financial aids granted by the state to local governments. In Ohio there are three main forms of state aid to local governments. These are 1) the highway fund, 2) the local government fund, and 3) the school foundation program.

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<sup>8/</sup> Report of the Ohio Tax Study Commission, 1967, Table II-25.

<sup>9/</sup> The present session of the State General Assembly has before it a number of proposals sponsored by the State administration which would open up various revenues sources for simultaneous employment by local units. Among these are levies on hotel and motel occupancy, public utilities services, motor vehicles licenses and deed transfers.

Distributions are made to local governments from State collections under motor vehicle license fees and the motor fuel tax. The distribution follows a complex statutory formula, the general effect of which is to channel larger per capita amounts into rural areas. In 1966 Cuyahoga County, with 16.6 percent of the State population, received only 10.8 percent of the highway funds distributed by the State (Table 1-17). Lake County also received somewhat less than an average per capita share. It should be noted that the result of this system of highway revenue distribution is that funds for construction and maintenance of municipal streets is held generally to be inadequate. This problem is especially evident in the Cleveland area, where frequent complaints have been heard about the inadequacy of funds for street and highway maintenance.

The local government fund consists of a statutory amount (\$24 million annually in recent years) of receipts from the state retail sales tax, plus certain revenues from the state tax on intangible personal property, representing primarily the tax on deposits and shares of financial institutions (\$45 million in 1966). The \$24 million from the sales tax is distributed among the counties of the state in accordance with a formula specified by law.<sup>10/</sup> The tax on financial institutions is distributed among counties by source. The general effect of this arrangement is to give the urban counties a slightly more than proportionate share of the distribution of the local government fund. In 1966, for example, Cuyahoga County with 16.6 percent of the population received about 25 percent of the Statewide distribution from the local government fund. Geauga, Lake, and Medina Counties, however, received less than an average per capita share (the 1966 percentages of the Statewide total distributed were 0.2 percent in Geauga County, 0.5 percent in Lake County, and 1.4 percent in Medina County).

The revenues for the local government fund are in turn distributed among the local governments within each county. This distribution is made by the county budget commission, which consists of the county treasurer, the county auditor, and the county prosecutor. The distribution is made in accordance with "need," subject, however, to various statutory restrictions. For example, in counties having less than 100,000 population, at least 10 percent must go to townships. If the population of municipalities in the county is less than 41 percent of the total county population, more than 60 percent of the fund may be distributed to the county. If the municipalities population is between 41 percent and 81 percent of the population of the county, the maximum allowed the county as a unit of government is 50 percent of the total. When the municipalities population is greater than 81 percent of the total population (as is the case in Cuyahoga County) the county's share is limited to a maximum of 30 percent.

There is no readily apparent pattern in the distribution of the local government fund and no evidence that the fund accomplishes any significant equalization among local units of government in either the level of public expenditure or the level of taxes.

The third important form of state transfer to local governments is the State School Foundation Program. The Ohio School Foundation Program provides for distribution to each district (except the few that levy less than the 10 mills for operating purposes necessary to qualify) of an amount based on the number of classroom units, classes for the handicapped, special education classes, and administrative, special instruction, and supervisory units. From the amount so calculated there is subtracted a charge-off of 12.5 mills times the property tax base. If this formula results in less than \$2,450 per classroom unit, the district receives this minimum guaranteed amount. Cleveland and most of the other districts in Cuyahoga County are among the so-called "flat amount" districts.

Legislation likely to be enacted by the current session of the Ohio General Assembly would significantly increase the amounts in the "plus side" of the Foundation,

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<sup>10/</sup> The formula provides for distribution of the fund among counties, 75 percent according to the ratio of assessed value of property inside municipalities to the statewide total municipal valuation, and 25 percent according to population. No county is to receive less than \$40,000.

TABLE 1-17.--DISTRIBUTION OF HIGHWAY FUNDS, 1966  
(Thousands)

<u>County</u>	<u>Dollars</u>	<u>Percent of State Total Distribution</u>	<u>Percent of State Total Population</u>
Cuyahoga	\$ 16,885	10.8%	16.6%
Geauga	1,049	0.7	0.6
Medina	1,313	0.8	0.8
Lake	1,980	1.3	1.8
State total	156,669		

Source: Financial Report and Public Debt Statement, Ohio Counties, 1965, Office of State Auditor, Ohio.

and would raise the charge-off to 17.5 mills. The minimum guarantee would rise to \$3,050 per classroom unit. It is anticipated that this change will reduce the number of flat amount districts, thereby increasing the equalizing effect of the formula.

Further equalization would be accomplished by a provision in the pending legislation for an additional payment of \$100 for every pupil covered by Aid to Dependent Children. The purpose of course is to take account of the special educational needs of communities in which ADC children are concentrated. This provision would be of special significance in the Cleveland City School District.

In summary, there are in Ohio three forms of state transfer to local governments that offer a potential vehicle for reducing interlocal disparities in expenditures or taxes. None appears, however, to have operated in such a way as to accomplish any significant equalization within the Cleveland metropolitan areas or between the counties in the Cleveland SMSA and the balance of the state.

Shared revenues.--In addition to direct transfers from the state to local governments, the Ohio constitution requires the State to share revenue from the inheritance tax with local governments on the basis of source. In 1965, local governments throughout the State received \$19 million, or about 1 percent of all general revenue from this source. One problem associated with this source of revenue is the highly unstable and unpredictable character of the amount going to any individual locality. As a result, local governments seldom budget for this revenue, but receive it instead more or less as windfalls. Moreover, the tendency is for wealthier communities to receive a disproportionate share of inheritance tax revenues.<sup>11/</sup>

A further source of fiscal disparity is found in the system of distribution of revenues from the tax on local-situs intangibles, consisting principally of the 5 percent levy on the income yield of income producing intangibles. Revenue from this tax is collected by the state, but returned to the county of origin for distribution among local governments. In 1965, \$41.3 million was distributed to local governments from this source. The statutory formula governing distribution of these revenues operates to give libraries first claim on the fund. In practice, libraries have preempted a gradually increasing share of this revenue, giving rise to the charge that libraries are over-financed relative to their local functions. Disparities are accentuated also by the wealthy areas, which tend to receive back substantial amounts in intangible revenue, and poorer areas which get little from this source.

#### METROPOLITAN GOVERNMENT IN THE CLEVELAND AREA

A series of efforts have been made over a period of many years to bring about greater unification in the performance and financing of governmental functions in the Cleveland area, but thus far they have met with little success and the prospect at this moment is not promising.

Initial steps were taken in 1933 when the Ohio constitution was amended to allow for optional forms of county government. The amendment, which was strongly backed by citizens groups in Cleveland, permits a variety of changes ranging from those of very

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<sup>11/</sup> Officials of one Cuyahoga County municipality, an older residential community, describe the city as "living on borrowed time" in that tax increases have been avoided from year to year by more or less unexpected and unbudgeted collections from the inheritance tax. The city contains many wealthy older residents whose property, when they die, tends to pass into the hands of heirs who have moved out of the community. The community expects, therefore, that its inheritance tax revenue will decline with the passing of the present generation.

limited input to the centralization at the county level of performance of any or all municipal functions. In its original form, the Constitution Amendment requires in the case of proposals involving county assumption of municipal powers, that the proposed change clear four hurdles: 1) approval by a majority of the voters in the county; 2) a majority in the largest city in the county; 3) a majority in the remainder of the county; and 4) a majority in a majority of the municipalities in the county. Less far reaching changes required only a majority of those voting in the county.<sup>12/</sup>

In 1935, a proposal was put to the voters that would have made limited changes in the functions of county government. The proposal received three of the necessary four majorities; failing only to receive approval by a majority of the voters in the portion of Cuyahoga County outside the City of Cleveland. The State Supreme Court, however, declared the changes invalid, ruling that the proposals entailed assumption of municipal powers by the County government and thus required approval by all four of the majorities noted above.

In the years since there have been other efforts to achieve greater unification in government. After World War II, a new effort was made to establish a county home-rule charter permitting reorganization of county government and assignment of more responsibilities to the county. A charter commission was elected, but the charter they drew up was rejected by the voters in 1950.<sup>13/</sup>

The most recent effort was in 1958, when the voters again authorized creation of a county charter commission, but then rejected the results of the commission's work.<sup>14/</sup>

Despite repeated failure to adopt thoroughgoing measures for local government reform, there are many individual functions in which varying degrees of consolidation or coordination have evolved in Cuyahoga County. Norton cites public health, water, public transit, public safety, refuse disposal, tax collection, and others. Cooperation in performance of individual functions evidently continues to grow; knowledgeable observers in the area expect any integration that is likely to occur in the near future to take this form.<sup>15/</sup>

#### SUMMARY

In summary, the Cleveland metropolitan area appears to present many intergovernmental problems, some of which are typical of large cities and their environs, while others are to some degree unique.

The metropolitan area is highly fragmented into numerous small jurisdictions, with the result that there are wide disparities in tax loads and service levels and administrative diseconomies associated with small scale, often uncoordinated, operations. The fact that the central city of Cleveland is completely encircled by suburban municipalities rules out annexation as a means of enlarging the service area.

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<sup>12/</sup> The last of these has since been dropped.

<sup>13/</sup> James A. Norton, in his Foreword to Seymour Sacks and William F. Hellmuth, Jr., Financing Government in a Metropolitan Area: The Cleveland Experience (1961), p. viii.

<sup>14/</sup> Ibid., pp. viii-ix.

<sup>15/</sup> Ibid., pp. ix-xi.

Cleveland exhibits, in its core-city area, the classic urban economic and social problems: unemployment; economic dependency; poverty; a vast Negro ghetto; overcrowding; economic obsolescence. Within the past year the city's Hough area has been the scene of violent outbreaks; despite efforts of the city (with considerable Federal assistance) and numerous private groups. The conditions that produced last year's outbreaks appear to be essentially unchanged and a recurrence is regarded in the city as almost inevitable. In addition to the famous Hough area, there are several other Cleveland neighborhoods that appear to contain the same social ingredients and to offer the same explosive potential.

Civic leaders and metropolitan area planners see the future of the downtown area of Cleveland lying in its development as a commercial, professional, and business center. This indeed appears to be the direction in which the city is moving. There are obstacles to be overcome, however. One is the fact that the city's experiences thus far with urban renewal is not one of outstanding success, and present relationships between the city government and the Federal agencies are, at best, cool.

Moreover the city's attitude toward the downtown area has traditionally been indifferent or negative. The waterfront, for example, has never been regarded as an asset to be fostered and developed, in the way that, for example, Chicago and Milwaukee have. Instead it has long been heavily industrial, one result of which has been the pollution of Lake Erie in the Cleveland vicinity to a point where its recreational potential may have been permanently destroyed.

State law and policies of the State Government have a strong bearing on the problems of the Cleveland metropolitan area. Incorporation laws permit, and often operate to encourage, separate incorporation of small communities. Nor are annexation laws conducive to unified government through a planned expansion of a central city by annexation of adjacent unincorporated territory. School district consolidation is making slow progress throughout the State, but appears to be virtually at a halt in the Cleveland area.

Perhaps more fundamental is the traditional attitude in Ohio that minimizes the role and responsibility of the State government in dealing with problems of local areas. The slogan that "local people understand their own problems best" has long served as an excuse for the State government's refusing to become involved in the perplexing problems that have been developing in the State's metropolitan areas. While the State legislature was dominated by rural interests, this lack of concern was no doubt inevitable and perhaps salutary. The present legislature, with its more urban (suburban) orientation, has, however, shown little more concern and understanding in these matters than its predecessors. Under the leadership of a conservative administration, the General Assembly is at the present time taking steps to make local governments still more fiscally and governmentally self-reliant and to absolve the State still further from involvement in metropolitan area problems. The prospect for constructive assistance from the State government to Cleveland and its surrounding area must be regarded as dim.

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THE NATURE AND EXTENT OF FISCAL DISPARITIES  
WITHIN THE CLEVELAND SMSA

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ARE DIFFERENTIALS INCREASING?

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The preceding pages reveal tremendous disparities among the communities within the SMSA. It would be improper to leave the matter there, however, without commenting upon the types of communities involved. That is, while great differences exist in the financial positions of cities and townships, for example, such information cannot be used to make a generalized statement about financial disparities. For in most cases, comparing cities and townships is like comparing apples and oranges (which is proper only in a fruit salad).

The cities and townships have different needs, serve different purposes and face different futures. In most cases, then, the proper comparisons are those made among cities as a group and among townships as a separate group. Townships which are caught up in the urbanization process constitute an important exception to this generalization. Urban fringe areas, where development is underway, face many of the problems of cities (see the discussion of Brunswick in Chapter III)\* and may therefore be considered comparable. But areas that are likely to remain rural for some time constitute a separate class.

A similar point might be made concerning comparisons between Cuyahoga County communities and those in other parts of the SMSA. Although statistically the region is treated as a unit, it is not monolithic socially, politically or economically. Thus, the most relevant comparisons are among communities within Cuyahoga County and among communities in other areas.

Account must be taken, however, of the growth of urbanization and the impact of greater mobility within the area. Fringe areas in Lake, Geauga and Medina Counties have already been drawn into the metropolitan sphere, and the process is likely to continue. Furthermore, municipalities that are currently beyond the urban fringe are subject to increasing influence from the metropolitan area because of improved communications and transportation. Thus, while the City of Medina has typically evaluated its position with reference to other communities in the county--particularly Wadsworth--officials must now broaden their thinking to consider metropolitan communities as well.

Growth has broken through older, more provincial attitudes and is increasingly making communities within the SMSA part of the same "neighborhood." When this process is complete, all communities of the same type within the SMSA may be more comparable; until then, differentials must continue to be recognized. Moreover, the special problems of the central city set Cleveland apart from all other communities within the area (as any central city is set apart from its SMSA). Comparisons between Cleveland and other parts of the metropolitan area should only be made when these special considerations, many of which are not evident in the per capita figures, are kept in mind.

It is impossible to give a simple answer to the question of growth in fiscal disparities within the SMSA. However, certain trends are evident.

First, on the matter of schools, it is clear that the inclusion of several communities within a school district often helps to reduce disparities. Consolidations of school districts, where they have occurred, have also helped reduce differentials. There

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\* See complete report.

is little immediate prospect for further consolidations outside of Cuyahoga County, since there are relatively few districts in these counties. There appears to be a need for consolidations within Cuyahoga County also, where many small systems are operated in the suburban areas. North Olmsted and Olmsted Falls, for example, both operate relatively small systems with low per-pupil valuations. Enclave districts, such as Cuyahoga Heights and Bratenahl, are also quite small and tend to have very high per-pupil valuations. However, there is little likelihood of significant reduction in number of districts in Cuyahoga County in the near future.

As noted above, however, comparisons of 1966 and 1956 valuations per pupil show that while individual districts have changed, the differences among districts by rank have remained relatively constant (Table II-6). That is, while the poor may have grown richer, so have the rich. Such differentials, of course, may be offset by state or federal funds; but at present, state and federal monies perform that function only imperfectly.

On the municipal level, developments in specific enclave areas deserve mention. Both North Randall and Brook Park have undergone population growth such that their per capita valuations have fallen back to the middle range. A similar trend may develop in Walton Hills (see Chapter IV). Cuyahoga Heights and the estate areas, however, are likely to maintain their high per capita valuations indefinitely.

Specific communities have been able to improve their positions. Garfield Heights is an example. But new low valuation areas, such as Broadview Heights, have emerged. If past trends continue, it is likely that differentials will remain to a significant degree, with some communities being relatively well financed compared with others. For the most part, there appears to be little interest either in the SMSA or in the State for county wide property taxes, which would help to offset these differences.

As the distribution of property values shows, there has been increasing dispersion of communities in the upper ranges of valuation (for Cuyahoga County) since 1956. That is, while the modal range of valuations is higher, other communities have increased valuations to the point that differentials may even be greater. In short, the poor are somewhat better off, while the rich are much better off.

These continuing differentials, however, may not be as significant in coming years as emerging disparities in the fringe areas. Brunswick may again be cited as an example of the impact of urban growth. As the urban area spreads to more fringe areas, the problem could worsen. Townships and villages, accustomed to a small population and a rather low level of services, may suddenly find themselves with greatly increased populations and increasingly heavy demands for services, which they will be unable to meet.

It is not difficult to imagine such a pattern of chaos on the urban fringe in large areas of Medina, Geauga and Lake Counties. The problem is complicated by the proximity of the Akron SMSA, so that Medina County is feeling the impact from two sides. One answer to such problems may be found in long-range planning in these areas. Such planning is being undertaken in many of the communities, paving the way for orderly development through zoning and similar devices. However, in areas where such planning is not underway, the future could be a picture of disorder and inequality between demands and needs so rank as to make present disparities seem minimal.

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#### EVALUATION OF FISCAL DISPARITIES

The preceding chapter has summarized the statistical evidence regarding fiscal disparities in the Cleveland SMSA. This chapter attempts to evaluate and interpret this evidence through an item-by-item consideration of the key questions. . . .

TABLE II-6.--ARRAY OF SCHOOL DISTRICTS WITHIN THE CLEVELAND SMSA BY 1966 VALUATION PER PUPIL, WITH VALUATION PER PUPIL AND SMSA RANK FOR 1956.

1966 Rank	District	Valuation Per Pupil - 1966	1956 Rank*	Valuation Per Pupil - 1956
1	Cuyahoga Heights	\$137,619	1	\$136,200
2	Bratenahl	45,776	4	35,800
3	Fairport Harbor	39,510	2	45,236
4	Independence	35,200	8	23,900
5	Brooklyn	30,026	12	21,800
6	Solon	28,325	17	18,700
7	Euclid	27,123	14	21,000
8	Orange	27,073	6	26,000
9	Shaker Heights	25,758	7	25,950
10	Rocky River	24,308	11	21,800
11	Warrensville Heights	23,150	21	17,000
12	Bedford	20,460	9	22,700
13	Cleveland Heights-University Heights	20,187	19	17,800
14	Richmond Heights	20,146	16	18,800
15	Lakewood	19,884	13	21,600
16	Cleveland	19,544	10	22,600
--	Cuyahoga County Median	19,544	-	18,800
17	East Cleveland	18,673	15	19,300
18	Beachwood	18,359	3	43,600
19	Fairview Park	17,577	22	16,000
20	Mayfield	17,557	27	14,200
21	Westlake	16,896	20	17,600
22	Painesville Local	16,148	23	16,773
23	Maple Heights	16,054	36	12,500
24	Wickliffe	15,712	28	14,100
25	Berea	15,697	5	32,700
26	Farna	15,627	25	14,295
27	South Euclid-Lyndhurst	15,463	30	13,700
28	Medina	14,985	29	13,934
--	SMSA MEDIAN	14,678	-	12,842
29	Brecksville	14,771	24	14,300
30	Willoughby-Eastlake	13,675	32	14,399
31	Garfield Heights	13,484	36	12,700
32	Bay Village	12,811	33	13,00
33	North Olmsted	12,816	34	12,990
34	North Royalton	12,366	38	12,495
35	Chagrin Falls	12,535	46	10,800
36	Painesville City	12,531	42	11,613
37	Kirtland	12,481	52	9,536
38	Solon	11,726	17	18,700
39	Black River	11,292	+	
40	Claridon	11,111	54 <sup>0</sup>	9,339
41	Chardon	11,085	61 <sup>0</sup>	8,570
--	SMSA MEDIAN without Cuyahoga County	11,053	-	9,562
42	West Geauga	11,047	47	10,054
43	Cloverleaf	10,831	+	
44	Buckeye	10,753	44	11,286
45	Mentor	10,575	48	9,939
46	Cardinal	10,521	+	
47	Newbury	10,275	66 <sup>0</sup>	6,281
48	Wadsworth	10,007	46	11,987
49	Highland	9,748	55	9,069
50	Olmsted Falls	9,718	58	8,800
51	Kenston	9,690	63	7,403
52	Madison	9,027	49	9,632
53	Ferry	8,884	52	9,421
54	Burton-Troy	7,720	69 <sup>0</sup>	5,262
55	Ledgesmont	6,572	+	
56	Brunswick	5,997	67	6,114

\*There were 69 districts in 1956; some districts may, therefore have improved their positions merely because of consolidation.

<sup>0</sup>Indicated that new areas have been added to the district since 1956; consolidation indicates that the district did not exist in 1956.

+Consolidation.

Question 1. What is the extent and nature of fiscal disparities among jurisdictions within the metropolitan area?

This question has been dealt with in the preceding chapter.

Question 2. Can private sector trends (socio-demographic and economic factors) be expected to aggravate or lessen intergovernmental fiscal disparities within the metropolitan area within the next five to ten years?

Demographic trends appear virtually certain to aggravate at least some of the fiscal disparities. To the extent that fiscal disparities are associated with an influx of Negro population and emigration of whites, thereby increasing costs of education, welfare, police and fire protection, and other public services, while at the same time the property tax base may be declining, the City of Cleveland seems clearly to be facing a growing fiscal problem. As noted earlier, Negroes represent a rapidly increasing proportion of the city's population.

This trend is likely to produce increasing social stress, especially as the Negro population begins to encroach more heavily on neighborhoods at present inhabited by closely-knit, white ethnic groups, many of which hold a strong anti-Negro viewpoint. The challenge this poses to local political and civic leadership has not been met effectively in the past, and the outlook for the future is not promising.\*

The growing Negro population presents especially difficult problems for the Cleveland School District. Experiences of other cities, as well as that of Cleveland itself, suggests that facilities, curriculum, teaching staff, property maintenance, are all likely to be increasingly costly in the Negro areas. At the same time the city will be faced with pressure to maintain the quality of schools in the predominantly white portions of the District, especially those on the west side.

In some cities, public programs have been designed to entice higher income residents back into the central city. Cleveland for a time pursued such a policy, with the construction in a downtown urban-renewal area of a complex of office buildings and apartments. The latter marked the initial attempt to develop the industrial lake-front for residences. But the program encountered bitter opposition on grounds that it had resulted in the displacement of large numbers of low income families for whom no adequate arrangement had been made for substitute housing. This failure was central to the HUD cutoff of much of the Federal urban renewal funds for Cleveland, in January 1967. As a result, it appears that the city will have to resort to other kinds of programs if it wishes to attract middle and higher income residents.

The impact of the Negro influx is unlikely to be limited to Cleveland. Some of the suburban communities are already experiencing this increase, in the face of fairly well-marked anti-Negro sentiment in the residential suburbs.

Fiscal disparities in the SMSA are likely to be affected also by trends in the location of industry. The Cleveland area, as has been noted, is heavily industrialized with concentrations in manufacturing. Cleveland and Cuyahoga County contain many older industrial areas, in which plant expansion and modernization is difficult. While the area as a whole has excellent locational advantages and access to transportation (called locally, "the best location in the nation!"), within the SMSA the most attractive industrial locations have been on the periphery.

There is still evident in the SMSA a tendency for certain communities to capture sizable concentrations of industry. The examples of Walton Hills and Brook Park have been cited. These communities, however, differ significantly from the extreme case of

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\* Ed. note: Since this statement was written, Cleveland has elected a Negro Mayor.

Cuyahoga Heights in that they contain a greater admixture of residential and commercial property. The school districts, especially, are large enough to avoid the worst of the industrial-enclave disparities. It appears, therefore, that while the circumstances making possible the formation of industrial enclaves still exist, no new "Cuyahoga Heights" is likely to emerge.

The tendency for industry to locate on the periphery has been especially evident in the case of research and development centers associated with the area's established industries.

A favorable element in the picture is the effort initiated by some of the leading industries in the core-city area to provide employment opportunities and job retraining. While municipally-led undertakings along this line have met with little success, there is a feeling of greater optimism over the prospective results of the current effort to upgrade the economic base of the inner city.

Along with a certain amount of competition among many suburban communities (and between Cleveland and its suburbs) for industry, competition is emerging for apartment developments. Many of the residential suburbs see this form of development as adding significantly more to the communities' revenues than it adds to costs. As of the present time, however, there does not appear to be such clustering of apartment developments in individual communities as might give rise to additional fiscal disparities.

Some of the most outstanding examples of fiscal disparities have been found in the urban-fringe, where a rapid influx of population has placed great strain on public programs and facilities, as well as on the limited (predominantly residential) tax base. The example of Brunswick has been cited. The same phenomenon--rapid, unplanned, and uncontrolled development in what had been a rural community--has occurred elsewhere in the Cleveland SMSA in recent years, as well as in Cleveland-oriented communities within the adjacent Akron SMSA.

Whether this situation will occur repeatedly in the future is not clear. There is evidence that Medina County has learned a lesson from the Brunswick experience, for area-wide planning and control of development has gained acceptance. But, at the same time, areas remain which appear unconcerned about such questions.

Question 3. Have State and Federal financial involvement in the key "spill over" areas--education, public welfare, highways, and health and hospitals--materially reduced interlocal expenditure disparities in these fields?

Question 4. Have other major Federal and State expenditure programs (including grant and loan activities) played a significant part in narrowing disparities?

### Education

With respect to public schools, it is noted above that the Ohio School Foundation Program has a mild equalizing effect because of the inclusion in the aid formula of a "charge-off" against the local tax base. The effect is to give additional aid to communities with low tax base. The formula also provides a floor, however, so that a district with an extremely high valuation in relation to enrollment receives virtually the same State aid as does one less wealthy.

For example, in Cuyahoga County the Bratenahl district, with a valuation per pupil of more than \$45,000, received \$91 per pupil in State aid, or virtually the same as the amount received by the Richmond Heights district, with less than half the per pupil valuation. (The Bratenahl district, which operates only elementary schools, will go out of existence by next year under a State law requiring all districts that do not operate a 12-grade program to consolidate.) Only Cuyahoga Heights, with its extremely high valuation per pupil, received no State aid in 1966.

At the other extreme, Strongsville, North Royalton and Olmsted Falls received \$167 to \$175 per pupil, and Brunswick, in Medina County, with a valuation per pupil of less than \$6,000, received \$218 per pupil, or 61.7 percent of its operating revenue, from the State.

Because only 482 of the State's 732 Districts (in 1966) qualified for additional (equalizing) aid, there has been interest in the State in revising the School Foundation formula to accentuate the equalizing role of State aid. As noted above, legislation is pending as of this writing that would move in this direction. As of 1966, only 9 of Cuyahoga County's 32 school districts qualified for additional aid. The Cleveland City School District was not among these.

Even the modest extent to which the Ohio School Foundation Program equalizes between districts may be exaggerated if one looks only at school district expenditures. Two districts with equal per pupil expenditures, in other words, are not necessarily providing equal levels of service. As has been noted, inner city schools such as many of these in the Cleveland City School District may require far greater per pupil expenditure. The Ohio formula is not designed to take account of such variations in need. Of interest in this connection is the proposal noted above that would provide increased State aid to districts depending on the proportion of the enrollment consisting of children on ADC. This proposal, if enacted, would represent a significant step toward reduction in disparities in educational programs.

Federal aid represented a highly variable element in school revenues. Olmsted Falls, with more than \$20 per pupil in 1966, was highest in the SMSA. Cleveland received \$16 per pupil. There is no evidence of any equalizing pattern between districts in the Federal aid distribution. Within the City of Cleveland, however, and presumably within other school districts as well, the allocation of Federal poverty funds has bolstered the support of particular schools.

#### Urban Renewal

Urban renewal programs offer opportunities for amelioration of local economic and fiscal problems. They also present challenging problems in inter-governmental relations. In Cleveland, urban renewal is generally acknowledged to have been a failure, thus far.

Of special relevance to the present study is that the urban renewal program in Cleveland appears to have aggravated rather than eased such problems as over-crowding, substandard housing, and inadequate public services. Demolition of extensive slum areas without provision for rehousing those displaced fostered over-crowding in adjacent neighborhoods. Schools and other public facilities, as well as houses and apartments, were called on to serve far more people than had been contemplated in their design. Enforcement of housing codes was suspended in areas slated for renewal, with the result that deterioration was accelerated.

Failure of the City's urban renewal program--one of the largest in the nation--has focused national attention on the City and on the urban renewal program itself. An analysis of the situation lies beyond the scope of this report. (See The Giles and Skow articles in The Reporter and The Saturday Evening Post, cited above.)

#### Welfare

Administration of public welfare programs is carried out in Ohio at the county level. Intra-county disparities have thus been eliminated, except insofar as case load differentials or other administrative inequalities may exist. The opportunity remains for differentials between counties.

There is no evidence, however, of significant differences among the four counties in the Cleveland SMSA in their expenditure per recipient under the various welfare programs. However, Cuyahoga County shows sharply higher participation rates. This evidently accounts for the per capita expenditure differences noted earlier.

Most of the welfare load in Cuyahoga County occurs in the City of Cleveland. Levies are voted on, however, in the county at large. Up to the present, welfare levies are reported to have received general support throughout the county in referenda. Some officials, however, are concerned at the decline in support evident in some suburban areas, attributing it to preoccupation of suburbanites over the fiscal problems of their home community, mixed perhaps with some antipathy or even hostility toward the central city and its residents.

Besides the welfare function, the administration of parks, public health, and hospitals is also essentially consolidated on at the County level in Cuyahoga County.

#### Influence of Other Federal Programs

Other Federal programs have evidently influenced fiscal disparities in the SMSA. It is often observed that the Federal program of interstate highways has contributed to the fiscal and economic problems of metropolitan areas. By providing convenient access to the central city from outlying areas, they have stimulated the movement of people to the suburbs and into the open country beyond, and have produced adverse fiscal consequences both for central cities and for burgeoning suburbs. This phenomenon is evident in the Cleveland SMSA.

On the other hand, the Federal government has exercised some influence in the direction of greater unification in public services. A seven-county transportation study is currently being carried out under the Transportation Act. It is considering all modes of transportation--highway, rail, air, and water--in a seven-county area including, besides the Cleveland SMSA, Lorain County and portions of Summit and Portage Counties. The political subdivisions in the region are jointly underwriting the local portions of the study cost. The study is indicative of a growing awareness throughout the area of the common stake the City of Cleveland and its suburbs have in the orderly development of the region.

Local officials and community leaders see the time approaching when the City and the suburbs, perhaps with Federal leadership and incentives, will see the advantages in a coordinated attack on such other area-wide problems as air and water pollution, water and sewerage, and garbage and rubbish disposal.

Question 5. Is there any evidence to suggest that citizens in high income communities are less opposed to higher State or local taxes because of their advantageous "write off" position with respect to Federal income tax liability?

No direct evidence was obtained on this question. In general, the opinion of local leaders is that attitudes toward State or local taxes is governed more directly by the community's evaluation of its public service needs, rather than by consideration of the Federal tax offset.

Question 6. Have State municipal development policies (annexation, consolidation, and interlocal contracting) promoted or retarded proliferation of local governments within the metropolitan area?

Ohio laws do not make it easy for municipalities to annex. In annexation proceedings, initiative almost always rests with inhabitants of the area in question. A majority of freeholders must petition the Board of County Commissioners to be annexed to a municipality. The Board must then pass on the proposed annexation on the basis of their judgment whether the annexation would be to the benefit of the area sought to be

annexed. There is no requirement that the Board act promptly, and they frequently take their time in deciding. If the Board approves the petition, the City Council then votes on whether to accept the territory.

In addition to (and perhaps because of) the cumbersome annexation procedures, municipalities have generally not pursued aggressive annexation policies. This is clearly evident in the Cleveland area. The City of Cleveland, in order to have avoided encirclement, would have had to move to annex adjacent territory before or shortly after the turn of the century. For a variety of reasons, annexation was not favored and the City became surrounded by separately incorporated suburbs.

There are numerous more recent examples of existing municipalities in the SMSA having passed up opportunities to annex unincorporated territory. Perhaps most outstanding is that of the City of Bedford, which as recently as 1950 could have annexed all of what was then Bedford Township. The City was not so inclined. In 1951, the municipalities of Bedford Heights, Walton Hills, and Oakwood were formed out of the township. As a result, Bedford became hemmed in, with little opportunity for development, and local government became a little more fragmented.

The fact that State law permits a municipality that is expansion minded to extend its borders through annexation is demonstrated in the experience of the City of Mentor, in Lake County. The Village of Mentor, with a 1966 population of 4,354, several years ago annexed the whole of Mentor Township, which had a 1960 population of about 25,000. As of January 1, 1967, the population of the entire area encompassed by the City of Mentor is estimated at 30,217.

A significant example from another part of the State is that of the City of Columbus. This city has pursued an aggressive annexation policy ever since World War II, when the area began to grow rapidly in population and employment. The City has succeeded in avoiding encirclement. Columbus is the only one of Ohio's six largest cities of which this is true. While there are a number of separately incorporated suburbs in Franklin County, further municipal proliferation seems unlikely. The city seems destined to occupy a role as the clearly dominant unit of government in the metropolitan area.

The key to the success of Columbus' annexation policy lies in the city's control over the water and sewer system. Through judicious extensions of these facilities into unincorporated areas the city has been able to influence residents of the areas in question toward annexation.

In the Cleveland SMSA, the city occupies a similar strategic position. While today annexation of unincorporated territory to Cleveland is out of the question, the city evidently uses its control over water and sewerage to encourage suburbs to consolidate with the city, through as yet with no success. The city nevertheless enjoys some degree of influence over the suburbs and over the pace and direction of suburban growth--not to mention financial benefits--through its water and sewerage system.

Ohio law governing incorporation is more lenient than that on annexation. A municipality may be incorporated by petition of the resident freeholders to the Board of County Commissioners, who render their judgment in the same manner as in an annexation proceeding, and if they approve call an election. Alternatively a petition may be made to the township trustees, who then submit the proposal to a vote of the electors in the area to be incorporated.

Generally speaking, incorporation occurs in situations where there is opposition to a proposed annexation, or where there is no unit of government willing and able to provide needed services. In Cuyahoga County, the proliferation of municipalities has resulted from the inability or unwillingness of suburbs in the inner ring to extend urban services to adjacent areas. The need for services in developing unincorporated areas has been chiefly behind the separate incorporations.



Legislation now before the Ohio General Assembly would make it more difficult for communities to incorporate. The proposal provides that if a proposed new municipal operation is located within three miles of an existing municipality, such incorporation would be prohibited unless the municipal corporations within three miles consent, or unless an annexation has been rejected within two years prior to the filing of the incorporation proceedings.

It is anticipated that this legislation, if passed, would avert the multiplication of cities and villages in the now developing portions of Lake, Geauga, and Medina Counties, as well as in the remainder of the State.

Question 7. Have school consolidation policies materially lessened fiscal disparities between local school districts?

Ohio has followed a policy of encouraging school district consolidation. In 1957 the State contained 1,168 school districts. By 1962 the number had declined to 833, and by August, 1967, to 694. The consolidation has occurred primarily in rural areas; within the Cleveland SMSA the number of separate districts declined by 11 (from 67 to 56) between 1957 and 1966, but all of the reduction occurred in Geauga and Medina Counties. There are nevertheless some obvious opportunities for consolidation. Both the Bratenahl and the Cuyahoga Heights districts had less than 1,000 pupils in average daily membership in 1966. Both had far above average valuations per pupil and expenditures per pupil, combined with low school levies, so that there is an obvious advantage to residents of these districts in maintaining the present arrangement. The Bratenahl District, as has been noted, is slated for consolidation by 1968. The Cuyahoga Heights District, which offers a complete 12-grade program, is unlikely to be affected by present State consolidation efforts.

Proposals have been advanced in the State to require drastic reduction in the number of districts. A specially appointed commission recommended in 1967 that schools be consolidated so that no district would have fewer than 3,500 students. This would mean reducing the number of districts by more than half. As of the present, such action does not appear to be imminent.

Fiscal Disparities in the  
MILWAUKEE, WISCONSIN  
Metropolitan Area

A Report by  
John Riew  
Pennsylvania State University, University Park

<u>Major Fiscal Disparities, 1965</u>	<u>Central City</u>	<u>Outside Central City</u>
Per capita State and Federal aid	\$108	\$152
Per capita revenue from taxes	193	122
Per capita educational expenditure	66	116
Per capita noneducational expenditure	237	187
Total estimated population, 1964 (thousands)	765	456

Milwaukee's revenue base is deteriorating, and the urban fringe exhibits sharp differences between the industrial and the high and low income residential suburbs. Wisconsin localities derive 99.9 percent of their tax revenue from the property tax. This tax, high in cities and towns generally, rises abruptly inside the Milwaukee borders.

Wisconsin is known for sharing funds with local governments; yet this generosity is upside down from the standpoint of equalization: The rich industrial communities get \$314 per capita, the high income suburbs get \$161, and Milwaukee proper is low man with \$88. It would be hard to devise a more perverse effect on local government financing--and the direct result is interlocal balkanization and ferocious fiscal zoning. Recent experimentation with property tax credits, financed from State sales and income taxes, has had some equalizing effect.

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## THE SURVEY AREA

The 1960 Milwaukee Standard Metropolitan Statistical Area consists of Milwaukee County and Waukesha County with a total population of 1,194,296. Within this SMSA, the Urban Area comprises all 19 municipalities of Milwaukee County and 10 incorporated municipalities in Waukesha and Ozaukee Counties. The difference between the SMSA and the Urban Area consists of 16 townships and 14 villages in Waukesha County which are largely rural; their combined population in 1960 was 79,727.

The problem of disparities between the city and its outskirts is important because municipalities which make up an economically integrated community may join efforts to improve the metropolitan area for their mutual benefit. The amount of the fiscal disparity between them has a decided bearing on the feasibility of intermunicipal cooperation.

It is harder to interest a municipality which is technically in the metropolitan area, but only remotely related economically, in intermunicipal cooperation. Appeals to the municipality on the basis of simple equity fall on deaf ears if a municipality bears little or no economic relation to the main body of the SMSA. Such a municipality may question whether its cooperation would make much of any contribution, either politically or functionally.

Nevertheless, certain aspects distinguish even outlying rural municipalities included in the SMSA from those outside the SMSA. The trend in land value, for instance, may have been different; the rural SMSA has likely experienced a greater increase in land values. In the area of public services there may have been some effect. For education in particular, the outlying SMSA community may spend more per pupil, influenced by the urban standard, than a further outlying rural area.

For other purposes, however, the researcher may do well to concentrate on the urban portion. It represents an area more interrelated economically and otherwise; in every sense it makes up one integral body which if separated could not function. Statistics, for one thing, are more adequate and meaningful for the urban municipalities.

## DISPARITIES IN PROPERTY TAX RATES

### Overall Rates

The property tax in Wisconsin is for practical purposes the only tax levied by the local government. In 1966, the revenue from this tax represented 99.9 percent of all local tax revenues of the state. Typically the tax rate has been high in most Wisconsin municipalities. The following table shows the general levels of property tax rates and the disparities between the central city and the suburb in the recent past. The suburb here excludes the rural part of the SMSA outside the urban area.

TABLE 1.--FULL VALUE PROPERTY TAX RATES, CENTRAL  
CITY, URBAN AREA SUBURB, 1957-1966

	<u>Central City</u> ------(mills)-----	<u>Suburb*</u> -----	<u>CC as Percent</u> <u>of Suburb</u>
1957	27.5	21.6	127.3%
1960	31.9	25.2	126.7
1963	36.9	27.5	134.2
1966	40.7	28.4	143.3

\*The mean of the full value rates for individual municipalities.

Source: City Taxes, Village Taxes (annual), and Town Taxes (biennial). The 1960 and 1966 full value rates for towns were computed from County Clerk's Abstract of Assessments and Taxes.

We observe that the property tax rate in the central city has always exceeded that of the suburb, and that the rate disparity between the two areas has increased considerably over the past ten years. The present rate of 40.7 mills for the central city compares very unfavorably with the suburban average of 28.4 mills.

If we include in the suburb the outlying rural municipalities of the SMSA, the central city-suburb disparity is shown to be greater. The outlying rural communities levy substantially lower taxes (while providing services varying greatly from those in the urban area) and their inclusion necessarily lowers the suburban average.

TABLE 2.--FULL VALUE PROPERTY TAX RATES, CENTRAL  
CITY, SMSA SUBURB, 1957-1966

	<u>Central City</u> ------(mills)-----	<u>Suburb</u> -----	<u>CC as Percent</u> <u>of Suburb</u>
1957	27.5	20.1	136.8%
1960	31.9	23.8	134.0
1963	36.9	25.9	142.5
1966	40.7	26.9	151.3

Source: See Table 1.

The coefficients of variation offered in Table 3 measure the overall variation in tax rates among individual municipalities. Within the urban area, the rate variation remained largely stable, with a slight tendency to rise in the last few years.

TABLE 3.--COEFFICIENT OF VARIATION OF FULL VALUE PROPERTY TAX RATES\*  
AMONG MUNICIPALITIES OF URBAN AREA AND SMSA

	<u>Urban Area</u>	<u>SMSA</u>
1951	21.0	30.6
1957	14.2	16.0
1960	13.8	16.1
1963	13.5	23.0
1966	16.2	31.5

\*Standard deviation as a percentage of the mean. Standard deviation gives a range within which about two-thirds of observations in a sample of normal distribution would deviate from the mean value. Mean values change; hence, to use standard deviations as comparable measures of variability over period they are divided by their respective means.

Within the greater SMSA area (including rural communities) the trend is toward significantly greater variation during the past decade. While urban segments of the SMSA were striving to achieve a higher level of school and nonschool services, with consequent increases in tax rates, the outlying areas of the SMSA remained largely unaffected.

The variation in the tax rates between one community and another was fairly great in 1951, but lessened in the intervening years (Table 3). The rise in public expenditures and tax rates in many developing suburbs is the probable cause--consistent with what Professor Burkhead some years ago referred to as the trend toward greater fiscal uniformity in a metropolitan area.<sup>1/</sup> The present writer argued then that such a trend might be only transitory, and that what happens after a metropolis (delimited at a given time) becomes more fully urbanized is uncertain.<sup>2/</sup> In the Milwaukee area, the equalizing trend in the tax rate observed earlier has largely subsided, and we now witness a relative stability or even a slight increase in the rate variation.

For subsequent analyses, we shall group our urban area municipalities by function and wealth. The functional classification outside the central city is based on the ratio of business property to total real property within each municipality. Thus, industrial municipalities are those in which total equalized value of business real properties (mercantile, manufacturing, and utility properties) constituted more than 60 percent of total real property in 1966, while balanced municipalities are those in which this ratio was between 40 and 60 percent.

Variation in wealth is greater among residential than among industrial units, and the classification by wealth will be limited to the residential category. The residential municipalities are divided between high, medium, and low income residential units on the basis of 1965 adjusted gross income per return (the AGI for state income purposes).

<sup>1/</sup> Jesse Burkhead, "Uniformity in Governmental Expenditures and Resources in a Metropolitan Area - Cuyahoga County," National Tax Journal, XIV, No. 4, December 1961, pp. 337-348.

<sup>2/</sup> John Riew, "Uniformity in Governmental Expenditures and Resources in a Metropolitan Area - Cuyahoga County," National Tax Journal, XV, No. 2, June 1962, pp. 218-220.



The 29 municipalities are thus divided into the central city, 5 balanced municipalities, 2 industrial municipalities, and 21 residential municipalities, the latter group further divided into 6 high income, 7 medium income, and 8 low income units.

Among the municipalities, the property tax rate of the central city towers over all others. The variation in tax rate increase over the period shows that the spread between the central city and each of the other types of municipalities has increased during the past decade.

TABLE 4.--MEAN FULL VALUE PROPERTY TAX RATES AND THEIR INCREASE AMONG TYPES OF MUNICIPALITIES, 1957-1966

	1966	1963	1960	1957	Percent Increase* 1957-1966	Percent Increase* 1960-1966
	------(mills)-----					
Central city	40.7	36.9	31.9	27.5	48.0%	27.6%
Balanced	29.5	29.7	25.1	22.1	29.8	17.7
Industrial	24.3	23.7	21.4	20.3	22.6	14.3
Residential						
High income	29.4	27.1	25.9	21.9	34.6	14.1
Medium income	28.4	27.1	24.7	22.2	29.4	15.0
Low Income	27.9	28.2	26.2	20.9	33.9	12.6
Urban area suburb	28.4	27.5	25.2	21.6	31.3	14.5
Median	26.1	27.8	24.8	21.5	31.1	15.3
Incorporated municipalities						
outside urban area	27.5	25.5	24.3	22.4	28.8	14.0
Unincorporated municipalities						
outside urban area	23.2	22.9	21.1	18.4	27.3	9.7

\*Figures shown are the mean of the percentage increases for individual municipalities in each group.

Source: See Table 1.

The central city, whose property tax rate rose 48% over a ten-year period, has experienced the largest increase. The difference is even greater when the 1960-66 period is taken. The six-year increase of 27.6 percent for the central city is approximately twice the rate of increase for most others. Paces of increase in tax rate among suburban groups of the urban area have, with some exception, been fairly comparable.

Outside the urban area, the incorporated municipalities, mostly small villages scattered around rural townships whose 1960 populations ranged from 276 to 8,880 (with the median of 620), have shown a steady tax rate increase. For them also, as with the urban area suburbs, the rate of increase was considerably greater during the 1957-60 period than during subsequent years. On the other hand, rates for unincorporated towns have advanced more slowly especially during the more recent years.

#### Tax Rates by Purpose

The general property tax in Wisconsin is a composite of state, county, local, and school levies. The state levy is negligible; the county levy varies by county and

often reflects influences beyond local control. Thus, we shall ignore for the time being both state and county levies and concentrate on local and school levies.

We observe in Table 5 that in the combined local and school levy the central city shows the highest rate of 30.3 mills. This should be compared with other rates ranging from as low as 17.7 mills for industrial units to 22.0 mills for low income residential units--the highest among suburban groups.

TABLE 5.--MEAN FULL-VALUE PROPERTY TAX RATES BY PURPOSE  
AMONG TYPES OF MUNICIPALITIES, 1957, 1966

	1966			1957		
	Local	School	Local and School	Local	School	Local and School
Central city	<u>13.8</u>	<u>16.5</u>	<u>30.3</u>	<u>9.8</u>	<u>9.7</u>	<u>19.5</u>
Balanced	4.2	15.9	20.1	4.6	9.8	14.4
Industrial	1.7	16.0	17.7	.8	12.7	12.9
Residential						
High income	2.2	18.3	20.5	1.3	13.3	14.6
Medium income	1.9	19.0	20.9	2.1	14.7	16.8
Low income	3.2	18.8	22.0	2.8	12.9	15.7
Urban area suburb	<u>2.7</u>	<u>18.0</u>		<u>2.4</u>	<u>13.0</u>	
Median	2.1	18.8		1.9	12.8	
Incorporated outside						
urban area	2.8	20.9	23.7	2.9	16.0	18.9
Unincorporated outside						
urban area	.9	18.9	19.8	.8	14.1	14.9

Source: See Table 1.

The central city disadvantage largely involves the local rate; its 13.8 mill rate is no match for others which vary over a low range of 1.7 mills (for industrial units) to 4.2 mills (for balanced units). School rates show much less variation; they spread over a relatively narrow range of 15.9 to 19.0 mills. The lesser variation, and the fact that school expenditures dominate the local budget, make the school tax an equalizing element in the overall property tax.

The high income residential and industrial units, as shown later, spend considerably more per capita on most municipal services, but their high per capita valuation and high share of state aid together outweigh the difference in expenditures, thus permitting low local rates.

One observes in Table 5 that the relation of local, school, and combined rates, back in 1957, was largely similar to today's. But the central city-suburb disparity in combined rates has increased substantially. Both in local and school levies, especially in the former, the central city exceeded others in the rate of increase.

Outside the urban area, the incorporated municipalities carried consistently higher rates than did the urban area municipalities. Lacking evidence that they offered higher quality education, the difference may be largely attributable to the fact that they are unable to take advantage of economies of scale inherent in somewhat larger

school populations.<sup>1/</sup> School districts for small municipalities, independent or joint, are generally small themselves.

The combined local and school rate of these incorporated municipalities outside the urban area ranked second only to that of the central city. The unincorporated municipalities outside the urban area, meanwhile, are typical of other rural Wisconsin communities: their local levy is negligible and the school levy comprises most of the property tax.

While the county levy is beyond local control, it does constitute a part of the total levy which is significant for some areas. Let us now see how each class of municipalities fares in the county levy.

TABLE 6.--THE MEAN FULL-VALUE COUNTY RATE,  
1966, 1957  
(Mills)

	<u>1966</u>	<u>1957</u>
Central city	<u>10.2</u>	<u>7.7</u>
Balanced	8.9	6.9
Industrial	6.5*	7.3
Residential		
High income	8.8	7.1
Medium income	7.3	5.6
Low income	5.8	4.9

\*The village of Oak Creek, with its exceptionally high utility tax share and corporate income tax share, finances its local services and a large part of the county levy out of its cash fund; this lowers the average county levy for the industrial group.

Source: See Table 1.

Milwaukee County has always levied a high rate for county purposes. In 1966, for instance, the county levied 10.2 mills, compared with lower rates of 3.7 and 3.3 mills for the adjacent counties of Waukesha and Ozaukee.

Milwaukee County, with its higher county levy, spends substantially more for welfare and corrections, health, recreation, and highways. If these extra services are a necessary part of the metropolitan economic life they ought to be supported jointly by all involved. Although Table 6 appears to show a pattern of progression, in that low income residential units carry a relatively lower average rate, the present county tax distribution is haphazard. While the low income municipalities of Milwaukee County (Franklin, Greenfield, and South Milwaukee) pay 10.2 mills, such municipalities as New Berlin and Menomonee Falls, which are outside the county but are still an integral part of the metropolitan area, pay their county a low rate of 3.7 mills.

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<sup>1/</sup> Difference in tax base cannot be the reason. Their per capita property valuations are significantly higher than those of the central city and the low income residential units and are comparable with those of the medium income residential units.

It may be argued that some of the county services, welfare for instance, are exclusively for the benefit of the resident. On the other hand, such outlays as highway construction (especially for limited urban highways) typically offer greater benefits to those in the outlying urban communities. In such a case the latter, rich or poor, are genuine beneficiaries which do not share in the cost.

#### A Closer Look at the Central City

The central city tax rate, we have observed, has always exceeded that of the suburban community. The difference has been not only large but increasing during the past ten years. Because of this, and because the fiscal strain of the central city appears most serious, we shall examine more closely the year-by-year tax rate changes in the metropolitan units.

TABLE 7.--FULL-VALUE PROPERTY TAX RATES BY PURPOSE,  
PROPERTY TAX LEVY, 1951-66, CITY OF MILWAUKEE

	<u>Full Value Rate</u>			<u>Levy</u>		
	<u>County</u>	<u>Local</u>	<u>School</u>	<u>Total</u>	<u>Per Capita</u>	
	----- (mills) -----			<u>Total</u>		
				(millions)		
1951	8.0	10.4	9.1	27.7	\$ 59.1	\$ 91.2
1952	7.4	9.8	8.2	25.6	64.5	98.0
1953	7.2	9.3	8.2	24.8	68.2	102.0
1954	7.9	9.2	8.7	26.0	74.6	98.7
1955	8.0	8.9	9.0	26.1	79.1	114.8
1956	8.0	9.6	9.3	27.0	87.2	124.6
1957	<u>7.7</u>	<u>9.8</u>	<u>9.7</u>	<u>27.5</u>	<u>95.3</u>	<u>134.2</u>
1958	<u>8.1</u>	10.7	10.1	29.2	104.0	144.3
1959	8.8	10.6	11.1	30.7	111.9	153.1
1960	8.9	11.2	11.5	31.9	120.0	161.8
1961	9.3	11.6	12.6	33.7	126.4	169.0
1962	9.5	13.1	12.8	35.6	137.1	181.8
1963	9.8	13.2	13.7	36.9	142.2	186.9
1964	10.4	12.9	15.4	38.9	152.2	198.3
1965	10.2	13.3	15.8	39.5	158.4	204.7
1966	<u>10.2</u>	<u>13.8</u>	<u>16.5</u>	<u>40.7</u>	<u>167.9</u>	<u>215.1</u>

Source: City Taxes (Annual Bulletin), Wisconsin Department of Taxation, Madison. For computation of per capita levies, straight-line interpolations of 1950 and 1960 census population and the Milwaukee Journal 1966 population estimate were used.

In terms of full value tax rate, the 1951-57 period is marked by a relative tranquility; the county, local, and school rates all remained fairly stable. After 1957, however, the city no longer could keep to the previous level of 26-27 mills and once the ceiling was breached, the rate increase has continued steadily ever since. Today, at 40.7 mills, there is no sign that the uptrend in the property tax rate has finally subsided.

Contributing most to the increase in the aggregate rate was the school levy. Between 1957 and 1966, the school rate increased from 9.7 mills to 16.5 mills while local and county rates increased from 9.8 to 13.8 mills and from 7.7 to 10.2 mills respectively. During that period, the tax levy per capita increased by 60 percent, from \$134 to \$215, while the consumer price index rose by 15.4 percent. The pressure on the property tax is evident from the changes in rate as well as in levy.

Since expenditures and tax base largely determine the tax rate, the changes in the city tax rate observed above may now be related to the changes in the city expenditures and property valuation. Capital outlays vary greatly over time and are typically financed from borrowing. Therefore, we seek here to trace the changes in operating expenditures and cost of debt service.

TABLE 8.--TOTAL OPERATING EXPENDITURES, DEBT SERVICE,  
CITY OF MILWAUKEE, 1957-1966

	<u>Expendi- tures</u>	<u>Principal and Interest Paid</u>	<u>Total</u>	<u>Total in Index</u>
	------(millions)-----			
1951	\$37.5	\$ 1.6	\$39.2	58.6%
1957	59.9	7.0	66.9	100.0
1958	61.5	10.2	71.7	107.2
1959	64.8	12.3	77.1	115.2
1960	64.5	15.3	79.8	116.3
1961	61.9	17.3	79.2	118.4
1962	63.2	17.7	80.9	120.9
1963	65.2	18.8	84.1	125.7
1964	62.6	18.6	81.3	121.5
1965	66.1	20.5	86.6	129.4
1966	67.7	21.3	89.0	133.0

Source: Report of City Clerk (annual) to State Bureau of Municipal Audit, Madison, Wisconsin.

We note in Table 8 that the combined sum of operating expenditures and payments for debt service rose from \$66.9 million in 1957 to \$89.0 million in 1966--a 33 percent increase in the nine-year period. Operating expenditures alone increased 13 percent, while payments for debt service tripled from \$7.0 million to \$21.3 million. This great increase in the cost of debt reflects the increase in capital outlays in recent years. The average annual capital outlay for 1957-66 period was \$24.9 million, compared with a much lower figure of \$16.7 million for the 1951-56 period.

That expenditures have increased without an equivalent rise in the tax base may be seen in the following table.

TABLE 9.--EQUALIZED PROPERTY VALUES BY USE AND TYPE,  
CITY OF MILWAUKEE, 1957-1966

	<u>Residential</u>	<u>Mercantile and Manufacturing</u>	<u>Total Real Estate*</u>	<u>Personal Property</u>	<u>Total</u>	<u>Total in Index</u>
	------(millions)-----					
1951	\$1,020	\$ 690	\$1,710	\$418	\$2,128	61.4%
1957	<u>1,820</u>	<u>993</u>	<u>2,814</u>	<u>652</u>	<u>3,466</u>	<u>100.0</u>
1958	1,802	1,134	2,937	629	3,568	102.9
1959	1,848	1,171	3,029	625	3,646	105.2
1960	1,901	1,205	3,111	651	3,762	108.5
1961	1,923	1,214	3,142	614	3,756	108.4
1962	1,918	1,277	3,202	652	3,854	111.2
1963	1,915	1,280	3,201	655	3,857	111.3
1964	1,907	1,327	3,242	672	3,913	112.9
1965	1,930	1,350	3,287	728	4,015	115.8
1966	1,950	1,380	3,337	790	4,127	119.1

\*Total real estate includes farm properties which are negligible and does not necessarily equal the sum of the figures in the first two columns.

Source: Supervisor of Assessments' Statistical Report of Property Values (annual) to the County Board and Department of Taxation, Madison, Wisconsin.

The 19 percent increase in the total property valuation (Table 9) falls far behind the 33 percent increase in operating expenditures and cost of debt (Table 8). Expenditures increased much faster during the 1951-57 period, than later, but the rise in the tax base nearly matched that increase. During the 1957-66 period, however, the tax base grossly failed to follow the pace of rising expenditures.

It may be noted further that this failure is largely attributable to the slow increase in residential valuation--a meager 7.2 percent compared with 39.0 percent for mercantile and manufacturing properties.

The trend in residential valuation may perhaps be explained in two ways. First, housing activities have declined markedly since 1957.

TABLE 10.--HOUSING PERMITS AND ESTIMATED COSTS,  
CITY OF MILWAUKEE, 1951-1966

	Building Permits			Estimated Costs*		
	Single Family	Duplex	Total	Residential	Mercan- tile	Manufac- turing
				----- (millions) -----		
1953-1956**	2,790	422	3,212	\$52.3	\$10.6	\$ 8.2
1957	2,265	648	2,913	57.0	8.3	6.0
1958	1,829	332	2,161	46.2	12.2	6.0
1959	1,675	292	1,967	49.6	30.6	4.2
1960	1,116	167	1,283	42.1	14.0	9.1
1961	791	168	959	35.6	38.9	7.1
1962	780	118	898	27.7	20.1	3.3
1963	1,002	153	1,155	41.5	44.4	6.6
1964	896	232	1,128	46.0	22.0	8.3
1965	656	207	863	49.6	19.8	11.5
1966	466	144	610		26.4	15.7

\*Estimated costs include costs of alterations.

\*\*Annual average for the four year period.

Source: Annual Report of Milwaukee Department of Building Inspection and Safety Engineering, Milwaukee, Wisconsin.

The rate of decline in building permits for single family and duplex houses has been phenomenal. The 610 permits of 1966 are hardly one-fifth of the annual average for the 1953-56 period. The estimated costs of residential properties have not fallen as far as the number of building permits; this is due to the rise in the average value of homes, the rise in construction cost, and most significantly the fact that multi-unit apartment buildings, which are not included in Table 10, have greatly increased in recent years.<sup>1/</sup>

Another factor weighing heavily on the trend in residential valuation is the absorption of private properties into public use. Expressways and urban redevelopment have been the two main items here, and they undoubtedly encroach heavily upon residential properties. During the past seven years, 1960-66, the property values taken off the tax roll each year averaged approximately \$4.9 million in assessed valuation.<sup>2/</sup> Adjusted by the assessment ratios, which ranged from 61.1 to 64.4 percent during this period, the above figure amounts to nearly \$8 million in full value.

<sup>1/</sup> In terms of dwelling units, the apartment building permits have increased from the annual average of 805 units in the 1953-56 period to 2,276 units in the 1957-66 period.

<sup>2/</sup> Approximate breakdown of the amount is as follows:

State of Wisconsin (highways and general)	\$ 376 (thousands)
Expressways	2,601
City of Milwaukee (parking, playgrounds, and other)	225
Redevelopment and housing	1,070
Streets	218
School sites	245
Milwaukee County (parks, airport, etc.)	245

## RESOURCES

### Properties

The decisive advantage in property value, we note in Table 11, goes to the industrial municipalities. Their average per capita valuation of \$25,237 is more than twice that of the high income residential units. The central city--the poorest of all (\$5,454), and the low income residential units (\$5,799)--are each worth approximately one-half the high income residential units. In between, the balanced units and the medium income residential units, with their per capita values of \$8,982 and \$7,180, rank third and fourth. The balanced units are comparable in real property, but far exceed the medium income residential units in personal property.

TABLE 11.--MEAN PER CAPITA EQUALIZED VALUES BY TYPE\*  
AMONG TYPES OF MUNICIPALITIES, 1966

	<u>Real Property</u>	<u>Personal Property</u>	<u>Total</u>	<u>Total in Index</u>
Central city	\$ 4,452	\$1,002	\$ 5,454	100.0%
Balanced	7,015	1,967	8,982	164.7
Industrial	17,498	7,741	25,239	462.8
Residential				
High income	10,810	127	10,937	200.5
Medium income	6,591	589	7,180	131.6
Low income	5,074	725	5,799	106.3
Urban area suburb	<u>8,025</u>	<u>1,284</u>	<u>9,219</u>	<u>169.0</u>
Median	6,056	607	7,272	133.3
Incorporated outside				
urban area	6,528	611	7,140	130.9
Unincorporated outside				
urban area	6,979	512	7,492	137.4

\*Includes utility properties.

Source: Supervisor of Assessments' Statistical Report of Property Values to State Department of Taxation, Madison, Wisconsin.

The municipalities outside the urban area, both incorporated and unincorporated, are comparable to the medium income residential units in both level of per capita valuation and type of property.

When we break down real properties by use, as in Table 12, we find that the central city, balanced, and industrial units are all about equal in commercial use; while in manufacturing the industrial units are distinct, with a per capita valuation of \$13,110. In manufacturing, the balanced units exceed the central city significantly.

In residential property alone, the central city fares the worst. There, per capita residential valuation of \$2,474 is only one-fourth that of the high income residential units. It will be recalled that in per capita total valuation it compared one to two with the high income residential area (Table 11). What accounts for the smaller differences in the total valuation are business properties which favor the central city. But, if we consider the fact that much of these business properties are absentee-owned, the total valuation per capita is not very meaningful as a measure of



TABLE 12.--MEAN PER CAPITA EQUALIZED REAL PROPERTY BY USE  
AMONG TYPES OF MUNICIPALITIES, 1966

	Real Property				Residential Property in Index
	<u>Mercantile</u>	<u>Manufacturing*</u>	<u>Agricultural</u>	<u>Residential</u>	
Central city	\$1,074	\$ 896	\$ 7	\$2,474	100.0%
Balanced	1,135	2,091	0	3,777	152.7
Industrial	1,116	13,110	238	3,048	123.2
Residential					
High income	752	238	0	9,814	396.7
Medium income	761	446	134	5,232	211.5
Low income	531	596	202	3,745	151.4
Urban area suburb	<u>787</u>	<u>984</u>	<u>58</u>	<u>5,373</u>	<u>217.2</u>
Median	666	180	0	4,558	184.2
Incorporated					
outside urban area	683	429	355	5,099	206.1
Unincorporated					
outside urban area	469	389	1,885	4,189	169.3

\*Includes utility properties.

Source: See Table 11.

affluence. In per capita residential valuation the medium income residential units exceeded the central city by more than 100 percent, and even the low income residential units exceeded it by 50 percent. This is in contrast to the much smaller differences observed in total valuation.

Implications of differences in valuation.--We must distinguish between fiscal resources and affluence. The industrial municipalities, to use an extreme example, are rich in fiscal resources, but their residents are even poorer than those of the low income residential municipalities, in terms of housing. Thus, when we learn that the poor central city levies a property tax rate of 41 mills and the high income residential units a lower rate of 29 mills and want to pair these rates with their relative affluence, the more meaningful measure of affluence (if we choose property as the measure) will be per capita residential valuation rather than per capita total valuation.

Between 1960 and 1966, according to Tables 11 and 13, all types of municipalities have experienced an increase in their per capita total valuation. The rise is substantial for residential classes. The high, medium, and low income residential units respectively gained 16.1, 14.9, and 13.1 percent while the balanced and industrial units gained a milder 9.2 and 6.5 percent. The central city showed only a token gain of 3.8 percent.

TABLE 13.--MEAN PER CAPITA EQUALIZED VALUES BY TYPE\*  
 AMONG TYPES OF MUNICIPALITIES, 1960

	<u>Real Property</u>	<u>Personal Property</u>	<u>Total</u>	<u>Total in Index</u>
Central city	\$ 4,378	\$ 878	\$ 5,256	100.0%
Balanced	6,454	1,465	7,917	150.6
Industrial	17,507	5,395	22,901	435.7
Residential				
High income	9,383	97	9,479	180.3
Medium income	6,022	354	6,377	121.3
Low income	4,613	514	5,126	97.5
Urban area suburb	<u>7,237</u>	<u>903</u>	<u>8,140</u>	<u>154.9</u>
Median	5,893	295	6,845	130.2

\*Includes utility properties.

Source: See Table 11.

Thus, the gaps between the central city and all classes of suburban municipalities have widened in the past seven years. The central city in 1960 exceeded the low income residential units in per capita total valuation, but the order is now reversed. Furthermore, while in 1960 the per capita valuation of the central city was 55.4 and 82.4 percent of the high and medium income residential units', the figures are now down to 49.6 and 74.4 percent respectively. The spread between the low income residential and the high and medium income residential units has also widened somewhat.

The relative composition of property, we note in Table 14, has remained largely unchanged between 1960 and 1966. But we discover a significant fact that in per capita residential valuation the central city was unable to hold its own, even on the depreciating current dollar terms. Here, the high income residential municipalities are the principal gainer, with a 13.8 percent increase. The spread between the central city and the suburb in per capita residential valuation has greatly widened during the period.

TABLE 14.--MEAN PER CAPITA EQUALIZED REAL PROPERTY BY USE  
AMONG TYPES OF MUNICIPALITIES, 1960

	<u>Real Property</u>			<u>Residential Property in Index</u>
	<u>Mercantile</u>	<u>Manufacturing*</u>	<u>Residential</u>	
Central city	\$961	\$ 846	\$2,564	100.0%
Balanced	874	1,933	3,607	140.7
Industrial	842	13,420	2,721	106.1
Residential				
High income	568	188	8,625	336.5
Medium income	497	335	4,989	194.6
Low income	397	505	3,454	134.7
Urban area suburb	<u>576</u>	<u>1,572</u>	<u>4,921</u>	<u>191.9</u>
Median	433	396	4,220	164.6

\*Includes utility properties.

Source: See Table 11.

The loss in per capita residential valuation for the central city may be attributable to the circumstances noted earlier: the unusual pace of absorption of private property into public use, notably for highway construction and urban redevelopment; and the low building activities that prevailed in the city.

Variation in per capita total valuation among the urban area municipalities remained stable between 1960 and 1966, but the variation in per capita residential valuation, as Table 15 indicates, has increased noticeably.

TABLE 15.--COEFFICIENTS OF VARIATION IN PER CAPITA VALUATION\*  
AMONG URBAN AREA MUNICIPALITIES, 1960, 1966

	<u>Per Capita Total Valuation</u>	<u>Per Capita Residential Valuation</u>
1960	50.2	51.1
1966	49.7	58.8

\*Standard deviation as percentage of the mean.

#### Outstanding Debt - Nonschool

Outstanding debt per valuation varies only moderately among types of municipalities, with the exception of industrial and high income residential units, over the range of 17.0 to 20.5 mills. Within these two groups, debt is either nonexistent or very minor relative to their valuation.

TABLE 16.--OUTSTANDING NONSCHOOL DEBT PER VALUATION  
AMONG TYPES OF MUNICIPALITIES, DECEMBER 1966

	<u>Debt Per \$1,000 Valuation</u>
Central city	17.0
Balanced	20.5
Industrial	1.0
Residential	
High income	6.5
Medium income	17.0
Low income	17.2
Urban area suburb	14.2
Median	12.6

Source: Report of City Clerk to State Bureau of  
Municipal Audit, Madison, Wisconsin.

### Income

When the local government relies principally on property as its tax base, personal income as a fiscal resource may seem to be unimportant. But it may be an important potential tax base. Furthermore, since all taxes are paid out of income, that is ultimately what measures best the ability to pay taxes. The following table shows the adjusted gross income per return according to which our urban area residential municipalities have been classified into high, medium, and low income units.

TABLE 17.--MEAN, MEDIAN, RANGE OF ADJUSTED GROSS INCOME\* PER RETURN  
AMONG TYPES OF MUNICIPALITIES, 1965

	<u>Mean</u>		<u>Median</u>		<u>Range</u>
	<u>Amount</u>	<u>Index</u>	<u>Amount</u>	<u>Index</u>	
Central city	\$ 4,697	100.0	\$ 4,697	100.0	\$ 4,697
Balanced	5,532	117.8	5,198	110.7	\$4,909 - 7,340
Industrial	5,112	108.8	5,112	108.8	4,803 - 5,421
Residential					
High income	12,273	261.3	11,505	244.9	7,827 - 19,892
Medium income	6,642	141.4	6,527	139.0	6,213 - 7,149
Low income	5,436	115.7	5,438	115.8	4,859 - 5,885
Urban area suburb	7,197	153.2	6,049	128.8	4,803 - 19,892

\*This is adjusted gross income for the state income tax purpose and differs little from the federal adjusted gross income. In 1966, the AGI for state income tax purpose was \$7,849.5 million and varied only .35 percent from the federal AGI of \$7,877.0 million.

Source: Computed from the figures obtained in IBM Files, Department of Taxation, Madison, Wisconsin.

Wealthiest, naturally, are the high income residential municipalities. Their per return income of \$12,273 is two-and-one-half times that of the central city, and more than twice that of most other groups. The industrial units shown to be property-rich now reveal themselves as income-poor. The middle income residential units, though not at all comparable to the high income units, stand distinctly higher than others.

When we use income to measure family welfare or affluence, we may want to consider in addition the basic needs of the family as indicated by its size. Thus, if basic needs are largely determined by family size, income per capita rather than income per family or per return may be preferable.<sup>1/</sup>

TABLE 18.--MEAN AND MEDIAN PER CAPITA ADJUSTED GROSS INCOME  
AMONG TYPES OF MUNICIPALITIES, 1965

	Mean		Median	
	Amount	Index	Amount	Index
Central city	\$2,387	100.0	\$2,387	100.0
Balanced	2,446	102.5	2,400	100.5
Industrial	2,046	85.7	2,046	85.7
Residential				
High income	7,180	300.8	6,126	256.6
Medium income	3,146	132.1	3,146	131.8
Low income	2,490	104.3	2,490	104.3
Urban area suburb	3,606	151.0	2,681	112.3

Source: See Table 17.

In Table 18 we find a picture which varies substantially from that of Table 17. In per capita income, the spread between the central city and the high income residential units is even larger than the income per return. This may mean that family size, on the average, is greater in the central city than in the high income units. On the other hand, the reduced spread between the central city and the balanced and low income residential municipalities means that families are larger still in the latter group. Large families in the industrial area may explain the reversed order between this area and the central city: in income per return the industrial units exceeded the central city but in per capita income the latter exceeds the former by a substantial margin.<sup>2/</sup>

<sup>1/</sup> Martin David, "Welfare, Income, and Budget Needs," Review of Economics and Statistics, Vol. XLI, No. 4, November 1959, pp. 393-399.

<sup>2/</sup> Since the number of gainfully employed per family may vary among municipalities, the more accurate account can be made by considering the variation in such a ratio also. The lesser spread in per capita income between the central city and the low income residential units, for instance, may be due to larger average family size for the latter or their lower ratio of gainfully employed per family or perhaps both. The coefficient of variation in per capita income among individual municipalities rose from 62.5 for 1959 to 69.1 for 1965. The concept of the adjusted gross income has remained largely unchanged between 1959 and 1965 except for the 1963 provision allowing for deductibility of unemployment compensation and sick pay. To the extent that the low income workers are more often involved in these payments, their elimination in the 1965 adjusted gross income would affect their income figures unfavorably. However, unemployment compensation and sick pay together constituted \$66.5 million as compared with total wages and salaries of  
(continued)

We note, comparing Table 19 with Table 18, that in per capita income the disparity between central city and suburb increased between 1959 and 1965.

TABLE 19.--MEAN AND MEDIAN PER CAPITA ADJUSTED GROSS INCOME  
AMONG TYPES OF MUNICIPALITIES, 1959

	Mean		Median	
	Amount	Index	Amount	Index
Central city	<u>\$2,112</u>	<u>100.0</u>	<u>\$2,112</u>	<u>100.0</u>
Balanced	2,109	99.9	2,008	95.1
Industrial	1,666	78.9	1,763	83.5
Residential				
High income	5,810	275.1	4,564	216.1
Medium income	2,661	126.0	2,721	128.8
Low income	1,985	94.0	1,922	91.0
Urban area suburb	<u>2,973</u>	<u>140.8</u>	<u>2,101</u>	<u>99.5</u>

Source: See Table 17.

The disparities between the central city and other groups of municipalities, except for the industrial units, have all increased, absolutely and relatively. This picture largely remains when we use median income per capita.

#### EXPENDITURES

Operating expenditures are treated separately for nonschool and school purposes. (Capital outlays, which in recent years constituted approximately one-fourth of the total expenditures, are not included in the analysis.<sup>1/</sup>)

#### Nonschool Expenditures

Within the urban area, the central city spends substantially more per capita than the large majority of the suburban municipalities (ranking eighth among the 29 municipalities of the urban area). In terms of specific functions, the central city exceeds the suburb greatly in police, health and sanitation, and fire whereas the suburb exceeds the central city in highway and general government.

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(Continued) \$63,015 million in that year. This is less than .9 percent and of this, Wisconsin Department of Taxation estimates, about 50 percent would have been reported if these payments were taxable. Thus, the distortion in measures of variation resulting from the above provision is probably very insignificant.

<sup>1/</sup> Harold M. Groves and John Riew, "Financing Metropolitan Municipalities in Wisconsin," Land Economics, Vol. XL, No. 1, February 1964, p. 37.

TABLE 20.--MEAN PER CAPITA OPERATING EXPENDITURES BY MAJOR FUNCTIONS  
AMONG TYPES OF MUNICIPALITIES, 1966  
(Dollars)

	General Government	Police	Fire	Health and Sanitation	High- way	Recrea- tion	Total*	Index
Central city	\$11.9	\$24.8	\$13.1	\$16.4	\$11.9	\$ 3.2	\$ 81.3	100.0
Balanced	11.2	13.2	9.9	10.9	15.2	2.1	62.5	77.0
Industrial	25.0	29.1	38.7	21.5	25.7	3.0	142.9	175.9
Residential								
High income	22.6	32.9	9.3	19.4	32.1	2.2	118.5	145.9
Medium income	10.2	10.4	6.6	6.6	18.9	1.6	54.3	66.8
Low income	9.8	9.2	6.0	4.6	15.0	3.2	47.9	58.9
Urban area suburb	13.6	16.7	9.5	10.6	20.0	2.4	72.5	89.2
Median	11.4	13.4	5.9	9.1	15.5	2.1	63.5	78.1
Incorporated								
outside urban area	12.8	11.3	4.8	5.6	14.5	2.9	52.0	64.0
Unincorporated								
outside urban area	6.0	1.6	2.5	0.0	11.6	.4	23.0	28.3

\*The total is the sum of the individual items presented and does not include miscellaneous expenses.

Source: Annual Report of Municipal Clerk, State Bureau of Municipal Audit, Madison, Wisconsin.

Table 21, which provides expenditures per property valuation, depicts largely the same picture. In this table, also, the largest differences between the central city and the suburb are shown to be in police, health and sanitation, and fire. These seem to be the areas of service in which high densities of population and property, heavy traffic, larger concentration of businesses, and perhaps significantly the nonresident commuters all add to the central city expenses (see Appendix Table B-3).

TABLE 21.--MEAN OPERATING EXPENDITURES PER PROPERTY VALUATION\*  
AMONG TYPES OF MUNICIPALITIES, 1966  
(Mills)

	General Government	Police	Fire	Health and Sanitation	High- way	Recrea- tion	Total
Central city	2.2	4.6	2.4	3.0	2.2	.6	14.9
Balanced	1.5	1.7	1.3	1.5	2.0	.4	8.4
Industrial	1.0	1.1	1.4	.7	1.1	.2	5.4
Residential							
High income	1.9	2.6	1.3	1.8	2.6	.3	10.4
Medium income	1.4	1.5	.9	.9	2.5	.2	7.4
Low income	1.7	1.6	.1	.8	2.5	.5	7.2
Urban area suburb	1.5	1.7	1.0	1.2	2.3	.3	7.9
Median	1.4	1.7	1.0	.9	2.2	.2	7.4

\*Rates are obtained by dividing individual expenditures by total equalized property valuation (including utilities). The total mill rate varies from the local rate under property tax because these are only operational expenditures and some of them may be financed by debt, intergovernmental transfers, departmental earnings, etc.

Incorporated municipalities outside the urban area spend in a pattern much like the medium and low income residential municipalities in the urban area while the unincorporated municipalities vary greatly from all the others. The latter spend practically nothing on recreation, health and sanitation and rely largely on county sheriff and voluntary firemen for police and fire protection.

In per capita terms, the largest spenders are industrial and high income residential units. They greatly exceed the central city, especially in highway, police, and general government. For industrial units, the largest single budget involves fire protection; in this they exceed the central city three to one.

That the central city spends less per capita for general government may be explained largely by economies of scale. The meaning of per capita expenditures for police becomes obscure since police provide protection for property as well as for people. Fire protection is primarily for property; even highway costs might be considered a complement to property and businesses.

In expenditures per valuation, the central city is the highest with an overall rate of 14.9 mills. The high income municipalities rank next with their 10.4 mill rate. The industrial units, which spend the largest amount per capita, carry the lowest rate of 5.4 mills. The central city levied the high local rate of 13.8 mills, while high income residential and industrial units levied low rates of 2.2 and 1.9 mills respectively.

It should be noted that for the central city, the low income residential, and the balanced municipalities, the local rate is at least one-half of the operating expenditures in mill rate. In contrast, as we see in Table 22, the difference between the two rates is much greater for the industrial, high, and medium income residential units; for the high income residential units, for instance, the local rate is only one-fifth of the expenditure rate.

TABLE 22.--MEAN OPERATING EXPENDITURES PER VALUATION, MEAN FULL-VALUE LOCAL RATE AMONG TYPES OF MUNICIPALITIES, 1966  
(Mills)

	Operating Expenditures <u>Per Valuation</u>	Full-value <u>Local Rate</u>
Central city	13.8	14.9
Balanced	8.4	4.2
Industrial	5.4	1.7
Residential		
High income	10.4	2.2
Medium income	7.4	1.9
Low income	6.5	3.2

Source: See Tables 5 and 21.

Operating expenditures generally comprise three quarters of the total expenditures; one may thus wonder how some of the municipalities fill the large gap between the tax rate and the expenditure rate. The explanation, as we shall discover, lies largely in the present arrangement of state transfer payments.

We note in Table 23 that the three largest expenditure items in which the central city exceeded many suburban municipalities are police, health and sanitation, and fire. They respectively claimed 31, 20, and 16 percent of the total operating budget.



For the urban area suburb highway, police, and general government constituted the three most important items, respectively claiming 28, 21, and 19 percent. Outside the urban area, highway and general government are the two main items of expenditures. As for the unincorporated municipalities, nearly half of their operating budget went to highways.

TABLE 23.--RELATIVE SHARES OF MAJOR OPERATING EXPENDITURES\*  
AMONG TYPES OF MUNICIPALITIES, 1966  
(Percent)

	<u>General Government</u>	<u>Police</u>	<u>Fire</u>	<u>Health and Sanitation</u>	<u>High- way</u>	<u>Recrea- tion</u>	<u>Total</u>
Central city	14.6%	30.5%	16.1%	20.1%	14.7%	3.9%	100.0%
Balanced	18.0	22.1	15.2	15.6	25.6	3.7	100.0
Industrial	19.5	19.5	24.9	12.2	21.0	3.0	100.0
Residential							
High income	18.1	25.0	11.4	17.2	25.7	2.7	100.0
Medium income	18.3	18.8	10.3	12.8	36.4	3.5	100.0
Low income	22.1	19.6	11.8	9.4	31.5	5.7	100.0
Urban area suburb	19.4	20.8	13.0	13.2	29.4	3.8	100.0
Median	20.4	20.1	14.6	11.7	28.9	3.2	100.0
Incorporated							
outside urban area	26.0	14.8	10.7	11.2	29.5	6.1	100.0
Unincorporated							
outside urban area	29.4	5.6	11.9	4.3	46.7	1.3	100.0

\*The figures presented here are the mean of relative shares in each expenditure item for individual municipalities in each class.

Source: Computed from figures obtained from the Annual Report of Municipal Clerk, State Bureau of Municipal Audit, Madison, Wisconsin.

The relative shares of individual expenditures have changed somewhat lately. In 1960, the largest share went to highways for all types of municipalities, but for central city and industrial municipalities the highway item is now replaced by police and fire respectively as the largest. For high income residential units also, first place is now shared between police and highways. The heavy outlay on highways in the past several years perhaps reduced substantially their operating expenses. For the medium and low income residential and balanced municipalities, highways were and still are the largest item in the operating budget (see Appendix Table B-4).

The level of expenditures per capita has increased since 1960 for all types of municipalities, more significantly for residential municipalities. We note in Table 24 that in per capita expenditures the differences between the central city and the high income residential and industrial municipalities have increased during the past years. The increased differences are also observed between the high income residential and the low income residential groups (see Appendix Table B-4).

TABLE 24.--MEAN PER CAPITA TOTAL OPERATING EXPENDITURES\*  
AMONG TYPES OF MUNICIPALITIES, 1966, 1960

	1966		1960	
	<u>Amount</u>	<u>Index</u>	<u>Amount</u>	<u>Index</u>
Central city	\$ 81.3	100.0	\$ 70.4	100.0
Balanced	62.5	77.0	59.4	84.4
Industrial	142.9	175.9	120.2	170.7
Residential				
High income	118.5	145.9	84.9	120.6
Medium income	55.8	68.6	44.5	63.2
Low income	47.9	58.9	36.8	51.1

\*The total is the sum of individual expenditure items which appear in Table 21 and does not include other minor items of expenditures.

Source: See Table 21.

#### School Expenditures

Analysis of school expenditures is complicated by the fact that a school district and a municipality, especially a small one, do not necessarily share common boundaries. The report of a school district is not broken down by the municipalities within it. Thus where a joint school district is involved, expenditures and enrollment were apportioned among municipalities according to their relative shares of population aged one through eighteen in the school district.<sup>1/</sup>

The central city, which exceeds the suburb in many nonschool expenditures, falls greatly behind the latter in school expenditures (see Table 25). With its per pupil operating expenditure of \$508, the central city ranks twenty-eighth among the 29 municipalities in the urban area around Milwaukee. The high income residential suburbs, with their figure of \$762, exceed all others by a considerable margin. The balanced, industrial, and medium income residential suburbs spend comparable amounts in the \$630-640 range while the low income residential suburbs, trailing most others, still exceed the central city.

Surprising in the data presented in Table 25 is the difference in the expenditure variation between per pupil and per capita terms. In per pupil expenditures the suburb on the average exceeds the central city by 28 percent; in per capita expenditures the margin rose to 73 percent.

<sup>1/</sup> The Annual School District Report records population aged 1-18 residing in the district by municipality. Apportioning enrollment and expenditures in this manner seems appropriate since the relative share of pupil enrollment would most likely reflect the relative share of the population in this age group. There may be cases where a municipality's share of pupil enrollment is larger or smaller than its share of school age population. But, in general, the municipalities that share a joint school district are similar in socioeconomic characteristics and any distortion that may result from this method is likely very insignificant.

TABLE 25.--MEAN PER CAPITA AND PER PUPIL SCHOOL OPERATING EXPENDITURES  
AMONG TYPES OF MUNICIPALITIES, 1965-1966

	Per Pupil Operating Expenditures		Per Capita Operating Expenditures	
	Amount	Index	Amount	Index
Central city	\$508	100.0	\$ 70	100.0
Balanced	636	125.2	103	147.6
Industrial	630	124.0	104	149.0
Residential				
High income	762	150.0	149	212.9
Medium income	642	126.4	121	173.3
Low income	578	113.8	115	164.7
Urban area suburb	648	127.6	121	173.3
Median	631	124.2	118	169.0

Source: Annual Report of School District, Part I, II, and IV, State Department of Public Instruction, Madison, Wisconsin.

The explanation will be found in demographic differences which exist between the central city and the suburb. In Table 26 we note that in 1965-66 the central city had a far smaller share of population aged 1-19, which in turn explains the significantly smaller proportion of average daily attendance (ADA) to the total population. The central city's 13.7 percent ADA compares with the substantially higher ratio of 18.5 percent for the suburb as a whole. Here is striking evidence that parents with children prefer a residential suburb to the central city or any business-oriented area.<sup>1/</sup>

TABLE 26.--MEAN RATIO OF POPULATION AGED 1-19 AND ADA TO TOTAL POPULATION  
AMONG TYPES OF MUNICIPALITIES, 1965-1966

	Population 1-19/Total Population	ADA/Total Population	ADA/Popula- tion 1-19
Central city	32.5%	13.7%	42.2%
Balanced	38.2	15.9	42.0
Industrial	34.3	15.8	44.7
Residential			
High income	42.4	18.7	44.4
Medium income	42.3	19.2	45.6
Low income	44.9	18.5	44.4
Urban area suburb	41.8	19.1	44.3
Median	40.9	19.1	44.9

Source: See Table 25.

<sup>1/</sup> The ratio of ADA to population which is certainly related to the ratio of school age population to the total population, may also be influenced by other factors, such as relative share of parochial pupils and school dropouts. To separate these aspects the ratios of ADA to population 1-19 are compared among types of municipalities.

(continued)

The relative picture, as we may note in Table 27, has remained largely unchanged for the past several years. In 1960, the central city was still the lowest, the high income residential by far the highest, and the low income residential relatively low but still higher than the central city.

TABLE 27.--MEAN PER PUPIL EXPENDITURES  
AMONG TYPES OF MUNICIPALITIES, 1959-1960

	Per Pupil	
	Operating Expenditures Amount	Index
Central city	\$438	100.0
Balanced	514	117.4
Industrial	531	121.2
Residential		
High income	691	157.8
Medium income	578	132.0
Low income	488	111.4
Urban area suburb	564	128.8
Median	582	132.9

Source: Computed from the figures obtained in Annual Report of School District to State Superintendent of Public Instruction.

The coefficient of variation in per pupil expenditures has decreased from 19.6 in 1959-60 to 15.1 in 1965-66. We also observe that the spread in per pupil expenditures between the high income residential suburbs and other less affluent suburbs has decreased relatively.

#### SHARED TAXES, CREDITS, AND AIDS

Wisconsin is widely known for its willingness to share its resources with its municipalities. Having observed various disparities among the urban area municipalities of Milwaukee, we now examine the influences of various State fund transfers upon these disparities.

##### Shared Taxes

The state returns unconditionally to municipalities a major share of three important taxes--the individual income tax, the corporate income tax, and the ad valorem public utility tax. The basis of distribution in all cases is the place of origin. The most plausible rationale for this distribution is that the state has superior power of taxation, at least in terms of administration.

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(Continued) Although the central city and balanced communities appear to have somewhat larger share of parochial enrollment and possibly in dropouts also, these characteristics do not seem significant in affecting the ratio of ADA to total population.

TABLE 28.--MEAN PER CAPITA SHARED TAXES  
AMONG TYPES OF MUNICIPALITIES, 1966

	Individual Income Tax		Corporate Income Tax		Utility Tax		Total	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index
Central city	\$ 18.62	100.0	\$12.96	100.0	\$ 7.47	100.0	\$ 39.05	100.0
Balanced	20.09	107.9	17.55	135.4	10.46	140.0	48.10	123.2
Industrial	20.95	112.5	60.33	465.5	93.28	1,248.6	174.56	447.0
Residential								
High income	100.94	542.1	1.99	15.4	6.82	91.3	109.75	281.0
Medium income	28.24	151.7	6.21	47.9	6.14	82.2	40.59	103.9
Low income	18.47	99.2	8.23	63.5	6.40	85.7	33.10	84.8
Urban area suburb	39.45	211.9	11.98	92.4	13.63	182.5	65.05	166.6
Median	21.04	113.0	6.55	50.5	6.75	90.4	40.67	104.1

Source: Taxes, Aids, and Shares in Wisconsin Municipalities, 1966, Department of Taxation, Madison, Wisconsin.

The total amount of individual income taxes shared with the 29 urban area municipalities was \$28.6 million in 1966; the amount of the shared corporate income tax was \$15.9 million; and that of the utility tax was \$11.4 million.

The high income residential suburbs benefited most from the shared individual income tax. With their \$101 per capita they exceeded other recipients, except the medium income residential units, in a five-to-one ratio. The industrial units were predominant beneficiaries of the shared corporate income tax, with \$60 per capita. In this, the balanced suburbs and the central city fared better than residential suburbs, thus partially making up for their disadvantage in the individual income tax share. Of the utility tax, the main beneficiaries were again the industrial units; their \$93 per capita compared with less than \$10 per capita for other groups.

Totalling all three taxes, and because of the place-of-origin formula, the industrial suburbs, with \$175 per capita, and the high income residential suburbs, with \$110, received, respectively, four-and-one-half times and nearly three times the amount received by the central city. The balanced suburbs fared better than the central city, though not significantly. The medium income residential suburbs, in spite of their considerable advantage in the individual income tax share, fared about even with the central city because of the offsetting disadvantage of lacking the corporation income tax share. The low income residential suburbs, though comparable with the central city in their share of individual income tax, received the least in total.

The highway privilege tax and liquor tax, also shared with local governments, involve only minor amounts. The payment of the highway privilege tax is based on the number of cars and trucks registered while that of the liquor tax is based on population.

TABLE 29.--MEAN PER CAPITA HIGHWAY PRIVILEGE TAX AND LIQUOR TAX SHARES  
AMONG TYPES OF MUNICIPALITIES, 1966

	Highway Privilege Tax	Liquor Tax
Central city	\$1.60	\$1.75
Balanced	2.78	1.54
Industrial	3.57	1.51
Residential		
High income	1.74	1.65
Medium income	1.78	1.60
Low income	1.90	1.51

\*The per capita figures were derived by dividing the 1966 payments by the estimated 1966 population. Although the payments are made on population basis the per capita figures are not equal because population trends varied among municipalities since 1960 while the payment was based on the 1960 population.

Source: See Table 28.

#### Property Tax Credit

The property tax credit was enacted in 1961 concomitant to the newly imposed Wisconsin Selective Sales Tax. A part of the sales tax revenue was set aside to help relieve the local property tax burden. Under the program, the fund is allocated on the basis of the property tax effort, measured in terms of full value rate, and on the equalized valuation for each municipality.

The property tax credit is divided into two categories, real estate tax credit and stock tax credit, the latter representing the credit given to the specific items of personal property.<sup>1/</sup>

<sup>1/</sup> After full value rates for the three preceding years are averaged, 14 mills are subtracted therefrom. This gives us "the three-year average full value rate over 14 mills." Then we obtain the current "net" equalized valuation by adding the real property and the personal property exclusive of livestock, merchants' inventories, and manufacturers' materials and supplies. Multiplying the full value rate obtained above into this equalized valuation, we derive "levy over 14 mills." Now to determine the amount of the tax credit, this levy is multiplied by an apportionment factor derived by dividing the total fund allocable by the aggregate of these levies. The total fund set aside for the property tax credit in 1966 was \$48.5 million and the apportionment factor was .149277.

TABLE 30.--MEAN PER CAPITA GENERAL PROPERTY TAX CREDIT  
AMONG TYPES OF MUNICIPALITIES, 1966

	<u>Real Estate Tax Credit</u>	<u>Stock Tax Credit</u>	<u>Total</u>
Central city	<u>\$18.23</u>	<u>\$12.46</u>	<u>\$30.69</u>
Balanced	16.38	16.23	32.61
Industrial	23.06	73.63	96.66
Residential			
High income	22.43	.95	23.38
Medium income	16.52	4.85	21.37
Low income	11.66	5.69	17.35
Urban area suburb	<u>16.85</u>	<u>11.44</u>	<u>28.29</u>
Median	16.34	3.43	23.88

Source: See Table 28.

The two parts of this allocation formula work against each other. Reliance on the property tax rate introduces an equalizing effect. Thus, the central city, whose valuation is lowest of all (see Table 11), receives more than the low income suburb, because the central city's tax rate is highest of all (see Table 4).

However, the other part of the formula--equalized per capita valuation--tends to undo this effect. Table 30 shows that the industrial and high income residential suburbs receive the highest credit on their property tax, although their tax rate is comparatively low. Low man on the totem pole is the low income suburb, which suffers from both low tax and low valuation. Thus, while in the final analysis, there is an element of equalization, the real estate tax credit provides the largest relief per capita for the two groups of municipalities that are richest in fiscal resources.

Although, under the stock tax credit formula, personal properties (livestock, merchants' inventories, manufacturers' materials, and supplies) have only .6 of the tax credit potential of the property tax formula, industrial units gain tremendously. The balanced suburbs and the central city, though they do not compare with the industrial area, do better than the residential suburbs. Indeed, the stock tax credit more than makes up for the disadvantage these two face with regard to the real estate tax credit. The combination of the two credits enabled the balanced units and the central city, with respective total per capita credits of \$33 and \$31, substantially to exceed all residential suburbs. (Among the residential suburbs, the low income units received the smallest amount--\$17 per capita.) But the industrial units, with almost the lowest population of all (9,334--1/84th that of the central city) were far and away the high scorers on total per capita credits with \$96.66 (see Appendix B, Table B-1).

#### Homestead Relief Credit

Under the recently enacted homestead relief credit, persons 65 or over with annual earnings of less than \$3,500 are entitled to a credit on their property tax (for homeowners) or their rent (for renters). The credit, which rises to a maximum of \$300, is a portion of the property tax paid or of 25 percent of the rent, the portion to decline with increase in income.<sup>1/</sup>

<sup>1/</sup> If a person pays \$150 in property tax or \$600 in annual rent (25 percent of which is \$150) and earns \$1,000 during the year, for instance, his relief credit will be

(continued)

The credit helps senior citizens who are poor and the central city and the low income municipalities benefit more than any other type of unit. The total sum involved in the program, however, was only \$5.2 million for the entire state (the number of beneficiaries being a little less than 60,000) in 1966. This is slightly over 1/10th of the total general property tax credit for that year.

#### Aids - Highway

Highway and school aid comprise the two main items of state aid given directly to municipalities and school districts. Shown in Table 31 are the highway aids, which include the basic and supplemental allotments, and the payment for connecting streets and bridges as specified. Because of a millage factor in the aid formula, the per capita aid is larger for the more sparsely populated residential suburbs. The amount involved is insignificant, however, and its variation among types of municipalities is small.

TABLE 31.--MEAN PER CAPITA STATE HIGHWAY AIDS  
AMONG TYPES OF MUNICIPALITIES, 1966

	<u>Per Capita Highway Aids</u>
Central city	\$5.14
Balanced	4.41
Industrial	5.49
Residential	
High income	7.97
Medium income	7.38
Low income	6.03
Urban area suburb	<u>6.19</u>
Median	5.79

Source: See Table 28.

#### Aids - School

School aid, we find, represents the only element in the whole state transfer system which provides a substantial, if capricious, equalizing influence.

For aid purposes, school districts are classified as basic and integrated and (subclassified) by organization into 1-8, 9-12, and 1-12 grade types. An integrated school district provides a better quality education (as judged by standards of teacher qualification, curriculum, and facilities) and receives more statutory aid.<sup>1/</sup> Three basic factors determine school aid: (1) property valuation per pupil (the lower the valuation, the more aid), (2) educational quality, and (3) organization of the school district. The first of these is obviously intended to equalize, the second to promote

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(Continued) \$77.70 while one with the same tax or rent paid but with \$2,000 income receives a smaller credit of \$32.70. If one pays \$300 in property tax or \$1,200 in annual rent and earns \$1,000, he receives a credit of \$213.30, while one with \$3,000 income receives \$43.50.

<sup>1/</sup> Wisconsin Statutes, Secs. 40-67 through 40-71.



educational standards, and the third to allow for differences in the cost of operating elementary schools and high schools.

Under the equalization formula, each school district is guaranteed a minimum property valuation per resident pupil. The following schedule shows the guaranteed valuation for various aid classifications.

TABLE 32.--GUARANTEED VALUATION SCHEDULE, 1965-1966

<u>Classification</u>	<u>Guaranteed Valuation Per Pupil</u>
Basic	
1 - 8	\$24,500
9 - 12	55,000
K or 1 - 12	24,500
Integrated	
1 - 8	28,500
9 - 12	72,000
K or 1 - 12	34,000

Source: State Department of Public Instruction,  
Madison, Wisconsin.

As the first step in determining aid, the required minimum net per pupil operating cost is set. This is then divided by the guaranteed valuation to yield a millage factor. The amount of aid is finally determined by multiplying this factor into the excess of guaranteed valuation over the measured per pupil valuation.<sup>1/</sup>

In 1965-66, 93.7 percent of the pupils in adjusted daily membership (ADM) were attending integrated K or 1-12 grade districts. An additional 5.2 percent were in integrated 1-8 or 9-12 grade districts, and the balance of 1.1 percent was enrolled in the districts classified as basic. This means that for most of the school districts the guaranteed valuation per pupil was \$34,000. Of the 18 Milwaukee school districts, as many as 13 districts had qualified for school aid on the basis of per pupil valuation.

Under the Statute, a district exceeding the guaranteed valuation is entitled to a flat aid according to the schedule shown below.

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<sup>1/</sup> If, for instance, the net operating cost per pupil is \$408 and the guaranteed valuation is \$34,000, the required operating levy rate would be equal to 408/34,000 or 12 mills. Now, suppose a district has \$26,000 in valuation, the district could produce \$26,000 x 12 (mills) or \$312 of the amount needed, and the state would provide \$8,000 x 12 (mills) or \$96 per pupil.

TABLE 33.--FLAT AID SCHEDULE

<u>Aid Classification</u>	<u>Elementary</u>	<u>High</u>
Basic		
K or 1-8	\$30	
9-12		\$40
K or 1-12	30	40
Integrated		
K or 1-8	42	
9-12		55
K or 1-12	42	55

Source: State Department of Public Instruction,  
Madison, Wisconsin.

Because most of the school districts are in the integrated 1-12 grades, the flat aid typically amounts to \$55 per pupil. Considering that in 1965-66 the combined equalizing and flat school aid for the entire urban area of Milwaukee averaged \$123.50 per pupil, this flat figure of \$55 seems quite generous especially when it is extended to communities that need it less.

To examine the pattern of aid distribution among types of municipalities we present in Table 34 the per pupil and per capita school aids. The amounts paid to school districts are attributed directly or by adjustment (when a district and a municipality are not coterminous) to municipalities.

TABLE 34.--MEAN AND MEDIAN PER PUPIL AND PER CAPITA SCHOOL AIDS  
AMONG TYPES OF MUNICIPALITIES, 1965-1966

	<u>Per Pupil</u>		<u>Per Capita</u>	
	<u>Mean</u>	<u>Median</u>	<u>Mean</u>	<u>Median</u>
Central city	\$ 67.6	\$ 67.6	\$ 9.27	\$ 9.27
Balanced	127.7	67.4	20.32	10.99
Industrial	108.7	108.7	19.37	19.37
Residential				
High income	75.0	59.2	15.04	10.58
Medium income	136.5	123.4	27.88	23.63
Low income	189.5	208.2	38.32	39.95
Urban area suburb	135.2	122.1	26.16	23.63

Source: See Table 28.

We note, first, that among residential suburbs there is a significant equalizing tendency. Per pupil and per capita, the low income residential units greatly exceed the high and medium income units. Their differences are greater when the median, instead of the mean, values are compared. Surprisingly, however, school aid places the central city in the least favored class. The per pupil aid received by the central city was even lower than the mean per pupil aid for the high-income residential suburbs. The disadvantage of the central city is more striking in terms of per capita aid. While the equalizing pattern is consistent among the residential groups, the per capita aid for

the central city was barely one-fourth the amount received by the low income residential suburbs and approximately one-third the amount for the medium income residential suburbs. Why is it, one may wonder, that the central city, with the lowest per capita valuation, fares so poorly in school aid?

Under the statute the per pupil valuation determines the aid within each aid classification and the central city varied considerably from the others in demographic characteristics. With respect to the latter, the ratio of population aged 1-19 to the total population for the central city (Table 26) was 32.5 percent, in contrast to the suburban average of 41.8 percent. In the ratio of average daily attendance to population aged 1-19, furthermore, the central city was again the lowest (though the variation here was small), attributable perhaps to their larger relative share of parochial pupils, dropouts, or both. These were then finally reflected in their low ratio of ADA to total population; the central city's 13.7 percent varies greatly from the suburban average of 18.5 percent. Thus, although the central city ranked 16th in per capita valuation among the 19 municipalities of Milwaukee County in 1966, it ranked 6th in per pupil valuation among the county's 18 school districts.

The relatively high figures for the industrial units also would seem strange in view of their high per capita valuations. The explanation here, justification aside, is simple. Utility properties, with which they are well endowed, are not included in valuation for school aid purposes. These properties are assessed and taxed by the state, remaining outside local control. Nearly two-thirds of the taxes collected, however, are returned to the municipality. Thus, properties in this class represent a bonanza for the latter.

The low amounts of aid for the balanced suburbs may be explained by the relatively high per capita valuation (attributable to their business properties) and the low ratio of ADA to population (their 15.9 percent was higher than the central city's but substantially lower than the suburban average of 18.5 percent). The two factors yield a high per pupil valuation and in turn a low school aid.

Among suburbs, school aid exerts an equalizing influence, but in a capricious way. The balanced units, for instance, which are much poorer than even the central city, compare very unfavorably in school aid with the medium and low income residential units; in terms of the median they are exceeded by all but the high income residential units, with which they fare about equally. From the central city's point of view, school aid is highly disequalizing.

School aid is a functional aid and its benefit perhaps may be measured in per pupil terms. Nevertheless, if relieving the local tax burden is ultimately the objective, such relief ought to be measured in per capita terms. Even aside from its capricious nature, per capita school aid is only a relatively moderate tax reliever or equalizer. The difference in school aid between the most favored low income residential suburbs (\$38 per capita) and the high and medium income residential suburbs (\$15 and \$28 respectively) is rather small in contrast to the reverse differences in other state payments, notably in shared income taxes.

#### APPRAISAL OF SHARED TAXES, CREDITS, AND AIDS

##### Shared Taxes

Without challenging the view that shared taxes are a device for utilizing the state's superior taxing power, one may be critical of the present methods of sharing. This criticism would center on the rationale of choosing a municipality's own effort or own resources as the basis for allocation.

A community, be it an industrial enclave or a high income residential community, which is a part of the larger integrated area, can hardly establish its position without reference to the rest of the area. One may thus argue that various public services provided in an urban area are jointly needed and demanded and the financing of these services must be done jointly also. If we reason that taxes are collected for public services, that the effects of such services often benefit more than one jurisdiction and that, therefore, the public services in an urban area must in large measure be supported by joint effort, the shared taxes then should not be paid separately to individual municipalities but to a joint fund. Lacking metropolitan government or a similar agency, allocation of these funds to the county (or counties) would be a great improvement. If joint operation of functions of area-wide concern is politically unfeasible at the county (or multi-county) level, the funds in question may be allocated directly to the municipalities, largely on the basis of population, as the simplest and perhaps the best available index of need for public expenditures.

Because the aggregate amounts involved in shared taxes are large and the variation in payments among the municipalities, great, other state transfers, with or without specific intent to reduce intermunicipal fiscal disparities, are of limited value. The mean per capita total shared taxes varied from \$33 to \$175 among types of municipalities while among individual municipalities it varied more widely, from \$21 to \$233. In contrast, under the school aid program, the mean per capita aid varied within a narrower range of \$9 to \$38 among groups and \$8 to \$65 among individual municipalities.

Table 35 shows the ratios of shared taxes to the property tax levy for respective types of municipalities; the figures represent the required increases in the tax levy which would be required to replace the shared taxes (for the present level of expenditures). The ratios are far greater for the industrial and high income residential suburbs, signifying the greater relief they receive from shared taxes. Their 36.7 and 39.0 percent compares with the lower ratios ranging from 18.5 to 22.2 percent for other groups of municipalities. Among individual municipalities, these ratios vary far more widely, from as low as 15.6 percent to as high as 136.6 percent.

TABLE 35.--SHARED TAXES\* AS PERCENTAGE OF PROPERTY TAX LEVY

	Mean Per Capita Property Tax Levy	Mean Per Capita Shared Taxes	Shared Taxes As Percent of Tax Levy**
Central city	\$211	\$ 39.05	18.5%
Balanced	236	48.10	20.4
Industrial	475	174.56	36.7
Residential			
High income	287	109.75	39.0
Medium income	198	40.59	20.5
Low income	148	33.10	22.2

\*Includes individual income tax, corporate income tax, and utility tax shares.

\*\*Figures shown here are the mean of the ratios of shared taxes to the tax levy for individual municipalities and do not necessarily equal the figures derived by dividing the second column figures by the first.

Great fiscal disparities, we have already noted, exist among the municipalities of the Milwaukee Metropolitan Area. We now observe that the state's shared tax programs significantly aggravate the situation.

## Tax Credits

Property tax credit is given to practically all municipalities, but the poorest, and the ones who need the most, get the least. The mean per capita credit of \$11.70 for low income municipalities, for instance, is barely one-half the amount received by the industrial and high income residential units. Among individual municipalities the variation is greater, ranging from \$8.00 for a low income municipality to \$38.60 for a high income municipality. As was pointed out earlier, the stock (personal property) tax credit offsets this to some extent.

How the rate of 14 mills was derived, as the minimum rate to qualify for credit, is difficult to fathom. But if the tax credit is to aid those municipalities under a fiscal strain, the full value rate of 14 mills can hardly be considered as the beginning of distress. The central city levies the rate of 40.7 mills and there are many (as many as 13 in 1966) municipalities in the urban area of Milwaukee which levy rates higher than 30 mills. A minimum rate substantially higher than the existing level would provide the tax credit where it is needed in a more generous amount.

Beyond 14 mills, it should be noted, each mill is worth more in credit the higher the per capita valuation. This means that the incentive is greater for property-rich municipalities to levy more and spend more with the expectation that a part of the extra bill will be taken up by the tax credit. A sufficiently higher minimum rate as the basis of qualification for credit not only would enable more concentrated help but would also minimize the "extravagance" in public expenditures which may be induced by tax credit.

The homestead relief credit definitely has an equalizing effect, although it is only a minor item in the total picture. It may be pointed out, however, that the credit discriminates against the poor homeowner who lives in a low value house. He receives little or no credit because the tax is negligible, and for him the rent provision is irrelevant.

## Evaluation of School Aid

The most critical question regarding school aid concerns the use of the per pupil valuation as the basis of determining need, rather than per capita valuation. Supposedly this measures a community's capacity to finance its school needs. However, since the aid is meant to relieve the local tax burden, the capacity measure in this context should be related to the overall fiscal pressure which is a function of fiscal resources and needs. If the need is better approximated by total population than by student population, the more relevant criterion of capacity would be per capita rather than per pupil valuation. The difference between the two criteria is evident in view of the demographic differences among municipalities. The central city, for instance, is poor as indicated by per capita valuation or in per capita income and less capable of financing public services, school or nonschool, but because of the low ratio of pupil to population its per pupil valuation is brought up to a disproportionately higher level. This, however, does not change the fact that the central city is financially more handicapped than most other municipalities.

Since school aid is functional aid, the amount of aid must vary by the number of pupils, but the student population itself should not have any bearing in determining the fiscal capability of the municipality in question. In other words, the criterion for determining the ability to finance should be distinguished from the one determining the amount of aid. When this is done, we will be able to eliminate the capricious feature in the school aid. The central city, we recall, received \$68 per pupil (\$9 per capita), which compares very unfavorably with the suburban average of \$135 per pupil (\$26 per capita). Per pupil valuation as the criterion for determining the need is not only conceptually indefensible, but the pattern of aid distribution it leads to is a difficult one to justify.

In the interest of more concentrated school aid, the present flat aid provision might be eliminated. Most recipients of this aid do not need this amount, and for them it is not very much of an aid anyway.

The distinction between basic and integrated level, as an incentive to promote quality, may have contributed greatly to the elimination of many one or two room schools in the past, but the low standard set for the distinction (98.9 percent of ADM are in the integrated districts at present) achieves hardly any purpose now. Use of a more rigorous standard with respect to size and quality in aid classification might induce more active improvement in educational qualities.<sup>1/</sup> Such a measure might be incorporated into the scheme of school aid without itself conflicting with the purpose of equalizing.

#### Overall Effect

All state transfer payments combined, the central city received \$88 per capita. This compares with the suburban average of \$133. Over half of the 28 suburban municipalities received \$112 or more in 1966, while only three municipalities received less than the central city.<sup>2/</sup>

TABLE 36.--MEAN PER CAPITA TOTAL STATE TRANSFER PAYMENTS,\*  
THEIR PROPERTY VALUES EQUIVALENT, RATIO OF TAX LEVY  
AMONG TYPES OF MUNICIPALITIES, 1966

	All Transfers Combined		Property Values Equivalent	Transfers As Percent of Tax Levy
	Amount	Index		
Central city	\$ 87.7	100.0	\$2,656	41.6%
Balanced	113.8	129.8	3,446	48.2
Industrial	314.6	358.9	9,531	66.2
Residential				
High income	161.4	184.0	4,888	56.2
Medium income	103.8	118.4	3,145	52.4
Low income	90.4	103.1	2,738	61.1
Urban area suburb	132.5	151.1	4,013	57.3
Median	111.8	127.5	3,386	

\*State transfers include income tax shares, utility tax shares, property tax credits, school aid, highway aid, highway privilege tax, and liquor tax share.

Source: See Table 28.

<sup>1/</sup> A recent study of high school costs suggests that school size is significantly correlated with the per pupil cost, variation in qualities taken into account. When the scale economies are substantially significant, a school aid formula which encourages mergers of schools would deserve a more favorable consideration. See John Riew, "Economies of Scale in High School Operation," Review of Economics and Statistics, August, 1966.

<sup>2/</sup> Outside the central city, the total ranged from the lowest of \$84 to the highest of \$339, third and first quartiles being \$143 and \$112 respectively.

Among the suburban municipalities, the industrial group tops all others with their high per capita receipt of \$315. This amount, which exceeds their own tax levy of that year, is equivalent to \$9,531 in property value.<sup>1/</sup> The corresponding value for the central city is \$2,656, the lowest of all groups of municipalities. These values represent property valuations which, taxed at the average property tax rate for the entire Milwaukee urban area, would have yielded amounts equal to their respective receipts from the state.

The high income residential units, though far below the industrial units, greatly exceed the rest. Their per capita receipts of \$161 compare with the central city's \$88 and the low income residential units' \$90. The balanced and medium income residential suburbs received \$113 and \$103 respectively.

The ratio of the state payments to the local tax levy shown in Table 36 represents the required increase in tax levy necessary to replace the state transfer payments; it shows how important a tax reliever the combined amount of state payments is for the respective types of municipalities. On this score, the low income residential suburbs fare well. Their figure of 68 percent is exceeded only by the industrial suburbs. This is largely due to the low tax levy (reflecting in part their low valuation) and the high school aid. The high income residential units at 58 percent rank third. The central city fares most unfavorably at 42 percent; unlike the low income residential suburbs its levy is high and the school aid low, and, unlike the high income residential suburbs, its shared tax receipts are low. The balanced and medium income residential suburbs both show figures considerably higher than the central city's.<sup>2/</sup>

#### FEDERAL AID PROGRAMS

The main items receiving federal assistance are highways and urban development. Educational aid to the handicapped and aid under the National Defense Education Act are unimportant in amount.

#### Highways

The federal government currently pays 90 percent of the cost of construction of urban expressways. Thus far Milwaukee County has constructed 27.6 miles of expressways at a cost of \$60 million to the county and nine times that amount to the federal government.<sup>3/</sup> The state now (since 1966) reimburses the county for their 10 percent share, but the costs incurred in the past had been met by local property taxes levied for the county's purposes. Considering the road layouts, the change in land values, the residence-to-work distances, the expressways heavily favor the suburb. While their long-run effect on central area businesses and their property values remains to be seen, the loss of taxable properties for the central city is immediate and tangible. The impact on mass transit, furthermore, seems definitely unfavorable to the central city residents; reduced off-peak hour use of buses, because of increased use of automobiles, tends to increase operating costs (the fare was recently raised to 30 cents per ride) and to make the whole transit system less efficient, especially with respect to service

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<sup>1/</sup> Derived by dividing total receipts by the average full value rate for the entire Milwaukee urban area--the latter being the total levy divided by the total full value for the area.

<sup>2/</sup> They exceed the low-income residential units in shared taxes but their levies are higher and school aids lower.

<sup>3/</sup> Citizens' Government Research Bureau, Vol. 55, No. 4, March 11, 1967, p. 4.

frequency. A detailed study of the distributional effect of the federal aid policy in this area is urgently needed.

### Urban Development

The Department of Housing and Urban Development, under Public Law 418, enables the city to offer developers cleared land at a favorable price. Currently, the federal government provides two-thirds of the net project cost, the remaining one-third being borne by the city.

As of August 1967, approximately 600 apartment units, mainly for middle income families, have been built under the Juneau Village Project.<sup>1/</sup> Completion of the project subject to adjustment waits for greater occupancy (less than 75 percent of the completed units are currently occupied). In addition, there will have been built 1,052 units for the elderly and 254 units for low income large families by the end of the current year. Here federal assistance comes in the form of loan for construction and subsequent subsidizing of the cost-rent differential. The latter is notably equalizing, in inter-municipal as well as intramunicipal sense.

It is not clear whether or not the assistance given to the Juneau Village apartment project financially helps the central city; while new properties are added to the tax roll, the residents also demand additional municipal services. The city may lose on balance under the present tax structure, especially when a significant number of tenants are drawn from outside the city. However, if in the long run these developments help change the image of the central city and improve its efficiency as the center of an urban economy, the fiscal gains will be worth the costs.

### SUMMARY AND RECOMMENDATIONS

The present study reveals that there exist today real fiscal disparities among the municipalities of the Milwaukee Metropolitan Area. Taxes, fiscal resources, and expenditures vary greatly between the central city and the suburb, as well as among the suburban municipalities.

The tax rate disparity between the central city and the suburb has increased significantly during the sixties. Among the suburban municipalities the variation in tax rate has shown a mild increase. In property valuation also, the central city-suburb disparity has increased somewhat during the past several years, while among the suburban municipalities the variation remained largely stable. In per capita income, disparities have increased between the central city and the suburb as well as among the suburbs. Although some lessening of disparities in school expenditures is noted, no similar evidence is indicated in nonschool expenditures.

The case of the central city deserves a special mention. Of all the municipalities, the central city levies by far the highest rate in property tax, and it ranks the lowest in per capita valuation and in family income. In school expenditures, per pupil

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<sup>1/</sup> The East Side "A" Urban Renewal Project covers 64 acres of land of which 25 acres will be developed for residential, 15 acres for nonresidential, and the rest for streets and alleys. The total net project cost is estimated at \$12.5 million of which the federal government and the city respectively share \$8.3 million and \$4.1 million. Additional federal grants of \$667,000 are provided for relocation of personals and businesses. The two major redevelopments in the project are the Juneau Village Apartment and Shopping Complex and a new building for the Milwaukee School of Engineering.



or per capita, the central city is the lowest, while in nonschool expenditures it ranks the third highest after the industrial and high income residential suburbs.

Superimposed on these patterns and trends in disparities, the state transfer payments aggravate the situation. Our analysis points to these observations: (1) the shared income and utility taxes, which comprise nearly one-half the total state transfers (to municipalities and school districts of the Milwaukee urban area), are exceedingly favorable to richer municipalities; and (2) school aid, supposedly the most equalizing of all State payments, is capricious in that it fails to accommodate the neediest (the central city--the poorest by most measures--receives the least in school aid) and that other various payments under tax credits and aids are insignificant in size, thinly spread, and often disqualifying in their pattern of distribution. The combined influences of the State shared taxes, tax credits, and aids greatly contribute to the increase in fiscal disparities among the Milwaukee area municipalities.

#### Recommended State Action

Improve distribution of tax money.--If we reason that taxes are for public services, and that in large measure the public services in an urban area must be supported by joint effort, the shared taxes in principle ought to be paid not to individual municipalities but to a joint fund. Political integration or functional coordination failing, a more rational and equitable allocation of shared taxes would require replacing the present distribution formula with one relating more to the population basis.

Use ability to pay as the criterion for education aid.--An aspect of school aid requiring an urgent remedy is the use of per pupil valuation in the aid formula. Since it is a functional aid, the payment may vary by the number of pupils, but the use of per pupil instead of per capita valuation as the basis of determining fiscal capability leads to a perverse pattern of aid distribution, especially involving the central city (and to a lesser degree the balanced communities) for which the ratio of pupil to population has been markedly low. The criterion determining ability to support schools should be distinguished from the one determining the need in a given area of public service.

Coordinate State aid to localities.--State transfer payments, as they exist today, are so complex in number and mechanism that their overall appraisal is exceedingly difficult. Elected officials should formulate clear objectives, and move from the present patchwork approach to a more simplified and coordinated program. In view of the heavy involvement of the State with local governments in Wisconsin, the State should set up an agency dealing wholly with the problems of urban affairs.

Give more aid for "spillover" functions.--The central city needs a fairer deal from the State in shared taxes and aids. It needs more active State and Federal help with those public functions whose benefits spill over city boundaries, such as health and welfare, highway, and education. Some may argue that a mere change in the allocation formula for State money transfers would not help the central city much, since it already receives the bulk of this aid. But the very presence of the privileged suburbs next to, but separate from, the ill-fated central city tends to perpetuate and aggravate the problems caused by governmental splintering in a metropolitan area.

#### Recommended Municipal Action

While the present analysis of fiscal disparities involves comparisons among all municipalities of the urban Milwaukee area, the more important disparities exist between the central city and the suburb. The problems of the central city involve not only equity but its actual fiscal solvency. Serious as the present situation is, the central city is expected to confront an even greater fiscal strain, perhaps reaching a level of crisis, within a decade (see Appendix A).

Reduce property tax.--The property tax, the author feels, is already overused. The tax is too high, absolutely and relatively. A high property tax seriously hinders housing development and other construction activities in the central city and helps to splinter government in the metropolitan area. The tax rate must not rise above the present level. It must be reduced and reduced substantially.

Reform tax structure.--Municipal charges and fees may be raised to augment the revenue, but the prospect here is limited (see Appendix A). In addition to exerting every effort to attain more active assistance from the State and the Federal government, the city must seek its own way out. The only promising long run solution for the central city seems to lie in tax reform. Use of nonproperty taxes, especially a city income tax, coupled with a generous tax credit by higher levels of government, is particularly desirable. The legislative obstacles are obvious, but the stake involved is great.

Redevelop the central business area.--Primarily nonfiscal measures may also help solve the fiscal problems of the central city. Urban redevelopment in the central business area and the vicinity, carefully planned and executed, offers great potential for the city's revival as the center of the urban economy. Businesses in the central area are becoming increasingly specialized, which means less competition from the outlying shopping centers. The central business district today is more predominantly involved with financial and insurance establishments, government agencies, corporation head offices, hotels, theaters, and trades in various other specialized goods and services.

Improve mass transit.--An intelligent mass transit program, as part of a grand plan for the central area, would improve the area's efficiency as the business center and as the rallying point for the metropolitan area. As a metropolis grows in area and population, the demand for specialized businesses and activities rises. Improvement in mass transit will help the central area to capture this rising demand and will also open up scores of new possibilities.

Improve the public schools.--The flight of middle income residents to the suburbs has been the main cause of deterioration of the tax base, the image, and the morale of the city. Lowering the property tax and improving the quality of public schools are measures which will lessen this exodus. New taxes, whose bases transcend city boundaries, are urgently needed to bring this improvement about.

. . . . .

To summarize: tax reform, accompanied by intelligent and courageous urban development programs to improve the central area's efficiency as the urban center; improvement of mass transit (and a more cautious approach to expressway projects); and serious efforts to improve public services, especially education, seem to be the most important elements of a solution to the grave fiscal problems soon to face the central city. These measures are complementary. More efficient business areas in the central city assure greater success for tax reform, while tax reform, carefully planned, would bring about many improvements in the central city.

When the central city succeeds in achieving a happy fiscal balance, perhaps the most important ground for metropolitan splintering dissipates. It is for this reason also that the elimination of the ills of inequity and inefficiency involving an entire metropolitan area can be greatly facilitated by a more concentrated effort to solve the problems of the central city.

## APPENDIX A

Based on simple extrapolations from the 1960 and 1966 figures, nonschool city expenditures are expected to reach \$322 per capita by 1975 and school expenditures \$141 per capita, giving a total of \$473 per capita for all purposes. Nonschool city expenditures include total disbursements made by the city for general purposes, the excess of disbursements over receipts in public enterprises (mainly water plant), and the city share of county expenditures (respectively \$128.7 million, \$5.6 million, and \$84.4 million for 1966). The total expenditures are then divided by population for per capita expenditures. School expenditures include operating and nonoperating disbursements for the school district, which is coterminous with the city.

As for revenues, the property tax levy of \$223 was projected for 1975 under the assumption that the tax rate (full value) will freeze at the present rate of 40.7 mills (property tax in Wisconsin comprises 99.9 percent of the total local tax revenues of the state). With respect to the state transfers, the same mechanical projections were made for all but the property tax credits; the latter were enacted in 1961. This yields the projected total state transfer payments (including the city shares of the county receipts) of \$142. The total projected city revenue for 1975, including the nontax local revenues (special assessments, charges, fees, etc.), is thus \$401 per capita.

This leaves a deficit of \$72 per capita. If the property tax is to fill the gap, the full value rate will have to rise by 13.14 mills. (The equalized per capita valuation projected for 1975 is \$5,478.) In contrast, Wauwatosa, representing the median in family income among the medium income suburbs, whose current rate is 26.3 mills, faces an increase of 8.1 mills in property tax.

In view of the present high rate in the city of Milwaukee and the lower rates for the suburbs (the city's 40.7 mill rate for 1966 compared with the mean and median ratios of 28.4 and 26.1 mills for the suburbs), the increase in the city's property tax of this magnitude probably will be an extremely difficult proposition. It should be noted that the recently enacted property tax credits do provide some relief on local property taxes. In 1966, for instance, the city received \$24.1 million under the credits which reduced the effective tax rate to 34.9 mills. That the tax rate could have gone up to the present level of 40.7 mills may be attributable in part to the tax credit. This relief of 5.8 (40.7-34.9) mills represents 21.7 percent of the tax rate above 14 mills to which the credit applies.

Thus, provided that the state fund for the property tax credits rises to maintain the present level of relief (relative to the local rates), an effective rise in the tax rate with the 13.1 mill increase will be 10.3 mills. With the latter, the total effective rate after the rise will be 45.2 (= 34.9 + 10.3) mills.

It is difficult to judge whether a city has now approached a critical point where a further increase in rate is detrimental either because of the resident opposition or economic effects so unfavorable to the city that it will in due time worsen the city's fiscal balance. Relevant considerations here are: services offered by the city, honesty in the city hall, other payments, and, perhaps most significantly, the rate differentials between the city and the suburbs.

If we were to fill the projected fiscal deficit for the central city with an income tax using the state AGI as its tax base, levied only on the resident, the rate will have to be 2.53 percent. If the tax is levied on all incomes earned in the city, the same gap of \$72 million can be filled by an income tax of 2.30 percent. For estimation of the tax base in the latter case, the adjusted gross incomes earned in the entire urban area was apportioned between the central city and the suburb by their relative shares of business properties (mercantile, manufacturing, and utility) with the assumption that earnings-capital ratio are equal for all properties within the urban area. These are high rates for a local income tax. Competitive disadvantages accompanying such a tax can be lessened by a generous tax credit by higher levels of government.

FISCAL PROJECTIONS FOR 1975,  
CITY OF MILWAUKEE  
(Per Capita Values in Dollars)

	<u>1960</u>	<u>1966</u>	<u>1975</u>
<u>Expenditures</u>			
Noneducation	244	279	332
Education <sup>1/</sup>	<u>70</u>	<u>98</u>	<u>141</u>
Total	314	377	473
<u>Revenues</u>			
Taxes	162	211	223 <sup>2/</sup>
Federal and State Transfers	73	111	142 <sup>3/</sup>
Nontax Local <sup>4/</sup> Revenue	<u>26</u>	<u>30</u>	<u>36</u>
Total	261	352	401
<u>Property Tax Base</u>			
Assessed Value	2,656	2,856	3,206
Full Value	5,075	5,236	5,478
<u>Personal Income</u>			
Population	741,324	783,758 <sup>6/</sup>	840,950 <sup>6/</sup>

<sup>1/</sup> For academic years 1959-60 and 1965-66 respectively.

<sup>2/</sup> This figure does not correspond to the mechanical projection from the 1960 and 1966 figures because the property tax credits enacted in 1961 are included only in the 1966 figures.

<sup>3/</sup> Assuming the present full value rate of 40.7 mills to freeze.

<sup>4/</sup> Include special assessments, licenses, permits, departmental earnings, interests, and rents.

<sup>5/</sup> Adjusted gross incomes for the state income tax purpose were used as the basis of estimation. In 1965, the ratio of the adjusted gross income to personal income (the census definition) was .8167.

<sup>6/</sup> Based on the South East Wisconsin Planning Commission's population projections for 1970 and 1980.

## APPENDIX B

TABLE B-1.--POPULATION, MUNICIPALITIES OF SMSA OF MILWAUKEE, 1950, 1960, AND ESTIMATES FOR 1963-1970

Urban Area of Milwaukee		Census		Percent Increase 1950-1960	SEWPC			
		1950	1960		1963	1965	1966	1970
Milwaukee	c	637,392	741,324	16.3%	766,700	778,072	783,758	806,500
Cudahy	c	12,182	17,975	47.6	20,100	20,528	20,742	21,600
Glendale	c		9,537		12,900	13,700	14,100	15,700
St. Francis	c		10,065		10,000	11,286	11,929	14,500
West Allis	c	42,957	68,157	58.7	73,300	74,386	74,929	77,100
Butler	v	1,047	2,274	117.2	2,500	5,528	2,542	2,600
Oak Creek	o	4,807	9,372	95.0	11,000	12,684	13,526	16,900
West Milwaukee	c	5,429	5,043	-7.1	4,800	5,028	5,142	5,600
Bayside	v		3,181		3,500	3,700	3,800	4,200
Fox Point	v	2,585	7,315	183.0	8,500	3,586	8,629	8,800
River Hills	v	567	1,259	121.7	1,100	1,214	1,271	1,500
Shorewood	v	16,199	15,990	-1.3	15,300	15,358	15,387	15,500
Whitefish Bay	v	14,665	18,340	25.1	18,200	18,314	18,371	18,600
Elm Grove	v		4,994		6,100	6,442	6,613	7,300
Wauwatosa	o	33,324	56,923	70.8	60,200	61,400	62,000	64,400
Brown Deer	v		11,280		9,500	10,786	11,429	14,000
Greendale	v	2,752	6,843	148.7	9,800	9,858	9,887	10,000
Hales Corners	v		5,549		6,300	6,558	6,687	7,200
Brookfield	o		19,812		25,000	26,972	27,958	31,900
Mequon	c	4,065	8,343	110.2	10,000	12,056	13,084	17,200
Thiensville	v	897	2,507	179.5	2,200	2,428	2,542	3,000
Franklin	c	3,886	10,000	157.3	11,000	11,742	12,113	13,600
Greenfield	o		17,636		21,300	23,414	24,471	28,700
South Milwaukee	c	12,855	20,307	58.0	23,000	23,856	24,284	26,000
New Berlin	c	5,334	15,788	196.0	18,000	20,142	21,213	25,500
Waukesha	c	21,233	30,004	41.3	34,300	35,356	35,884	38,000
Lannon	v	438	1,084	147.5	1,100	1,100	1,100	1,100
Menomonee Falls	v	2,469	18,276	640.2	25,400	27,400	28,400	32,400
Cedarburg	o	2,810	5,191	84.7	5,400	5,828	6,042	6,900
SMSA Outside Urban Area								
Muskego*	c	4,157	8,880	113.8	10,100	11,614	12,371	15,400
Delafield	c		2,334		2,400	2,714	2,871	3,500
Oconomowoc	c	5,345	6,682	12.5	7,200	7,514	7,671	8,300
Big Bend	v	480	797	16.6	800	884	926	1,100
Chenequa	v	270	445	16.5	500	700	800	1,200
Doussan	v	328	410	12.5	400	456	484	600
Eagle	v	460	620	13.5	700	700	700	700
Hartland	v	1,190	2,088	17.5	2,100	2,100	2,100	2,100
Lac Le Belle	v	174	276	15.9	300	300	300	300
Merton	v	343	407	11.9	500	500	500	500
Mukwanago	v	1,207	1,877	15.5	1,900	1,984	2,026	2,200
Roshotah	v		321		300	300	300	300
North Prairie	v	424	489	11.5	500	528	542	600
Oconomowoc Lake	v		414		400	456	484	600
Pewaukee	v	1,792	2,484	13.9	2,600	2,656	2,684	2,800
Sussex	v	679	1,087	16.0	1,400	1,456	1,484	1,600
Wales	v	237	356	15.0	400	400	400	400
Brookfield	t	7,425	1,990		3,400	3,600	3,700	4,100
Delafield	t	3,740	2,822		3,000	3,084	3,126	3,300
Eagle	t	947	1,103	11.6	1,300	1,200	1,200	1,200
Geneseo	t	1,686	2,813	13.9	2,200	2,256	2,284	2,400
Lisbon	t	1,532	2,885	18.8	3,100	3,242	3,313	3,600
Merton	t	2,214	3,177	13.9	3,300	3,356	3,384	3,500
Mukwanago	t	1,269	1,579	12.4	1,600	1,656	1,684	1,800
Oconomowoc	t	3,288	4,465	13.6	4,600	4,742	4,813	5,100
Ottawa	t	764	1,092	14.3	1,100	1,100	1,100	1,100
Pewaukee	c	5,493	5,797	10.6	6,400	6,828	7,042	7,900
Summit	t	2,571	3,472	13.5	3,500	3,528	3,542	3,600
Vernon	t	1,464	2,037	13.9	2,200	2,200	2,200	2,200
Waukesha	t	2,108	3,540	16.8	4,000	4,914	5,371	7,200

c = city; v = village; t = town.

\*The town of Muskego was incorporated as a city in 1964.

Source: The Bureau of the Census; South Eastern Wisconsin Planning Commission. The SEWPC obtained the 1963 estimated population from their origin and destination travel surveys. The 1965 and 1966 populations were interpolated from the 1963 level and the SEWPC estimate of 1970 population based upon the development of each civil division in accordance with the staged land use pattern proposed in the adopted Regional Land Use Plan.

TABLE B-2.--FULL-VALOR PROPERTY TAX RATES, MUNICIPALITIES  
OF SMSA OF MILWAUKEE, 1966, 1963, 1960, 1957, 1951  
(Per thousand \$)

Urban Area of Milwaukee		1966	1963	1960	1957	1951
Milwaukee	c	40.7%	36.9%	31.9%	27.5%	27.8%
Cudahy	c	30.6	28.6	26.5	21.4	24.1
Glendale	c	24.1	22.7	19.4	18.9	15.6
St. Francis	c	35.8	33.5	29.3	25.6	21.7
West Allis	c	32.6	32.3	28.4	24.3	22.2
Butler	v	24.2	26.3	21.7	20.1	17.9
Oak Creek	c	23.0	23.1	22.6	22.7	19.3
West Milwaukee	c	25.6	24.3	20.2	17.8	15.1
Bayside	v	30.8	28.8	25.4	21.1	n.a.
Fox Point	v	30.1	28.3	26.3	21.5	19.2
River Hills	v	29.7	25.2	24.8	20.0	18.1
Shorewood	v	32.9	30.1	27.9	25.2	25.7
Whitefish Bay	v	31.7	28.3	25.5	21.6	22.6
Elm Grove	v	21.2	22.0	24.4	22.1	n.a.
Wauwatosa	c	26.3	26.1	23.5	21.3	22.2
Brown Deer	v	33.1	31.9	27.5	23.7	
Greendale	v	32.1	31.1	26.4	27.4	31.0
Hales Corners	v	33.5	33.8	28.4	27.2	28.1
Brookfield	c	24.0	24.2	24.1	22.6	n.a.
Mequon	c	23.9	20.0	19.3	16.2	12.5
Thiensville	v	26.1	22.7	23.9	17.6	14.9
Franklin	c	34.1	33.4	29.2	24.7	20.1
Greenfield	c	31.6	31.7	29.9	24.1	18.1
South Milwaukee	c	32.2	33.9	28.2	22.6	25.1
New Berlin	c	24.2	25.9	27.5	19.7	15.6
Waukesha	c	27.4	27.8	24.7	20.9	24.2
Lannon	v	25.7	24.7	18.9	15.3	22.3
Menomonee Falls	v	23.9	23.8	20.9	19.5	19.9
Cedarburg	c	23.7	24.5	20.6	20.7	17.7
<u>SMSA Outside Urban Area</u>						
Waukego	c	24.4	25.3	22.7	27.1	16.1
Delafield	c	26.4	22.8	19.2	n.a.	n.a.
Oconomowoc	c	31.2	29.4	27.1	21.3	21.2
Big Bend	v	33.0	30.3	26.1	23.6	17.0
Chenequa	v	20.5	19.8	16.1	17.4	11.7
Douman	v	31.6	34.6	26.6	22.4	17.5
Eagle	v	29.5	30.9	25.9	20.8	16.2
Hartland	v	35.1	33.3	31.1	27.5	20.6
Lac Le Belle	v	19.6	20.2	23.3	12.7	9.9
Merton	v	28.1	23.8	22.9	27.9	12.3
Mukwonago	v	33.3	32.7	28.3	23.6	18.4
Washotah	v	21.8	19.8	17.6	n.a.	n.a.
North Prairie	v	28.0	30.8	25.7	23.5	13.5
Oconomowoc Lake	v	21.5	19.8	19.2	n.a.	n.a.
Pewaukee	v	32.8	28.6	27.8	25.1	21.6
Sussex	v	26.9	28.3	30.4	21.4	13.5
Wales	v	24.3	30.7	23.7	19.2	16.0
Brookfield	t	20.0	21.8	20.5	17.7	14.2
Delafield	t	25.3	22.4	23.2	22.7	14.8
Eagle	t	22.5	25.6	20.9	21.0	17.3
Genesee	t	19.7	19.6	19.7	15.7	13.4
Lisbon	t	27.9	26.1	26.3	21.5	16.6
Merton	t	24.0	21.4	22.6	22.5	16.3
Mukwonago	t	27.3	28.3	24.9	19.9	14.9
Oconomowoc	t	23.1	22.0	20.4	17.1	15.6
Ottawa	t	21.7	22.9	18.0	16.2	12.8
Pewaukee	t	22.8	21.5	19.7	18.1	16.5
Summit	t	24.4	22.9	19.3	14.0	12.7
Vernon	t	27.1	26.9	23.5	20.4	16.7
Waukesha	t	19.9	16.7	14.8	12.9	11.3

n.a. = Data not available.

c = city; v = village; t = town.

Source: City Taxes, Village Taxes and Town Taxes. Town taxes are biennial and the rates for Waukesha towns (for 1966 and 1960) were computed from County Clerk's Abstract of Assessments and Taxes.

TABLE B-3.--LAND AREA IN SQUARE MILES, POPULATION AND PROPERTY VALUATION  
IN SQUARE MILES, MUNICIPALITIES OF URBAN AREA OF MILWAUKEE, 1966

Urban Area of Milwaukee		Square Miles of Land Area	Population Per Square Mile	Property Value Per Square Mile
Milwaukee	c	91.1	8,603	\$47,189
Cudahy	c	4.8	4,321	36,859
Glendale	c	5.5	2,564	37,446
St. Francis	c	2.9	4,114	18,624
West Allis	c	11.4	6,573	50,116
Butler	v	.7	3,483	35,233
Oak Creek	c	29.2	463	8,780
West Milwaukee	c	1.2	4,285	135,092
Bayside	v	2.3	1,652	18,738
Fox Point	v	2.8	3,082	31,514
River Hills	v	5.6	227	4,322
Shorewood	v	1.6	9,616	69,963
Whitefish Bay	v	2.2	8,351	64,226
Elm Grove	v	3.5	1,889	1,911
Wauwatosa	c	13.1	4,733	40,821
Brown Deer	v	8.5	1,345	8,089
Greendale	v	5.5	1,798	11,670
Hales Corners	v	3.0	2,229	15,741
Brookfield	c	26.0	1,075	8,359
Mequon	c	46.0	284	1,976
Thiensville	v	1.0	2,444	22,733
Franklin	c	34.6	350	1,676
Greenfield	c	13.6	1,799	8,347
South Milwaukee	c	4.8	5,059	27,877
New Berlin	c	36.0	589	3,450
Waukesha	c	5.8	6,187	42,265
Lannon	v	2.9	379	1,908
Menomonee Falls	v	33.0	861	5,714
Cedarburg	c	2.0	3,021	21,408

	Mean - Land Area Square Miles	Mean - Population Per Square Mile	Median	Mean - Property Value Per Square Mile	Median
Central City	91.1	8,603	8,603	\$47,189	\$47,189
Balanced	5.1	4,212	4,113	35,655	36,859
Industrial	15.2	2,374	2,374	71,936	71,936
Residential					
High income	3.0	4,136	2,486	31,779	25,126
Medium income	14.7	1,987	1,798	15,628	11,670
Low income	16.6	2,281	1,330	14,081	7,031
Urban area suburb		2,956	2,444	26,245	18,738

c = city; v = village; t = town.

Source: For municipalities larger than 5,000 in population (all cities and some villages larger than 5,000), the square mileage figures were obtained from Municipal Year Book, 1961 (pp. 85-140), Geo. Div., U.S. Bureau of Census. For other smaller incorporated municipalities, polar planimeter was used in measuring square mileage from 1/2 inch county maps, State Highway Commission, Madison, Wisconsin.

TABLE B-4.--MEAN PER CAPITA OPERATING EXPENDITURES BY MAJOR FUNCTIONS  
AMONG TYPES OF MUNICIPALITIES, URBAN AREA OF MILWAUKEE, 1960

	<u>General Government</u>	<u>Police</u>	<u>Fire</u>	<u>Health and Sanitation</u>	<u>Highway</u>	<u>Recreation</u>	<u>Total</u>	<u>Index</u>
Central city	\$ 9.55	\$17.17	\$ 9.90	\$14.27	\$17.88	\$1.63	\$ 70.40	100.0
Balanced	10.58	8.55	8.01	10.92	19.43	1.92	59.41	84.4
Industrial	18.73	24.55	26.68	17.58	31.11	1.52	120.17	170.7
Residential								
High income	16.65	23.48	6.00	13.48	22.88	2.40	84.89	120.6
Medium income	8.98	5.60	3.08	6.62	19.12	1.08	44.48	63.2
Low income	7.31	4.10	4.70	4.74	13.72	2.20	36.77	52.2
Urban area suburb	11.13	10.88	6.74	9.10	19.30	1.87	59.02	83.8
Median	8.93	8.32	3.92	8.93	17.84	1.29	50.61	71.9



Fiscal Disparities in the  
HOUSTON, TEXAS  
Metropolitan Area

Excerpts from a Report by  
Wendell Bedichek  
Lamar State College, Beaumont

<u>Major Fiscal Disparities, 1965</u>	<u>Central City</u>	<u>Outside Central City</u>
Per capita State and Federal aid	\$ 35	\$ 76
Per capita revenue from taxes	114	132
Per capita educational expenditure	62	164
Per capita noneducational expenditure	124	76
Total estimated population, 1964 (thousands)	1,100	348

Houston is one of the few large central cities that has improved its fiscal situation relative to its outskirts. The ease of annexation permitted under State law is undoubtedly largely responsible. There is a great deal of undeveloped land in the Houston SMSA and a great deal within Houston's own borders. In recent years, in fact, annexation has proved to be a mixed blessing, as the areas taken in have required expensive services that more than offset the revenue they added to the city treasury.

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- I. Disparities within the SMSA
- II. Contributing Factors
  - State
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- III. Disparity Projections
- IV. Remedial Actions

. . . In the usual metropolitan situation, a large central city is related to numerous suburbs of fairly large population and wealth compared to the central city which they hem in. Here, however, a large central city is surrounded by numerous small suburbs of varying characteristics and some small outlying cities. There is a great deal of undeveloped land in this SMSA, and Houston itself has 70 of its 447 square miles vacant. So throughout this report the usual picture of a poor, stagnating central city does not necessarily hold true. In many instances, although not all, the opposite is true.

However, the property tax situation throughout the central county, including Houston, is rapidly becoming critical. The past two years have seen real pressure exerted on this tax for the first time. Property taxes on Houston homes have risen 43.6 percent in ten years and 20 percent in the last two years alone (1965-1967). Debt service has almost doubled in ten years; the percentage that debt service makes up of total expenditures has risen from 26.9 percent to 29.6 percent in ten years; per capita debt has gone from \$160 to \$222. The consumer price index has risen 12.1 percent.

Nonproperty tax sources are being explored furiously. A direct reaction to the increasing property tax loads is now occurring in Houston. The present city budget is cut to the bone, with more money needed in particular for public safety. The city council almost passed an increase in the assessment ratio from 40 to 50 percent but found public reaction so violent that they backed off.

A proposal was made at the same time to annex the Houston ship channel. This area, 21 miles long and 2,500 feet wide on either side, contains 81 industries with a daily payroll of \$1 million and assessed value of \$317,539,000. It pays no city taxes, but does pay small county, school and state taxes. If annexed by the city, it would bring in \$6,350,780 in revenue and cost \$2,442,371 in expenditures. The city now provides a few services. A one-time capital investment of \$3,024,371 would be required. Pressures on both sides are strong, as can be imagined, and the city appears to be moving toward the creation of an industrial district under state law instead of pure annexation. At the least, the city will ask for in-lieu payments of about \$1.5-\$2.0 million, say city administrators.

What this means is that Houston has "gotten by" for a long time without the property tax tensions found in many other places. Income, wealth, special district creation, and borrowing have made the situation fairly tolerable until this year. Now, however, the pressure is on. The sales tax will pass only if directly tied to fire and police salaries. The police department, with 1,729 men, needs 1,300 more; the fire department, with 1,386, needs 800 more. The consensus of Houston officials is that future property tax changes will come about only if directly tied to service improvements, especially in public safety and crime abatement, traffic control, and water and air pollution control.

. . . . .

Let us now take up annexation. This is, of course, a matter of state law, but its use is locally directed. Texas is cited as an example, indeed the leader, of liberal annexation procedures. How has annexation affected urban problems and central city-suburb disparities? The following table shows vividly the differences between the Houston of today and what Houston would look like under its 1949 area. Houston's population density is less now than it was in 1950 and 1964 and its area has increased from 160 square miles in 1950 to 447 now. The basic difference lies in the population. That is, Houston would have a third of the people it has now, fewer whites, fewer high school-college graduates, less income and more density were it not for annexation.

Indeed, Texas SMSA's are far different from the national averages, having fewer governments and more central city population.

	Houston <u>Actual 1967</u>	Houston 1967 <u>Under 1949 Area</u>
Population (thousands)	1,200	423
Whites	76.8%	69.5%
Percent of population 25 and over		
Less than high school	33.8	40.7
High school graduates	45.2	38.1
College graduates	10.6	8.3
Median family income	5,902	4,848
Percent of families with--		
Income under \$3,000	28.7	39.6
Income over \$10,000	17.5	12.9
Square miles	447	160
Density	2,700	7,500

Source: Houston City Planning Department; Texas Research League.

However, Houston has not annexed everything it could. At least in the past it has kept some very poor areas outside its jurisdiction. For example, 10,000 people, most poor and mostly minorities, live just outside the city in the Acres Homes area. As the name implies, it was a subdivision which turned into a slum. McNair is another similar region. A few such areas have been taken in, such as Settegast, but other pockets of semirural, largely Negro population lie just outside the city. Probably these areas will be brought in before the decade is out. Indeed, Houston often finds itself supplying emergency water and fire service for them. Houston can control up to five miles outside its limits for certain purposes.

But in spite of the fact that the overall population in the central city is of higher socioeconomic status than would be the case if not for annexation processes, the central city's situation is not all rosy. In 1956, for example, a large annexation meant that 27 water districts were brought into the city as well as 60 private utilities. The city assumed \$39 million debt for these districts and paid \$10 million for the utilities. Improvements to bring them up to standard were costly, and the city tax department estimates that these additions mean a deficit of \$1.5 billion annually to the city.

Mayor Welch observes that, until this decade, annexation helped Houston. He now says that it is beginning to work the other way. He feels that bringing residential, middle class areas into the city hurts the city financially, because their relatively low tax yield does not stack up well against the additional public costs involved. In other words, the City of Houston is in a strange position compared to many other areas--the formation of small jurisdictions is not as alarming. As a corollary, unincorporated areas have not rushed to become cities, preferring a policy of hopeful waiting until the large city takes them in. So annexation is a mixed blessing--it has meant more people--and more higher status people--than many central cities, but also more costs.

. . . . .

#### Remedial Actions

Essential to any solution of urban problems and improvements in disparities in this region is State action. As recommended by political scientists, economists,

sociologists, and such organizations as the Texas Research League, much can and must be done by the legislature. A simple catalog will suffice, because the basic meaning of these terms is all too familiar and their implementation all too rare, especially in Texas.

State reforms should include: "buying in" on more programs, especially in health, welfare and housing; moving toward eliminating legal and practical barriers against minority housing distribution; improvements in subdivision control; establishment of an incorporation and special district review board with real powers; authorization of inter-local contractual agreements for services; county home rule and the establishment of so-called "urban counties"; encouragement and financing of local-regional councils of governments; establishment of a general state agency for local governments; and a broad program of state aid designed to equalize resources by some reasonable formula. The most badly needed of these are: state aid on a broad basis, state "buying in," use of regional councils, and a state local government agency.

Fiscal Disparities in the  
LOS ANGELES-LONG BEACH, CALIFORNIA  
Metropolitan Area

A Report by  
John A. Vieg  
Pomona College, Claremont

<u>Major Fiscal Disparities, 1965</u>	<u>Central City</u>	<u>Outside Central City</u>
Per capita State and Federal aid	\$ 116	\$ 133
Per capita revenue from taxes	227	194
Per capita educational expenditure	94	134
Per capita noneducational expenditure	257	185
Total estimated population, 1964 (thousands)	3,063	4,652

Huge and complicated, the Los Angeles-Long Beach area contains at least 495 local units and districts, and a dizzy range of wealth. Without Colorado River water, the prodigious urban growth in the area would have been impossible. Without generous State tax sharing, many communities would never have come into being. Without Federal highway aid, Los Angeles County would lose all sense of community: The aid program is indispensable to the astounding daily mobility of the residents of Southern California.

All of its localities share in the general affluence of Southern California--all, that is, but the Mexican and Negro communities. For various reasons, they are out of the mainstream of California prosperity; the median age for a man in Watts is 13.8 years, in Beverly Hills it is 46.0. "Two years after the great riot," warns the author, "everything seems remarkably--and dangerously--the same."

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Introduction: The Lay of the Land

To the traveler approaching Los Angeles by air from the east, especially at night, nearly all of Southern California west of the desert bordering the Colorado River looks like one gigantic city. For purposes of research and planning, however, this huge territory comprises five standard metropolitan statistical areas (SMSA's): 1) Anaheim-Santa Ana-Garden Grove in Orange County, 2) Los Angeles-Long Beach in Los Angeles County, 3) Oxnard-Ventura in Ventura County, 4) San Bernardino-Riverside-Ontario in San Bernardino and Riverside Counties, and 5) San Diego in San Diego County. (Los Angeles and Orange Counties were formerly regarded as constituting a single SMSA.) . . .

Imperial County, in the extreme southeast corner of the state, is the only part of the region south of the San Gabriel Mountains not yet metropolitan in character. Recognizing the importance of regional planning it has, nevertheless, joined with Los Angeles, Orange, Riverside, San Bernardino and Ventura Counties--together with 89 cities--in forming the Southern California Association of Governments, more commonly known as SCAG. (San Diego County is not a member.) Kern, Santa Barbara, and San Luis Obispo Counties are sometimes grouped with the seven already listed in a broader, ten-county definition of Southern California, but they are not involved in this study. It should, however, be noted that two of them have also attained SMSA status during the Sixties: Kern with Bakersfield as its central city and Santa Barbara with Santa Barbara.

Maze of local governments.--Nearly every SMSA presents the spectacle of a maze of official jurisdictions, not to mention scores of "communities" primarily social or economic in nature. Some idea of the complexity of the political map of the Los Angeles-Long Beach area may be deduced from the numbers of each of the five main kinds of local units and agencies listed in Table 1. Altogether they number 495.

TABLE 1.--TYPES AND NUMBERS OF LOCAL GOVERNMENTAL UNITS, IN THE LOS ANGELES-LONG BEACH METROPOLITAN AREA: 1967<sup>1</sup>

Counties: Los Angeles, 7,044,711 population; 4,071 sq. mi.	1
Cities: Los Angeles, 2,806,669; Long Beach, 378,492; and 74 others	76
School Districts: Elementary 40 High 11 Unified 38* Junior College 11	100
Special Districts having their own governing boards:	48
Cemetery 5 Library 2 Sanitation 25	
Hospital 2 Mosquito abatement 4 Soil conservation 5	
Recreation and park 5	
Special Districts under supervision of County Board of Supervisors:	270
Drainage maintenance 9 Public library 1	
Fire protection 7 Recreation and park 5	
Flood control 1 County service area 1	
Garbage disposal 8 Sewer maintenance 12	
Lighting 110 Special road 5	
Lighting maintenance 93 Waterworks 17	
Air pollution control 1	
Total	495

\*Offering elementary, secondary and sometimes junior college courses.

Note: See References at end for sources used throughout the report.

To complete the picture, however, note must be taken of three other facts. 1) Some cities within the county have seen fit to create various kinds of municipal service districts. There are now 73 of these, the most common being for lighting, lighting maintenance, municipal improvements, vehicle parking and water. 2) Los Angeles County\* also contains eighteen separate water districts, besides which it is itself one of the six counties in the vast Metropolitan Water District of Southern California. (In 1966-67 this super-special district levied, within the county, taxes totaling \$25,003,866.) 3) In the interest of efficiency with regard to the extension of tax levies, all properties within the county are grouped into contiguous areas wherein the various combined rates (for county, city, school and special district purposes) are uniform. Each such area has its own tax code and currently Los Angeles County has 3,669 separate code areas.

Representative communities and school districts.--While the scheme used by the Advisory Commission on Intergovernmental Relations for the classification of communities proved useful in selecting representative communities of different types, no clear examples of three of the categories given could be found in the Los Angeles-Long Beach area, notwithstanding its size and variety. The City of Commerce is more nearly an industrial than a commercial enclave. Cerritos, which this past year changed its name from Dairy Valley, has a rural flavor today, but both the hopes and expectations of its wealthy landowners spell rapid urbanization. Finally, despite the immense amount of government work done within Los Angeles County, such is the spread of offices and facilities and such is the mobility of public employees and those who are employed under government contracts that no single community can be clearly identified as a government community. With these qualifications, most of the communities listed in Table 2 fit their classifications reasonably well.

One of the basic facts of life with regard to the government and politics of California concerns the public schools. Responsibility for education, which involves roughly half of all local public expenditures, is vested in school districts controlled by their own popularly-elected boards of trustees rather than in either counties or cities, the state's two general-purpose forms of local government. So deep and widespread is the conviction that education ought to be kept "out of politics" and separate from the rest of government, that the average citizen regards school districts as constituting a realm of their own. He thinks of local government not in terms of three categories--counties, cities and special districts--but four. School districts clearly fall within the legal definition of districts created for special purposes, but neither he nor any of his elected representatives conceive of them that way. They comprise a separate category all by themselves. Though this complicates the problem of locating fiscal disparities and gauging their seriousness, its solution would still be fairly easy (leaving aside the matter of all those other special districts) if school boundaries coincided with those of cities. The trouble is, however, that, except for two elementary districts (Hermosa Beach and Manhattan Beach), not a single one of the 100 school districts in the Los Angeles-Long Beach metropolitan area is coterminous with any incorporated municipality. Dozens of them contain parts of two or three cities and the Los Angeles Unified District includes--in addition to most, but not all, of municipal Los Angeles itself--all or parts of the following cities: Bell, Bell Gardens, Beverly Hills, Commerce, Cudahy, Culver City, El Segundo, Gardena, Hawthorne, Huntington Park, Inglewood, Lomita, Lynwood, Maywood, Montebello, Monterey Park, Rolling Hills Estates, San Fernando, Santa Monica, South Gate, Torrance, and Vernon. And as if this were not enough, it also includes several semi-rural areas simply called Road Districts Nos. 1, 2, 3, 4, and 5!

The explanation for this strange circumstance lies in the fact that, under California law, any smaller elementary or high school district voting for annexation to

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\*The term "Los Angeles County" is used interchangeably with "Los Angeles-Long Beach metropolitan area" in its various forms.

TABLE 2.--REPRESENTATIVE COMMUNITIES AND CORRESPONDING SCHOOL DISTRICTS

<u>Community</u>	<u>Unified School Districts</u>	<u>Junior College District</u>	<u>Elementary School Districts</u>	<u>High School Districts</u>
Balanced				
Los Angeles	Los Angeles	Los Angeles City		
Long Beach	Long Beach	Los Angeles City		
Glendale	Glendale	Los Angeles City		
Pasadena	Pasadena	Pasadena City		
Pomona	Pomona	Mt. San Antonio		
Suburban Bedroom				
High income				
Beverly Hills	Beverly Hills	Los Angeles City		
Palos Verdes Estates	Palos Verdes Peninsula	Los Angeles City		
San Marino	San Marino	****		
Bel Air*	Los Angeles	Los Angeles City		
Medium income				
Lakewood**	Long Beach, Paramount, ABC, Bellflower	****		
West Covina	West Covina	Mt. San Antonio		
Eagle Rock*	Los Angeles	Los Angeles City		
Van Nuys*	Los Angeles	Los Angeles City		
Low income				
Baldwin Park**	Baldwin Park	Mt. San Antonio		
Pico Rivera**	El Rancho, Montebello	Rio Hondo	Little Lake City, Los Nietos, Whittier	
Watts*	Los Angeles	Los Angeles City		
East Los Angeles***	Los Angeles	Los Angeles City		
Willowbrook***			Willowbrook	Compton Union
Specialized Industrial Enclaves				
Industry**	Baldwin Park, Basset, Pomona	Mt. San Antonio	Hudson, Rowland, Whittier City, Mountain View, Walnut	
Vernon	Los Angeles	Los Angeles City		
San Pedro*	Los Angeles	Los Angeles City		
Commercial Enclaves				
Commerce**	Los Angeles, Montebello, Downey	Los Angeles City		
Wilshire District*	Los Angeles	Los Angeles City		
Resort				
Hermosa Beach		El Camino	Hermosa Beach City	South Bay Union
Malibu***	Santa Monica			
Educational				
Clermont	Clermont	Citrus		
Westwood*	Los Angeles	Los Angeles City		
Government				
Los Alamitos (Orange)				
Urban Community in Rural Area				
Walnut**		Mt. San Antonio	Walnut	La Puente Union
Diamond Bar***	Pomona	Mt. San Antonio		
Rural				
Cerritos**				

\*Indicates community within the City of Los Angeles.

\*\*Indicates contract city as contrasted with independent city, meaning that it contracts with Los Angeles County or some other government for selected municipal services.

\*\*\*Indicates unincorporated community within county but outside the central city.

\*\*\*\*Maintains junior college courses.

a neighboring district of the same type must be accepted. Only unified districts have the option of declining a bid for consolidation and the Los Angeles Unified School District is barely five years old! Prior to 1962, Los Angeles was organized both as an elementary district and a high school district. This means that it could not control its own destiny insofar as territorial growth was concerned.

Bearing in mind that the central purpose of this inquiry is the detection and exposure of critical disparities among local communities, whether separate municipalities or otherwise, the analysis that follows attempts to link the examination of municipal finance with that of school districts and, where possible, with that of special districts and county government itself. But because of differences in their boundaries, this cannot be done with anything approaching precision.

## Fiscal Disparities Among Local Communities

### Local Government Finance: Factors and Trends

#### City Revenues

Differences in per capita totals.--That "rich" and "poor" are classifications important for communities as well as families becomes apparent as soon as one begins to examine financial data pertaining to the various cities in the Los Angeles area. In terms of total revenue available per capita, the 19 different municipalities chosen for comparison varied in 1965-66 from a high of \$12,970.22 in Vernon to a low of \$34.82 in Baldwin Park. This kind of inequality, though dramatic, might not be very serious if the former had a large population and the latter a small one. But the trouble is that only some 228 people make their home in the industrial enclave of Vernon, whereas 45,000 live in the low-income bedroom community of Baldwin Park. See Table 3 noting estimates of population for June 30, 1966.

The main keys to this curious state of affairs lie in taxing and zoning and incorporation policies which will be examined in part II, but there is one other major factor which should perhaps be stressed here at the start. That is the enormous daily mobility of the people of Southern California. As a matter of fact, Vernon's daytime population probably numbers over 90,000. But almost all of them come from some other community and return there at night--in most cases by private motor car. Indeed, hundreds of "heads of households" in Baldwin Park may well be among these commuting factory workers.

Clearly more significant, however, are the differences between the per capita figures on total revenues for all 76 cities in the county and the corresponding figures for Los Angeles itself and some of the other larger cities. These were as follows in 1965-66: All cities, \$105.61; all cities except the central city, \$93.34; Los Angeles, \$119.32; Long Beach, \$180.19; Glendale, \$93.88; Pasadena, \$132.43; Beverly Hills, \$232.61; Lakewood, \$41.35; Pico Rivera, \$37.68; Industry, \$1,814.41; and Claremont, \$74.09. See the table regarding the comparable figures for 1955-56.

Relative importance of different sources.--What is even more striking about these inequalities with respect to revenues is the wide variation to be found among the communities with regard to their use of different sources. Take the property tax: in 1965-66 Los Angeles got \$43.02 per capita from this venerable source. Beverly Hills got \$73.05; Lakewood got only \$2.58; Pico Rivera, 9¢; and Cerritos, 8¢; but Vernon, the factory city with almost no permanent residents, got \$1,376.66. Note next the enormous variation in the yield of the sales or use tax. From the standpoint of fiscal disparities among California cities, this tax makes a greater difference than any other, particularly for the 31 communities that have incorporated since the initiation of the Lakewood or "Contract Cities" Plan in 1954 and especially the enactment of the Bradley-Burns Law in 1956. Under this statute the state authorized each county to levy a

TABLE 3.--SELECTED MUNICIPAL REVENUES PER CAPITA, 1965-1966 and 1955-1956<sup>2</sup>

Community	Date Incorporated	Population 1966 (thousands)	Property Tax		Sales and Use Tax		Total Revenues	
			1965-1966	1955-1966	1965-1966	1955-1956	1965-1966	1955-1956
Los Angeles County: All Cities**		5,884	\$ 32.12	\$ 23.34	\$ 20.45	\$ 17.50*	\$ 105.67	\$ 167.60
All Cities - Central City		3,104	22.35	19.41	21.26	17.29*	93.34	126.03
Los Angeles	1850	2,780	43.02	26.58	19.55	17.73*	119.32	201.92
Long Beach	1897	373	36.73	20.58	16.57	13.97*	180.19	234.58
Glendale	1906	136	22.50	16.78	20.97	19.76*	93.88	124.02
Pasadena	1886	125	41.39	28.35	29.68	25.89*	132.43	278.54
Pomona	1888	85	32.54	19.20	19.72	17.03*	92.38	91.35
Beverly Hills	1914	34	73.05	32.93	65.64	57.18*	232.61	236.74
Palos Verdes Estates	1939	13	33.23	16.71	2.23	2.55*	72.15	46.57
San Marino	1913	14	58.64	39.00	13.66	9.93*	107.28	114.35
Lakewood	1954	80	2.58	1.61	18.50	14.66*	41.35	13.04
West Covina	1923	63	15.12	4.18	19.36	13.70*	64.93	37.51
Baldwin Park	1956	45	5.62	-	5.22	5.36*	34.82	5.54
Pico Rivera	1958	51	.09	-	12.56	6.79*	37.68	-
Industry	1959	.9	8.88	-	1,033.33	496.25*	1,814.41	-
Vernon	1905	.2	1,376.66	1,562.50	13,335.00	9,615.00*	12,970.22	5,477.50
Commerce	1960	11	3.36	-	330.55	268.28*	383.54	-
Hermosa Beach	1907	17	27.00	11.07	17.00	20.15*	81.41	60.80
Claremont	1907	21	27.33	12.10	5.71	4.58*	74.09	46.90
Walnut	1959	3	22.66	-	4.33	4.89*	73.00	-
Cerritos	1956	4	.08	-	22.50	15.50*	142.00	-

\*Only with the passage of the Bradley-Barns Uniform Local Sales and Use Tax Law in 1956 did this become a major source of municipal revenue. For this reason there are substituted here the figures for 1959-1960.

\*\*Unless otherwise explicitly stated, "All Cities" means all the cities of Los Angeles County.

maximum 1 percent sales or use tax as a supplement to its own 3 percent tax. In addition, however, it also empowered any incorporated city to levy a 1 percent tax, provided that this would count within its boundaries as an offset against any tax the county might levy. The state collects the local tax along with its own and then returns to the city whatever amount was collected within its borders minus a small charge for collection service. The county's share is limited to the amount collected in the unincorporated territory--and since these have relatively few trading areas it is the cities, especially those with flourishing shopping centers, that have "cashed in" on the state's policy.

Here are some of the per capita contrasts in 1965-66: Palos Verdes Estates (its wealthy residents do not like shops too close to their homes!), \$2.23; Claremont (the college town), \$5.71; poor Baldwin Park, \$5.22; Long Beach, \$16.57; and Los Angeles, \$19.50. But then comes Industry at \$103.33, Commerce at \$330.55 and Vernon at \$13,335. See Table 3 for the all-cities average and corresponding figures for 1959-60. (Those for 1955-56 have little or no significance because that was prior to the adoption of the Bradley-Burns Law.)

Only 6 of the 19 incorporated communities included in our sample have any municipally-owned enterprises but the net earnings of these utilities afford rather substantial contributions to the general funds of their respective cities. In 1965-66 utility contributions per capita ran as follows: Los Angeles, \$5.82; Long Beach, \$9.54; Glendale, \$11.33; Pasadena, \$13.20; Beverly Hills, \$10.91; and Vernon, \$410. None of the other cities enjoyed any such advantage, though in the case of those levying property taxes there was, of course, a partial consolation in the tax paid by the private utilities.

With respect to service charges--which are coming to be of increasing importance because of wailing about the property tax--again the representative communities selected for analysis in this SMSA show some real disparities. In 1965-66 the all-cities average for service charges per capita was \$8.57. Both Los Angeles at \$9.81 and Long Beach at \$13.97 were above this figure as were quite a number of the other balanced cities as well as most of the specialized communities. But poor Baldwin Park and Pico Rivera could not afford to charge their residents that much, and wealthy San Marino and Beverly Hills did not need to.

### School Revenues

Disparities in assessed valuations per ADA.--Since education represents roughly half the cost of local government and school districts are for all practical purposes limited to the use of the property tax, nothing matters more to them from the standpoint of revenue than their assessed valuation "per child in average daily attendance" or per ADA for short. Taking all the elementary school districts in Los Angeles County, these valuations ranged in 1965-66 from a high of \$133,300 in Gorman to a pathetic low of \$1,800 in Willowbrook, the predominantly Negro district across the street south from Watts, \$9,700 being the average for the whole county. See Table 4.

For the high school districts per se, assessed valuation per ADA excluding adults ranged from a high of \$51,600 for the William S. Hart District to a low of \$17,900 in the Compton Union District. This high school district embraces a large section of the city of Compton and also overlaps with the Willowbrook Elementary District.

As for unified districts, their valuations are computed separately for elementary and secondary pupils because the State Department of Education and the Legislature have agreed that disparities of this kind become critical when on the elementary level assessment totals fall below \$12,000 per ADA and when on the high school level they fall below \$29,000. At these points the districts concerned are recognized as needing not only "basic aid" and "equalization aid" but "supplemental support" as well.



TABLE 4.--ASSESSED VALUATION PER ADA, PROPERTY TAX EXEMPTIONS, AND GENERAL AND SCHOOL TAX RATES FOR SELECTED SCHOOL DISTRICTS, 1965-1966

Community	Assessed Valuation Per ADA (Excluding Adults)				Property Tax Exemptions		Median - General Property Tax Rate*	Median - School Tax Rate	
	Elementary School	High School	Unified		Total (millions)	Per Capita			
			Elementary School	High School					
------(thousands)-----									
	Range:**	\$133.3 1.8	\$51.6 17.9	\$82.7 4.9	\$118.9 16.9				
All School Districts		9.7	21.9	15.3	38.2	NA	NA	\$ 8.6941	\$5.3485
Los Angeles				15.9	40.0	\$249.7	\$ 89.80	9.1270	4.2516
Long Beach				17.5	38.4	35.3	94.60	8.1762	5.3485
Glendale				17.7	41.8	12.2	89.70	7.9927	4.0521
Pasadena				17.8	40.5	31.7	253.60	7.7830	4.9603
Pomona				10.8	29.9	10.1	118.80	10.1247	5.3770
Beverly Hills				82.7	118.9	2.2	64.70	6.4308	2.6181
Palos Verdes Estates				15.9	39.0	3.5	269.20	8.8003	4.8776
San Marino				23.8	47.7	7.6	542.80	8.5465	4.1538
Lakewood				17.5	38.4	8	100.00	8.6941	5.4938
West Covina				7.1	17.2	5.1	80.90	9.6314	5.7011
Baldwin Park				4.9	16.9	2.9	64.40	9.1579	5.1402
Pico Rivera				7.5	20.9	4.7	92.40	9.1408	6.1405
(2 districts)				22.2	63.9	NA	NA	NA	NA
Industry				NRC	NRC	.01	15.55	8.4973	5.6746
Vernon				----As in L.A.----		.01	75.00	7.2343	As in L.A.
Commerce				NRC	NRC	.4	33.90	7.0743	4.2516
Hermosa Beach		18.4	34.0	-	-	.7	-	9.4219	5.3548
Claremont				10.8	28.4	13.3	633.30	10.2263	5.6840
Walnut		11.7	21.6	-	-	.8	-	9.2443	5.6136
Cerritos				7.7	30.1	.4	107.00	8.4615	5.6384
(2 districts)				9.1	20.8				

NA = Data not available.

NRC = Data not readily computable.

\*The general tax rate is the sum or composite of several rates: a) one for the county, including roads and the public library, b) another for the county-wide flood control district, c) another for the municipal government involved, and finally d) one for all school purposes, including bonds for grounds and buildings.

\*\*Among all districts within Los Angeles County.

Among the 38 unified districts in the Los Angeles-Long Beach area, total valuations per elementary pupil in ADA ranged from a high of \$82,700 in Beverly Hills to a low of \$4,900 in Baldwin Park, \$15,300 being the county average. Seventeen of the 38 fell below the critical measure of \$12,000 per ADA. As for assessments per high school pupil in ADA (once more excluding adults), they ranged from a high of \$118,900, again in Beverly Hills, to a low of \$16,100 in the Norwalk-La Mirada District which was even a bit poorer than Baldwin Park at \$16,900. The average for all the districts in the county was \$38,200. Sixteen of the 38 were below the \$29,000 standard and thus recognized as in need of supplemental support from the state.

Importance of state aid in reducing disparities--Equality of opportunity forms almost the core of the democratic ideal. Given, however, these serious disabilities in the capacity of so many districts to defray the cost of common schooling--even with basic state aid for all districts amounting to \$125 per ADA per year--only further help from the state in the form of equalization aid and, beyond this, of supplemental support can overcome the critical disparities involved. For 1966-67 California budgeted \$1,233 million for payments to local schools, an increase of \$76.7 million over 1965-66. (Local assistance of all kinds amounted to 51.8 percent of appropriations for current operating expenditures.)

Recommendations for additional state assistance, not only for the public schools but for local governments generally, are offered in section IV-A. Let it suffice here to note that state and local officials are inclined to argue both over the relative amount of aid now being given and over how much more is needed. Judging from comments that have been made in recent years by spokesmen for local boards of school trustees and by leaders in the Legislature who have been particularly concerned with subventions for public education, one gets the impression of an "agreement in principle" that state aid ought on the average to cover half the cost, which level it actually did sustain for some years in the 1940's. But whereas school board spokesmen have argued that state aid now covers only 38 or, at best, 40 percent of the cost, staff members of the Assembly Committee on Education claim that if all its contributions are counted--such as some \$12,000,000 for textbooks, \$60,000,000 for teacher retirement benefits and \$6,000,000 for special schools for the blind, deaf and palsied--the state is currently paying 47 or 48 percent of the total.

#### County and Special District Revenues

Under California law, counties depend for their revenues mainly on property taxes and subventions from the state and Federal governments. In 1965-66, the latest year for which actual figures are available, Los Angeles County had general revenues in the following amounts from the following sources.

Property taxes (including penalties on delinquency)	\$355,109,329
Other taxes (mainly sales and use)	9,316,471
Licenses and permits	5,972,534
Fines, forfeits and penalties	10,422,936
Receipts from use of money and property	12,949,107
Subventions from Federal and state governments	415,540,655
Charges for current services	75,321,115
Miscellaneous	<u>8,491,631</u>
Total	\$893,123,778

Changes in reporting categories preclude exact comparison with the year 1955-56, precisely a decade earlier. Even so, one significant comparison can be made. In the earlier year, Los Angeles County obtained 48 percent of its revenues in the form of

"property taxes and assessments"--this at a time when the sales and use tax yielded very little. The comparable ratio for 1965-66 was 40 percent. In the latter year, however, 46.5 percent of all of its revenues came in the form of state and Federal subventions, the bulk of which were for welfare services, whereas only 42.5 percent came in the form of such grants ten years before.

Special districts derive most of their revenues from property taxes though some, like water, cemetery, and hospital districts, are able, because of the nature of their functions, to obtain substantial funds from service charges too. Perhaps the simplest way of indicating the amount of revenue currently required for their operation is to cite the taxes levied by them for 1966-67. Apart from \$375.7 million levied by Los Angeles County for its own functions, the Board of Supervisors levied \$89.5 million for 270 special districts under its supervision, \$15.0 million for 48 under the supervision of their own governing bodies, and \$215.8 million by virtue of "agency accounts" either with municipalities buying urban services from the county under contract, with municipal special districts or with water districts.<sup>5/</sup>

### Municipal Expenditures

Total expenditures by local government in the Los Angeles-Long Beach metropolitan area for 1965-66 amounted to more than \$2.8 billion or approximately \$407 per capita.<sup>6/</sup> Here are the aggregate amounts and percentages.

Los Angeles County per se	30.8%	\$ 870,751,617
All cities	21.0	593,543,000
All school districts	43.0	1,217,237,062
All special districts (64-65)	<u>5.2</u>	<u>149,201,997</u>
Total	100.0%	\$2,830,733,676

Differences in per capita totals.--From the standpoint of inequalities, the overall picture of municipal expenditures for 1965-66 is very similar to that for city revenues. Vernon is on top, spending \$21,005.00 per capita and Baldwin Park at the bottom with \$34.44. This discrepancy is especially dramatic considering that the median for all the cities is \$100.87 and the figure for Los Angeles, \$114.80. Beverly Hills, as usual, ranks high, spending \$229.14 per capita; while places like Pico Rivera and Lakewood spend a meager \$34.72 and \$41.12, respectively. See Table 5.

Disparities in expenditure by function.--Most striking among the many disparities relating to the services rendered by representative cities in the Los Angeles-Long Beach area are those pertaining to parks and recreation. The highest expenditures in 1965-66 were \$92.00 per capita by Commerce, \$44.98 by Long Beach, and \$21.26 by Beverly Hills. This figure subsequently nosedives to a mere 10¢ for Cerritos (where most families have little interest in a city park because of abundant opportunities for recreation in their back yard), to a bare 8¢ for Baldwin Park, and to zero for Vernon, the city with the highest per capita revenues and expenditures (which makes sense because almost nobody lives there anyway).

The median for all cities with regard to park and recreation expenditure was \$10.65 per capita. Los Angeles spent \$8.56 while Pico Rivera and Baldwin Park, the cities with the lowest per capita revenues and expenditures, managed to spend only \$4.78 and 8¢, respectively.

Turning to public works, which is to say to streets, lighting, storm drains, and other such intensely practical matters, one of the most notable findings for 1965-66 was that the City of Industry spent nearly 75 percent of its budget for facilities of this kind, the per capita average coming to \$1,556.66. Cerritos also devoted over half

TABLE 5.--COUNTY AND CITY EXPENDITURES, 1965-1966, TOTALS AND BY MAJOR FUNCTION<sup>7</sup>  
(Aggregates in thousands; per capita figures absolute)

Community	Total		Public Safety		Public Works		Parks and Recreation	
	Aggregate	Per Capita	Aggregate	Per Capita	Aggregate	Per Capita	Aggregate	Per Capita
Los Angeles County per se	\$870,752	\$ 125.16	\$129,887	\$ 18.66	\$ 49,982*	\$ 7.18	\$15,985	\$ 2.29
Los Angeles County All cities	593,543	100.87	192,076	32.64	155,905	26.49	62,685	10.65
All cities - Central City	274,398	88.40	82,768	26.66	73,005	23.51	38,877	12.52
Los Angeles	319,145	114.80	109,308	39.31	82,900	29.82	23,808	8.56
Long Beach	55,564	148.96	12,345	33.09	8,948	23.98	16,781	44.98
Glendale	12,950	95.22	3,793	27.88	3,982	29.27	1,215	8.93
Pasadena	17,108	136.86	4,359	34.87	3,541	28.32	2,332	18.65
Pomona	7,726	90.89	2,483	29.21	2,253	26.50	764	8.98
Beverly Hills	7,791	229.14	2,256	66.35	2,188	64.35	723	21.26
Palos Verdes Estates	861	66.23	372	28.61	191	14.69	104	8.00
San Marino	1,529	109.21	598	42.71	367	26.21	173	12.35
Lakewood	3,290	41.12	607	7.58	1,133	14.16	757	9.46
West Covina	4,154	65.93	1,431	22.71	1,592	25.26	377	5.98
Baldwin Park	1,550	34.44	585	13.00	686	15.24	4	.08
Pico Rivera	1,771	34.72	469	9.19	736	14.43	244	4.78
Industry	1,880	2,088.89	104	115.55	1,401	1,556.66	14	15.55
Vernon	4,201	21,005.00	2,044	10,220.00	1,377	6,685.00	-	-
Commerce	4,240	385.45	1,612	146.54	561	51.00	1,012	92.00
Hermosa Beach	1,406	82.17	493	29.00	438	25.76	113	6.64
Claremont	1,467	69.85	452	21.52	442	21.04	202	9.61
Walnut	230	76.66	82	27.33	76	25.33	-	-
Cerritos	395	98.75	58	14.50	207	51.75	.4	.10

\*Roads constitute the only expenditures for Los Angeles County in the field of Public Works.

of its budget to public works, its per capita expenditure coming to \$51.75. In both cases the funds were mainly used for engineering, streets, storm drains, and street lighting. Public works expenditures seemed to have been used for much the same purposes in Baldwin Park, Pico Rivera, and Lakewood, but they were able to spend only \$15.24, \$14.43, and \$14.16 per capita.

These latter 3 cities were also low in their spending for public safety. Baldwin Park spent \$13.00 per capita, Pico Rivera \$9.19, and Lakewood \$7.58 as compared to the all-city median of \$32.64. The figures for most of the other 19 communities fluctuated very little from this average, except for a few of the wealthier ones: Beverly Hills, \$66.35; Industry, \$115.55; Commerce, \$146.54; and Vernon, with all its factories, \$10,220.00.

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### School Expenditures

Variation in totals per ADA.--Since unified school districts are the only kind that tend to coincide with incorporated communities, comparisons between districts will be limited in this brief section to those of that type. No comparisons will be made among elementary or high school districts, though certain inferences may rather easily be drawn concerning them from Table 6.

The range of expenditures per ADA for 1965-66 among the unified school districts in Los Angeles County extends from \$975.01 to \$478.37, the county mean being \$579.40. Beverly Hills spends \$975.01; Pasadena, \$698.01; San Marino, \$666.89; Los Angeles, \$576.14; Pomona, \$541.31; Baldwin Park, \$521.87; and West Covina, \$502.15.

Variations in expenditure by category.--As might be expected, educational expenditures reflect even greater disparities when analyzed by function than when only the totals are examined. In the case of teachers' salaries, expenditures per ADA ranged in 1965-66 from \$528.34 to \$261.58, with \$314.47 being the county average. Beverly Hills headed the list and Baldwin Park came in last and least.

Community service expenditures.--These are for such things as supplementary playground and recreational facilities where the city or county makes inadequate provision, and custodial service when school buildings are used as civic centers or for Boy Scout meetings--varied among all districts in Los Angeles County from a high of \$33.89 per ADA to a low of \$3.67, the average figure being \$15.58. Among the unified districts corresponding to the representative communities cited in this study, the poor Baldwin Park district had to spend the most, \$27.24 per ADA, while Beverly Hills got along with a mere \$5.67.

Expenditures for child care centers throw another beam of light on the disparities among school districts in representative communities throughout this metropolitan area. Only 13 of the 38 unified districts in Los Angeles County reported expenditures for this purpose in 1964-1965 but, of these, only 6 seem to have been obliged to levy any district taxes to secure the needed revenues. The other seven were able to operate their centers using only the state aid allocated to them for the purpose, plus the fees parents were able to pay for the service.

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### County and Special District Expenditures

County services.--"What do I get for my county taxes?" When John R. Leach, Assistant Chief Administrative Officer for Los Angeles County, is asked this question he has a plain but extraordinarily incisive answer: "If you're lucky, practically nothing." The most important thing to understand about county expenditures is that most of them are devoted to "the poor, the needy, the unfortunate and those in trouble." Here is a functional breakdown of the expenditures made by the county in 1965-66, both in aggregate amounts and by percentages.

TABLE 6.--SCHOOL EXPENDITURES BY UNIFIED DISTRICTS, 1965-1966, TOTALS AND BY FUNCTION<sup>8</sup>  
(Per ADA)

<u>Community</u>	<u>Expenditures</u>	<u>Teachers' Salaries</u>	<u>Community Services</u>	<u>Food Services</u>	
	Range:*	\$975.01 478.37	\$528.34 261.58	\$33.89 3.67	\$18.69 .00
Los Angeles	576.14	317.97	18.32	.00	
Long Beach	598.44	321.16	9.57	11.83	
Glendale	583.89	315.99	6.32	14.71	
Pasadena	698.01	354.73	23.45	16.18	
Pomona	541.31	282.18	15.05	12.36	
Beverly Hills	975.01	528.34	5.67	17.71	
Palos Verdes Estates	584.88	321.18	9.65	.01	
San Marino	666.89	381.99	18.40	.00	
Lakewood	NRC	NRC	NRC	NRC	
West Covina	502.15	283.06	3.67	13.89	
Baldwin Park	521.87	264.15	27.24	12.48	
Pico Rivers	561.96	285.41	25.62	14.36	
(2 districts)	579.64	324.75	14.66	.56	
Industry	NRC	NRC	NRC	NRC	
Vernon	As in L.A.	As in L.A.	As in L.A.	As in L.A.	
Commerce	NRC	NRC	NRC	NRC	
Hermosa Beach	**	**	**	**	
Claremont	552.48	302.00	12.03	9.06	
Walnut	**	**	**	**	
Cerritos	537.09	291.05	11.19	14.59	
(2 districts)	561.80	273.24	12.51	18.69	

NRC = Data not readily computable.

\*Among all unified districts within Los Angeles County.

\*\*An incorporated community but not included in a single unified district.

General government	\$136,929,497	15.8%
Public protection	129,886,998	15.0
Roads	49,981,523	5.2
Health and sanitation	28,059,363	3.3
Public assistance	494,613,752	56.8
Education	9,556,326	1.2
Recreation	15,985,033	1.9
Debt service	<u>5,739,125</u>	<u>.8</u>
Total	\$870,751,617	100.0%

What gives meaning to the remark just quoted is that in addition to public assistance per se, most of the services classified as public protection, health and recreation are required either for the indigent, the sick, the distressed or those in trouble with the law. Everyone benefits in some way from the general governmental services performed by the county in such fields as legislation, finance, personnel, elections, communications and property management, and likewise from its road services. Not every taxpayer appreciates, however, the nature of the returns he gets on his welfare dollars. Yet to the degree they are well spent, which is to say used to help people help themselves, they probably do almost as much as his educational dollars to humanize the intensely competitive society that is America today.

As indicated in the Introduction, the local governmental system of the Los Angeles-Long Beach area includes (July 1967) 584 special districts. Only two of these--the Flood Control District and the Air Pollution Control District--are county-wide in character and, as already indicated, the huge Metropolitan Water District of Southern California includes six counties within its jurisdiction, of which Los Angeles is only one, albeit by far the largest in terms of taxes paid and benefits received. All the remaining 581 districts serve but a part of the county and there is no need to explain the nature of their expenditures because their purposes are indicated by their names and one can deduce from the volume of their revenues roughly how much they spend.

#### Disparities in Indebtedness

Cities--Bonded indebtedness per capita varies greatly throughout the Los Angeles-Long Beach SMSA. Considering all 19 representative incorporated communities, it ran in 1965-66 from \$2,100 for Vernon to 55¢ for West Covina and zero for Baldwin Park and six others. At first glance these figures are perhaps misleading. (See Table 7.) It would seem that Vernon with \$2,100 of indebtedness per capita and Cerritos with \$750 might be in financial straits compared with the other cities, especially in view of their small populations.

No one need worry about Vernon, however. It may be \$630,000 in debt but, with its astronomical assessed valuation, the city has a borrowing capacity of approximately \$31,343,000. Cerritos also has little to worry about, for it has unused borrowing capacity amounting to \$1,054,000. Los Angeles had indebtedness in excess of \$885,000,000, yet this gives no cause for concern because much of it represents revenue bonds and most of these are backed by one or the other of its great utility enterprises, especially the enormously profitable Department of Water and Power.

Some of the other uses for which these city debts have been incurred are also very revealing. Vernon has borrowed chiefly for sewers and fire alarms, Cerritos solely for water, and Glendale both for sewers and for electrical utilities. In contrast, Beverly Hills has borrowed \$339.58 per capita for street improvements, parks, libraries, and off-street parking, and the educational community of Claremont has gone into debt to the extent of \$46.14 per capita solely for parks. Compared to places like these, Baldwin Park, Pico Rivera and Walnut (none of which had any bonded debt at all) are less

TABLE 7.--BONDED DEBT AND ASSESSED VALUATION FOR REPRESENTATIVE COMMUNITIES  
AND CORRESPONDING UNIFIED SCHOOL DISTRICTS

Community	Representative Communities			School Districts	
	Bonded Debt	Assessed Valuation		Bonded Debt	Assessed Valuation
		Aggregate	Per Capita		
	------(millions)-----			------(millions)-----	
Los Angeles	\$885	\$ 5,753	\$ 2,069.24	\$488	\$6,609
Long Beach	27	900	2,412.73	37	783
Glendale	13	270	1,983.75	19	283
Pasadena	22	438	3,503.16	5	390
Pomona	8	141	1,662.12	13	141
Beverly Hills	12	251	7,374.08	6	241
Palos Verdes Estates	-	39	3,028.07	12	125
San Marino	.1	53	3,772.57	3	56
Lakewood	5	103	1,282.87	*	*
West Covina	.04	103	1,628.00	6	66
Baldwin Park	-	43	947.91	4	43
Pico Rivera	-	79	1,544.39	7	75
	-			12	378
Industry	-	56	62,498.88	*	*
Vernon	.6	213	710,523.33	Included in Los Angeles	
Commerce	-	238	21,662.45	*	*
Hermosa Beach	-	35	2,073.29	**	**
Claremont	1	37	1,757.33	4	47
Walnut	-	12	3,866.00	**	**
Cerritos	3	27	6,757.50	5	79

\*Impossible to indicate accurately because the community is divided among several districts.

\*\*In the case of Hermosa Beach and Walnut there is no single corresponding unified school district.

\*\*\*Divided between two unified school districts.



to be envied than pitied. They would be far better off if they could afford to borrow for such refinements as some of their neighbors are acquiring.

School districts.--Because the property tax constitutes their only source of revenue, school districts are more reluctant to borrow than municipalities. All the same, they are frequently obliged to do so. Every one of the unified districts overlapping the 19 representative communities included in this study has some bonded indebtedness. In absolute terms, the Los Angeles District has by far the largest debt but, measured against their assessed valuation, the districts bearing the heaviest burdens are Pomona, West Covina, Baldwin Park, one of the districts overlapping Pico Rivera and, rather surprisingly, Palos Verdes Estates, which has no municipal indebtedness at all.

At the other end of the scale, those districts having relatively the smallest debts are long-settled Pasadena, Beverly Hills, Long Beach, and, again an anomaly, the other district overlapping Pico Rivera. See Table 7.

#### Disparities in Assessed Valuation

Per capita disparities in assessed valuation of property among the 19 representative cities are tremendous. In 1965-66 these valuations ranged from \$710,523.33 in Vernon to \$947.91 in Baldwin Park. Comparable figures for the balanced communities tend, however, to fall within a fairly narrow range: Los Angeles, \$2,069.24; Long Beach, \$2,412.73; Glendale, \$1,983.75; Pasadena, \$3,503.16; and Pomona, \$1,662.12. Among the wealthier cities, though, there are some notable differences: Beverly Hills, \$7,374.08; Cerritos, \$6,757.50; Commerce, \$21,662.45; and Industry, \$62,498.88.

Direct comparison between assessed valuations per capita for a city and its corresponding school district is impossible because in no single case do their boundaries coincide, at least with regard to unified districts. By careful examination of Table 7, however, one may see how a community's financial resources for the support of municipal government compare with its capacity to support public education.

One final observation, however, remains to be made about assessed valuations and it is very important. Although the state constitution stipulates that all properties should be assessed at 100 percent of market value, the practice until the mid-1950's was to allow each county assessor wide latitude with regard to the actual percentage applied. Inasmuch as county assessors are elective officials and certain state subventions are given on the basis of need as indicated by a county's rank order with regard to assessed valuation per capita, this led to rather scandalous "underbidding" on the part of many assessors (or candidates for the position). As a result, the State Board of Equalization has been using its influence to try to get every county to move as rapidly as possible to a uniform standard of 25 percent. In sampling a number of appraisals in Los Angeles County in 1966, the Board found the average ratio to be 23.5 percent. Since the statewide-weighted average ratio was only 22.1 percent, this provides considerable assurance that assessment ratios in this metropolitan area will soon be in line with the standard proposed. Only 6 of California's 58 counties were closer to the 25 percent mark and only one of these was in the southern part of the state.<sup>107</sup>

#### Variations in Property Tax Burdens

Two kinds of disparities concern students of public policy with respect to property tax burdens--interpersonal and interjurisdictional. Within the Los Angeles-Long Beach SMSA, responsibility for the prevention of inequity with regard to disparities of the first kind rests mainly with the county assessor because his office is charged with the fair assessment of all taxable property, other than public utilities, everywhere in the county except in the cities of Long Beach and Pasadena which insist

on assessing and collecting their own taxes themselves. (All utility property is assessed by the State Board of Equalization.)

Assuming competence and honesty in the assessment of property, how great are the interjurisdictional disparities among communities in Los Angeles County? The answer, as already indicated in Table 4, is that school tax rates among the representative cities selected for study vary from \$2.6181 per \$100 of assessed valuation in Beverly Hills to \$6.1405 in Pico Rivera, the median rate among them being \$5.3485 and the rate for the central city being \$4.2516.

While these differences are substantial they are in some instances compounded when the municipal tax rates are added (along with those for the county and the flood control district, which are uniform throughout the SMSA) to make the general rate. The reason for this is that, chiefly because of revenue derived from the sales and use tax, 20 of the 76 cities in Los Angeles County found it unnecessary to levy any property tax at all during the current year and in a number of others the rate is close to zero. In 1965-1966 the median general rate among the 19 representative municipalities on which this inquiry is based was \$8.6941 per \$100 of assessed valuation. Beverly Hills needed only \$6.4308; Commerce (which on July 5, 1967 announced "no city property tax" for the seventh consecutive year) had the next lowest rate, \$7.0743; and Vernon's was only 19¢ higher. Meanwhile property owners in Los Angeles paid \$9.1270 and those in Pomona and Claremont paid the highest rates of all, \$10.1247 and \$10.2263 respectively. (Levies by special districts serving only part of a city were, of course, in addition to these.)

Effective tax rates.--For purposes of comparing property tax rates in California with those in other states, three types of adjustment must be made. First, due allowance must be made for the fact that in this state assessable property includes a) real estate, or land, b) buildings or other improvements, c) personal property, including business inventories as of the first Monday in March, d) public utilities privately owned. Solvent credits, which is to say accounts receivable arising from the sale of goods or services minus deductible debts, are also taxable but at a different rate, namely one-tenth of one percent of their actual value.

Second, proper adjustment must be made for these ratios of assessed value to market value. Land, improvements and personal property are currently assessed at 23.5 percent of full value in Los Angeles County, but here and elsewhere local assessors are under instructions to shift to a 25 percent standard with all deliberate speed. Public utilities are assessed by the State Board of Equalization, but at a ratio of 50 percent of their true value.

Finally, California has a fairly liberal policy with regard to property tax exemption. What it does, in brief, is a) to grant certain limited immunities to veterans and b) to declare wholly exempt such properties of churches, colleges, orphanages and the like as are used wholly to religious, educational or philanthropic purposes. Under certain conditions works of art loaned for public exhibition are also tax exempt.

#### Elasticity of the Property Tax

Insistence on "no further increase in property taxes" has been a common slogan in election campaigns in the state of California ever since the end of World War II. Systematic analysis of the record indicates, however, that such warnings or pledges have not been taken very seriously. Taking the Mayor of Los Angeles and the members of its city council, for example, here are the facts in tabular form. What they suggest is that, in all probability, the property tax has not even yet reached the limit of its potential yield--this despite the fact that in the 1966 campaign the winning candidates for elective office, both state and local, proclaimed more loudly than ever the absolute necessity of "holding the line" where it then stood.

TABLE 8.--PROPERTY TAX ELASTICITY IN CITY OF LOS ANGELES, 1957-1958 - 1966-1967<sup>11/</sup>

<u>Tax Rates*</u>	<u>1966-1967</u>	<u>1957-1958</u>	<u>Percent Change</u>
For city	\$2.08	\$1.88	+10.7%
For county	2.39	1.92	+24.1
For schools	4.33	3.14	+37.7
For Flood Control District	.39	.29	+44.0
For Metropolitan Water District	<u>.14</u>	<u>.18</u>	<u>-22.3</u>
Total	\$9.34	\$7.40	+26.1%

\*Per \$100 of assessed valuation

It is impossible to estimate the precise effect of these rates on the taxpayers of the City of Los Angeles because until as recently as 1963 the "percentage of full market value" at which the county assessor was free to compute assessed valuation enabled councilmen (and also county supervisors) to play a kind of numbers game in setting the tax rate. Throughout the county (and the state) efforts are now being made to equalize local assessments as nearly as possible at 25 percent of market value.

#### Socioeconomic Factors and Trends<sup>12/</sup>

##### Population

Age--In 1960 the median age for males in the Los Angeles-Long Beach SMSA (which then also included Orange County) was 30.0 years and for females 31.8 years. For Los Angeles County alone the corresponding medians were 30.5 and 32.4. The extremes among the communities for which statistics are available were, at the bottom, 14.5 years for males and 17.8 for females in Watts and, at the top, 46.0 years for males and 47.4 for females in Beverly Hills. For the year 1965 statistics are available only for Central Los Angeles (city), for Watts and for East Los Angeles (unincorporated territory). The Watts figures had changed to 13.8 years for males and 17.9 for females.

As for Central Los Angeles, heavily Negro, the 1960 census found the median ages for males to be 31.8 years and for females 32.3. By 1965 these figures had changed to 28.8 and 33.8 respectively, indicating a widening gap between the sexes. East Los Angeles, dominated by people of Mexican extraction, changed during these same five years from a 24.1 year median for males and 24.9 for females to medians of 21.8 and 23.6 years respectively.

For several other representative communities in the area, the range in median ages in 1960 was of this order:

<u>City</u>	<u>Males</u>	<u>Females</u>
Long Beach	30.9 yrs.	37.0 yrs.
Glendale	36.9	41.4
Pasadena	34.6	42.0
Pomona	27.4	29.2
Lakewood	25.1	26.7
West Covina	25.0	26.1
Baldwin Park	24.7	25.5
Pico Rivera	24.1	25.4

Race.--In the year 1960 the races within what is now the Los Angeles-Long Beach SMSA included 5,453,866 whites and 584,905 others of whom the great bulk were Negroes. Central Los Angeles city had 5,542 whites, 15,970 Negroes, and 1,855 others; Watts 4,206 whites, 29,516 Negroes, and 279 others. At the other extreme, Beverly Hills had whites predominating at 30,057 compared with others numbering only 760. Pasadena, however, was definitely beginning to experience a Negro influx: 98,440 whites and 17,967 others.

No 1965 data are available other than for central Los Angeles city, Watts, and the unincorporated Mexican-American community known as East Los Angeles. The 1960 statistics for several representative communities within the area were as follows:

<u>City</u>	<u>White</u>	<u>Other</u>
Long Beach	329,399	14,769
Glendale	118,868	574
Pomona	65,976	1,181
Lakewood	66,991	135
West Covina	50,397	248
Baldwin Park	33,647	304
Pico Rivera	48,923	227

Regarding the three "problem areas" on which data are available for both 1960 and 1965, here is how their racial composition changed from 1960 to 1965:

<u>Area</u>	<u>1965</u>			<u>1960</u>		
	<u>White</u>	<u>Negro</u>	<u>Others</u>	<u>White</u>	<u>Negro</u>	<u>Others</u>
Central Los Angeles	3,140	11,780	590	5,542	15,970	1,855
Watts	2,900	26,990	100	4,206	29,516	279
East Los Angeles	67,080	70	2,270	70,601	2,111	243

Perhaps the most significant fact to be noted from these figures is that in all three areas both white and Negro populations have declined. What is particularly important, however, in the case of Central Los Angeles and Watts is that in both cases the ratio of whites to Negroes has also declined--from 34.7 whites to 26.6 per 100 Negroes in the one case and from 14.2 to 10.7 in the other. Both areas are clearly tending to become Negro ghettos.

As for East Los Angeles, its total population has also declined but here, too, one finds the tendency toward ghettoism, though in this case for Mexican-Americans.

Between 1960 and 1965 the number of whites with Spanish surnames increased from 51,156 to 56,600. And of these, the number born in Mexico jumped from 10,828 to 14,220.

Occupations.--Within the limits of this report it is possible to present only a few statistics pertaining to differences in occupational patterns, particularly within the Los Angeles-Long Beach area. Thanks, however, to the availability of the "Community Economic Profile" compiled by the Office of Economic Opportunity, several significant comparisons can be made between conditions in this SMSA and those in other parts of the country.

To begin with, 49.0 percent of the people in the labor force in Los Angeles County were engaged in white collar jobs in 1960, a record matched by only 3 percent of all the counties in the United States. Another basic fact is that the proportion of males in the labor force fell in the decade 1950-60 from 78.2 to 65.8 percent while for the country as a whole it fell from 78.7 percent to 67.2. As of 1964, the latest year for which data are available, less than 1 percent of the labor force was engaged in either the industrial category of agriculture--forestry--fisheries or that of mining; 6 percent were engaged in construction; nearly 36 percent in manufacturing; 6 percent in transportation, utility and sanitary services; 8 percent in wholesale trade; 18 percent in retail trade; 7 percent in finance; and 20 percent in services.

More specifically, of the 97 major classifications within the standard industrial classification system, the largest number of workers in the county were--and probably still are--employed in the production of transportation equipment, the next largest number in eating and drinking establishments, and the third largest in the manufacture of electrical machinery and equipment.

#### Housing: Quality and Ownership

Adequacy.--Housing within the Los Angeles-Long Beach metropolitan area varies greatly according to the statistics available for the local communities selected for study. In 1960 (Orange County was then included in the SMSA) conditions were about as indicated in Table 9. (Gross rent consists of the amount paid to the landlord plus the utility and heating costs paid by the occupants of the dwelling.)

Differences in median gross rents are easily discernible. Hand in hand, as a rule go the number of people per room in a housing unit--the higher the rent a family pays, the more space each individual usually enjoys. There are, of course, exceptions. In Lakewood, for example, where the 1960 median gross rent of \$113.00 was considerably higher than the average, a person apparently would have less space. However, rooms in that newly-built area may be somewhat larger than in older sections of the county. Most of the structures in Lakewood were less than ten years old at the time of the survey. Its median family income of \$7,600 was also higher than the SMSA median of \$7,073. In Watts, where median gross rent was noticeably low, \$63.00, crowding was somewhat above average and residences were largely of older vintage.

Comparable data for 1965 were available only for Central Los Angeles, Watts, and East Los Angeles. Here are some key figures:

Area	Median Gross Rent	Persons Per Room			Condition			When Built	
		Up to 1/2	Up to 3/4	1 and More	Sound	Deterio- rating	Dilapi- dated	Within 10 Years	Within 20 Years
Central Los Angeles	\$72.00	2,840	1,010	760	2,880	2,790	700	530	5,430
Watts	74.00	2,650	1,040	1,380	6,010	1,810	340	1,220	4,220
East Los Angeles	77.00	6,480	3,790	4,700	14,120	4,940	1,400	2,200	9,650

TABLE 9.--HOUSING: MEDIAN GROSS RENT AND CONDITIONS OF PROPERTY, 1960, BY SELECTED COMMUNITIES

Area	Median Gross Rent	Persons Per Room			Sound	Condition		When Built	
		Up to 1/2	Up to 3/4	1 and More		Deteriorating	Dilapidated	Within 10 Years	Within 20 Years
SMSA	\$ 81.00	940,699	539,222	196,196	2,184,679	151,377	33,095	971,614	919,278
Los Angeles County	81.00	866,680	487,864	177,053	NA	NA	NA	814,724	874,790
Los Angeles City	78.00	395,508	205,740	71,900	852,490	69,655	13,362	286,182	481,797
Central Los Angeles	59.00	3,142	1,443	1,312	5,312	2,532	757	769	8,528
Long Beach	73.00	60,681	30,132	7,547	124,547	7,763	998	36,920	60,899
Glendale	81.00	25,874	111,659	1,590	47,105	1,539	243	11,930	26,788
Pasadena	80.00	25,721	9,564	1,819	42,421	3,733	533	10,519	30,063
Pomona	78.00	8,750	4,861	1,825	20,128	352	496	11,195	7,620
Beverly Hills	122.00	8,766	2,751	74	13,123	91	6	2,385	8,834
Lakewood	113.00	5,557	5,120	1,268	18,330	30	1	14,836	73
West Covina	111.00	3,865	3,638	1,000	14,001	63	9	13,017	265
Baldwin Park	82.00	3,173	2,166	1,566	9,199	859	277	5,027	2,128
Pico Rivera	88.00	3,513	2,831	2,293	12,586	509	241	8,778	1,679
Watts	63.00	1,994	1,535	2,763	6,822	1,354	237	3,244	3,481
East Los Angeles	65.00	6,161	4,166	4,903	15,901	4,073	1,400	2,567	14,311

NA = Data not available.

What they suggest is that the people in these low income areas managed to improve the quality of the housing slightly during the early Sixties. On the other hand, they were faced with having to pay higher gross rents out of very limited increases in family income.

Home Ownership.--In bygone generations when wealth was largely in the form of land and buildings, home ownership had an importance far beyond what it has in contemporary society. For families with assured incomes, the comforts, pleasures and conveniences of modern apartment living are such that many people who could afford to buy a residence nevertheless prefer to rent one. Even in affluent America, however, they constitute so small a fraction of the total population that home ownership remains an important clue to the economic well-being and social and political health of a community.

What is often called California-type financing has supported an enormous building boom in the Los Angeles metropolitan area in the postwar period, and has also encouraged proportionally more families to commit themselves to the purchase of a home than at any time since the Depression of the Thirties. The result has been that by 1960, 54.6 percent of all housing units in the Los Angeles SMSA were "owner-occupied," the corresponding figure for the central city being 46.2.

While it would easily be possible to compile tables showing in detail how the pattern of home ownership in all of the low income and minority communities compares with that of Los Angeles itself, one can get a clue to what the critical disparities are like from a few simple facts. In Central Los Angeles only 20.1 percent of all housing units were owner occupied in November 1965, and in Watts 30.3. In neighboring Willowbrook, on the other hand, 53.0 percent were lived in by their owners, 85.1 percent of them nonwhite, which in this instance is to say Negro. Here is clear evidence of a desire for ownership and it is doubtless accompanied by some pride of ownership, too.

What is no less striking--but on the other hand discouraging--is that home ownership in East Los Angeles, the largest Mexican-American community in the County, appears to have declined during the early Sixties. In 1960 the percentage of owner-occupied homes in that area was 38.8; by 1965 it was down to 35.1.

#### Land-Use Patterns

No systematic inquiry into the land-use pattern of Los Angeles County has been made since 1941 and the task is so prodigious that the Regional Planning Commission does not expect to complete another one until 1970. Under the circumstances, the only observations to be made here are that, except for the mountainous terrain and the desert north of the San Gabriel range, much of the open space still available at the close of World War II has been zoned during the past 22 years either for homes, factories or shopping centers or for streets and highways.

While there are still enough acres devoted to poultry-raising, dairying, fruit raising and truck gardening to enable the County to hold onto its record of being one of the leading agricultural counties in the country, there can be no doubt that the pattern is changing. Homes, schools, streets, parks, highways, markets, factories and occasional large open spaces, this is the land-use pattern that seems destined to prevail in the Los Angeles-Long Beach area tomorrow--and unfortunately not always with the best proportions or locations either. Some 18.4 percent of the land in the County was still devoted to farming in 1959, but this was 35.6 less than the acreage that had been under cultivation just five years earlier and there is no reason for supposing that the trend has changed.

### Income Levels

According to the 1960 census, median family incomes within the Long Beach-Los Angeles area varied between \$3,584 in Watts to \$16,728 in San Marino. Most of the other representative communities for which information is available, had median incomes per family in the \$6,500 to \$8,500 range, \$7,073 being the median for the SMSA as a whole.

For 1965, figures are available for only three communities: Central Los Angeles, Watts and East Los Angeles. In Central Los Angeles the median had fallen in five years from \$4,009 to \$3,743, though this may have been because of an increase in its Negro population. During this same five-year span, however, the median rose from \$3,584 to \$3,803 in Watts, which also acquired a larger number of Negro residents. As for East Los Angeles, it showed a gain, if that is not too strong a term, from \$5,304 in 1960 to \$5,305 in 1965.

### Retail Sales

That the Los Angeles-Long Beach area shares fully in the prosperity of California becomes evident at once upon examination of the figures for retail sales. In its Community Economic Profile, the Office of Economic Opportunity estimated that they amounted, in toto, to \$12,062,516,000 or \$1,744 per capita, \$300 above the national average. Only 8 percent of all the counties in the United States enjoyed an equal or higher sales volume per capita.

These are the proportions in which sales at retail were apparently divided last year: food stores, 21 percent; eating and drinking places, 10 percent; general merchandise, 18 percent; apparel, 5 percent; furniture, 6 percent; automotive, 22 percent; gasoline, 7 percent; lumber, 3 percent; drugstores, 4 percent; miscellaneous, 4 percent. All of these ratios coincide rather closely with those for retail purchases in the country as a whole.

### Employment and Commuting Patterns

Taking Los Angeles County as a whole, those employed represented 94.2 percent of the labor force according to the most recent complete count available, namely the 1960 decennial census of population. This meant that the rate of unemployment in the area, 5.8 percent, was slightly higher than that for the nation as a whole, 5.6 percent. Relatively, however, the situation had improved markedly over that prevailing in 1950. Ten years earlier Los Angeles County had 7.3 percent of its labor force unemployed while the rate for the United States as a whole was only 5.3.

No up-to-date report is available showing how the labor force in the Los Angeles-Long Beach area is divided according to industrial classifications, government service, and the professions. The best that can be done is to indicate with respect to business and industry how their employees were allocated during the first quarter of 1964. Here are the summary figures: agriculture, forestry and fisheries, less than 1 percent; mining, less than 1 percent; contract construction, 6 percent; manufacturing, 36 percent; transportation, utilities and sanitary services, 6 percent; wholesale trade, 8 percent; retail trade, 17 percent; finance, insurance and real estate, 7 percent; services, 19 percent.

What is doubtless of far greater significance, however, from the standpoint of serious fiscal disparities among the various communities within the area is the pattern of employment--and commuting--in places like Watts, Willowbrook and East Los Angeles. Here are some of the important findings of the special census taken in the South and East Los Angeles areas in November 1965.



TABLE 10.--EMPLOYMENT AND COMMUTING PATTERNS IN SOUTH AND EAST  
LOS ANGELES AREAS, APRIL 1960 AND NOVEMBER 1965

	<u>Watts</u>		<u>East Los Angeles</u>	
	<u>1965</u>	<u>1960</u>	<u>1965</u>	<u>1960</u>
Males				
Employed	3,350	4,726	13,560	16,075
Unemployed	510	871	1,060	1,490
Ratio: U to E	.152	.203	.078	.092
Females employed	2,060	2,865	7,020	7,397
Place of work				
Los Angeles county	4,650	6,438	17,780	21,378
Other	610	36	150	163
Private transportation or car pool	3,740	4,663	12,930	15,612

From the standpoint of the men in the labor force being able to get some kind of a job, the data in Table 10 indicate that conditions in both of these depressed areas had improved slightly between 1960 and 1965. Whether they really had improved, however, depends not so much on what happened to the unemployment of Negroes and Mexican-Americans as to their underemployment. For this is where they have suffered the greatest discrimination--or at least think they have. More than anything else, the policy that needs to be emphasized is one of making sure that every person has a fair chance to get the best job he is prepared to handle.

#### Educational Achievement Levels

As of 1960, the U.S. Bureau of the Census reported these basic facts regarding levels of formal education among people 25 years of age or older in the Los Angeles-Long Beach area.

<u>Place</u>	<u>Number of School Years Completed</u>			<u>Median</u>
	<u>None</u>	<u>1 to 8 of Elementary School</u>	<u>1 to 4 of High School</u>	
Los Angeles county	56,424	874,407	1,752,105	12.1
Los Angeles city	33,815	469,000	825,000	12.1
Central Los Angeles	1,002	7,356	2,094	8.4
Long Beach	987	40,233	109,241	12.1
Glendale	421	16,507	38,927	12.3
Pasadena	586	17,247	31,833	12.4
Pomona	357	9,183	18,400	12.1
Beverly Hills	309	3,561	9,704	12.7
Lakewood	61	3,831	10,440	12.2
West Covina	49	3,054	13,392	12.5
Baldwin Park	204	5,846	9,164	10.6
Pico Rivera	367	6,464	14,678	11.5
Watts	598	5,775	2,430	9.2
East Los Angeles	2,729	17,189	5,834	8.7

Comparative data are available for only three communities in 1965--Central Los Angeles, Watts and East Los Angeles.

Place	Number of School Years Completed			Median
	None	1 to 8 of Elementary School	1 to 4 of High School	
Central Los Angeles	390	4,200	1,640	8.9
Watts	450	4,360	2,320	9.7
East Los Angeles	2,600	16,150	5,380	8.4

### Incidence of Crime

It goes without saying that the occurrence of crime within a metropolitan area depends upon a whole series of factors--the rational and emotional makeup of the criminal, the temptations or pressures he may be under, his impulse or calculation regarding time and place (which in turn often depend to some extent upon his means of transportation and communication), whether he acts alone or is teamed up with others, and, finally, the size and vigilance of the local police force. Every community represents some combination of conditions and circumstances conducive to anti-social behavior and the various municipalities in the Greater Los Angeles area are no exception.

The nature and frequency of criminal activity may change from place to place--and this can make a big difference in its tone or social climate--but no community will be free from worry on this score. All that can be done within the limits of this report is to give a general picture of the kinds and numbers of felonies committed in Los Angeles County as a whole and in some of its representative communities in 1965, supplemented by raw figures on juvenile arrests for major and minor offenses.

Table 11 presents this statistical picture in summary form. One of its limitations is that separate figures are not available for the "contract cities." The reason for this is that they buy their police service from Los Angeles County and, in the reports issued by the State Department of Justice, their statistics are included in the data reported by the sheriff's office for the county generally. (Separate figures could, of course, be obtained from the contract cities themselves but not without inconvenience.)

Table 12 supplements Table 11 by indicating the incidences of crime within the central city of the SMSA, the data again pertaining to the year 1965. Perhaps the main comment that needs to be made about it is that Police Division No. 1, Central, covers roughly the area which has been referred to above as Central Los Angeles and that Division 12, the 77th Street Division, includes Watts. Division 3, University, like No. 12 includes some of the poorer sections of the city. So does Division 4, Hollenbeck, which borders on the unincorporated Mexican-American community known as East Los Angeles. Division 13, Newton Street, includes a sizable manufacturing district bordering on Vernon, the factory enclave. Altogether there are 15 divisions within the central city but since there is no longer a No. 2, their numbers run to 16.

### AFDC and OAS Caseloads

Success begets success and failure begets failure. The fiscal disparities analyzed in the first section of this study reflect by and large the hard social realities underlying the political-governmental organization of the different parts of the area as a whole. One of those hard realities consists of the number of elderly people in a community who must depend on charity, either in whole or in part, to meet their daily needs. In California the needy aged who are unable to satisfy the residence

TABLE 11.--FELONIES AND JUVENILE OFFENSES COMMITTED IN THE LOS ANGELES-  
LONG BEACH METROPOLITAN AREA, 1965, BY TYPES AND REPORTING AGENCY

	<u>Total</u>	<u>Seven Major Felony Crime Reports</u>							<u>Juvenile Offenses</u>	
		<u>Willful Homicide</u>	<u>Robbery</u>	<u>Assault</u>	<u>Burglary</u>	<u>Theft</u>	<u>Auto Theft</u>	<u>Forcible Rape</u>	<u>Major</u>	<u>Minor</u>
SMSA	197,084	420	12,912	15,835	105,885	16,987	42,826	2,219	19,381	16,418
Sheriff's Office	40,857	80	2,004	3,676	20,469	2,594	7,531	503	4,314	3,263
Los Angeles	101,265	249	8,016	9,323	50,771	9,502	22,136	1,268	8,466	4,993
Long Beach	9,767	17	719	527	4,939	949	2,503	113	853	1,157
Glendale	1,891	1	80	38	1,111	144	508	9	145	338
Pasadena	2,599	4	116	173	1,556	201	511	38	326	716
Pomona	1,553	1	58	98	866	144	373	13	186	91
Beverly Hills	462	1	31	5	240	77	108	-	68	54
Palos Verdes Estates	212	-	1	3	174	16	16	2	59	38
San Marino	88	-	-	1	72	10	5	-	8	26
Lakewood	*	*	*	*	*	*	*	*	*	*
West Covina	1,051	1	24	59	655	75	217	20	190	350
Baldwin Park	848	1	32	78	510	67	144	16	158	108
Pico Rivera	*	*	*	*	*	*	*	*	*	*
Industry	*	*	*	*	*	*	*	*	*	*
Vernon	323	-	13	10	97	96	106	1	43	6
Commerce	*	*	*	*	*	*	*	*	*	*
Hermosa Beach	542	1	14	15	319	52	139	2	70	70
Claremont	176	-	1	2	135	19	17	2	23	67
Walnut	*	*	*	*	*	*	*	*	*	*
Cerritos	*	*	*	*	*	*	*	*	*	*

\*Data for these cities included in Sheriff's Office figures.

TABLE 12.--RELATIVE INCIDENCE OF CRIME WITHIN THE CITY OF LOS ANGELES, 1965,  
 BY POLICE DIVISION, BY TYPE OF OFFENSE, AND BY POLICE COST PER CAPITA<sup>14</sup>  
 (Percent)

<u>Division</u>	<u>Homicide</u>	<u>Robbery</u>	<u>Assault</u>	<u>Burglary</u>	<u>Theft</u>	<u>Auto Theft</u>	<u>Forcible Rape</u>	<u>Police Cost Per Capita</u>
Central	13.7%	17.2%	10.6%	8.6%	10.2%	11.8%	8.0%	\$80.28
University	8.8	13.5	12.7	9.5	7.6	10.6	14.2	26.79
Hollenbeck	5.6	3.1	5.7	3.0	3.0	5.2	2.9	20.16
Harbor	2.8	3.7	4.9	4.6	4.0	4.2	3.5	21.54
Hollywood	3.2	6.5	4.0	8.7	8.9	8.0	8.0	21.71
Wilshire	10.1	11.7	8.4	10.5	10.7	8.6	11.6	19.40
West Los Angeles	2.0	2.0	0.9	5.2	5.5	5.2	3.9	13.15
Van Nuys	1.6	2.7	2.6	6.4	8.5	5.2	3.9	13.76
West Valley	1.6	2.4	2.4	7.6	8.9	5.4	3.5	8.51
Highland Park	1.6	2.1	2.8	3.3	3.2	3.2	2.5	14.79
77th Street	22.9	18.0	20.6	11.5	8.5	14.7	18.7	27.84
Newton	17.3	10.2	13.4	4.9	4.2	7.7	10.5	39.25
Venice	2.0	2.6	3.4	5.1	6.6	4.4	3.4	13.22
North Hollywood	3.2	2.3	2.5	5.6	5.0	3.7	3.3	14.31
Foothill	3.6	2.0	5.1	5.5	5.2	3.9	4.1	10.92
City-wide*	100.0	100.0	100.0	100.0	100.0	100.0	100.0	\$21.21*

requirement go on general relief (GR), but the vast majority are handled by what in this state is called not old age assistance (OAA) but old age security (OAS).

The other major group of people "on welfare" are needy families with dependent children and even in prosperous Southern California their number is legion. The program which has been set up to meet their needs used to be called aid to needy children (ANC) or aid to dependent children (ADC). Some years ago, however, its name was changed to "aid to families with dependent children" (AFDC) and the case loads for this program serve as a valuable yardstick with reference to the financial strength of a community.

Unfortunately, from the standpoint of the purposes of this study, the county Bureau of Public Social Services keeps its records by administrative districts established for its own purposes rather than by incorporated communities. Since the Bureau uses only 20 districts for the whole of Los Angeles County including the central city, many of them include two or more cities--except those within Los Angeles itself. Given these circumstances, the best that can be done is to select a few districts which coincide with some substantial part of some of the communities selected for analysis in this report and show what their OAS and AFDC caseloads are. (The figures given are for May 1967.)

To ponder the implications of these figures even for a moment is to understand which are the more stable communities and which are the less. Glendale, Pasadena, Long Beach, West Los Angeles and Metro North with their relatively greater numbers of elderly people living on old age security are long settled and quite stable areas. But the Metro South and Southeast Districts within the City of Los Angeles with their high loadings of families, mainly Negro, needing aid for dependent children are anything but stable. Consequently there is always some degree of social unrest in these areas.

Within the El Monte District, which is one of great size geographically, there are both potentially trouble-laden cities like Baldwin Park as well as relatively serene little communities like Claremont. It is impossible to say anything about the district as a whole other than that it is mixed in character.

TABLE 13.--OAS AND AFDC CASE LOADS IN SELECTED DISTRICTS OF LOS ANGELES COUNTY, MAY 1967

<u>District</u>	<u>OAS Case Load</u>	<u>AFDC Case Load</u>
Metro North (Central Los Angeles)	18,089	5,485
Metro South (Central Los Angeles)	7,580	16,034
Southeast, including Watts	11,431	12,268
West Los Angeles, including Westwood	9,038	2,289
Long Beach	11,416	4,127
Glendale	5,429	1,431
Pasadena	4,419	1,792
Belvedere, including Pico Rivera and East Los Angeles	5,894	4,601
El Monte, including Baldwin Park, Claremont, Industry, Pomona, Walnut, West Covina	5,894	4,552

## FACTORS AND FORCES AGGRAVATING OR LESSENING INTERGOVERNMENTAL DISPARITIES

### Policies of California State Government

Under the Federal Constitution, the states have always been vested, not merely in theory but also in practice, with plenary power to organize local government within their boundaries. Legally, therefore, it is the State of California and specifically its successive Governors, Courts, and above all, its Legislatures who are to blame for whatever troublesome fiscal disparities there may be among representative communities and school districts in the Los Angeles-Long Beach metropolitan area. For, having the power to decide how all the functions of local government should be handled, it could have decided to handle all of them itself--which is what a few cynics suggest it will wind up having to do some day unless it provides the counties, cities, schools and special districts with the additional financial help they need to do their work properly.

But only in the contemplation of law does a government ever begin *de novo*. When California was admitted to the Union, the American federal system was already 60 years old and many precedents had been established. One of the strongest of these was that, partly for greater convenience with regard to the administration of its own general policies but also as the basis for a system of local rural government, all the territory of the state should be divided into counties. Los Angeles was one of the original 27 counties established in 1849-50 and, when first formed, included most of Southern California between Santa Barbara and San Diego, an area of approximately 31,000 square miles. Thus if intervening generations had had the imagination to visualize coming developments and the wisdom to set up branch county offices instead of splitting off first one piece and then another to form new counties, this huge urban agglomeration would even now have a general-purpose unit of local government which it could use in coping with metropolitan problems. (There are, of course, a dozen reasons why they proceeded as they did--but it is interesting to speculate about the utility of such a huge county in this area today.)

Another precedent was that people living in a single neighborhood or locality and needing more services than the county could readily provide should be free to incorporate as a city through which they might, at their own expense, arrange for police, fire, street, sidewalk, water, sewer and lighting service under their own control.

A third precedent was that immediate responsibility for public education should be vested in small local school districts whose boundaries need have no relation with those of cities in the same area.

It was understood that all these types of units--rural, urban, and school--would be under the supervision of the state itself. Yet there was also considerable emphasis on local self-government, on the proposition that democracy begins at home, and this was full of meaning in a state with millions of acres of cheap land. So strong indeed was this sentiment that when, in 1879, California adopted its second (and present) constitution, it followed the lead taken by Missouri four years earlier and offered all cities having a population over 100,000 the privilege of home rule, namely the right to draft their own charters. Subsequently this was extended to all cities over 3,500.

### Municipal Development

Time precludes anything like a systematic historical review of the evolution of state policies toward municipal development that have eased or exacerbated the problem of local fiscal disparities, but these are the main influences that have been at work.

Incorporation.--In the beginning, the Legislature often provided for the incorporation of cities by special legislation, but the evils occasionally accompanying

such action led to the inclusion in the Constitution of 1879 of a section stipulating that the Legislature should provide by general law, and only in that way, for the creation of cities. Since that time at least, the basic assumption has been that whenever a majority of voters in an unincorporated area containing a minimum of 500 inhabitants and following prescribed procedure indicate a desire to incorporate as a municipality, such an action will be in the public interest.

Those who take the initiative in circulating the necessary petition for an election and those who vote for incorporation may or may not be motivated by genuine community spirit. The crucial point is that the law seems to make a presumption to this effect. The members of the county board of supervisors, who must decide whether to grant or deny the petition, may inquire into the motives behind the effort to incorporate but, if all the procedural niceties have been observed, they invariably authorize the election.

The net of all this is that the process of incorporation in California has, until recently, tended to be much too loose. The state's failure to have formulated a clear, substantive definition of a city and its unrealistically low population requirements have permitted the incorporation of "communities" whose operations, as Crouch and Dinerman note in Southern California Metropolis, "in no way resemble those of a 'city' in the traditional, accepted sense of the term."<sup>16/</sup>

Stanley Scott gives an even more astringent description of some of the travesties that have occurred:<sup>17/</sup>

Cities have been incorporated which have more cows than people, and for the purpose of protecting dairy farms against subdivision and higher levels of municipal taxation. One city's thoroughfares are privately owned (with) access under guard. Another city consists primarily of cemeteries, has fewer than 300 (living) inhabitants, and derives most of its revenues from burial fees. Certain cities were able to meet the population requirement for incorporation only by counting persons residing in motels or patients in sanatoria.

Some cities are enclaves of extremely valuable industrial property, whose chief function is the avoidance of taxation and other public responsibilities. Other cities are enclaves of poverty, some having as little as one-third (of) the state-wide average per capita assessed valuation of municipalities.

Local Agency Formation Commissions.--Criticism of shoddy incorporations of the kind just described led in 1963 to the adoption of what, after four years, wears the appearance of a major reform. Declaring its purpose to be "the discouragement of urban sprawl and the encouragement of the orderly formation and development of local governmental agencies based on local conditions and circumstances," the Legislature ordered the establishment in each county of a Local Agency Formation Commission (LAFCO), and charged it with controlling the proliferation of local governments in that county. No new city or special district can be established without LAFCO approval.

Each commission is composed of two county supervisors, two members chosen by city councilmen from among their number, and a fifth or public member chosen by the other four. Each commission normally meets once a month and reviews all applications for the formation of new cities or special districts. Collectively they ruled on 5,000 applications during their first three years (1963-66) and the California Intergovernmental Council on Urban Growth reported in 1966 that, by and large, they were finding their role and working constructively, referring many proposals to the county planning commission for advice before taking action, likewise conferring when appropriate with LAFCO's adjoining counties. As an indication of what these commissions have accomplished by way of slowing down the incorporation of new cities, not one single new

municipality was created in California between August 1, 1966 and July 1, 1967--an unprecedented record for the period since World War II.

Annexation.--The only case in which a city may openly initiate proceedings for the annexation of a piece of territory is that of a piece of uninhabited territory, an area adjacent to a city and having less than twelve registered voters. Otherwise the initiative must be taken by not less than one-fourth of the owners of the land proposed for annexation. Should owners representing half the value of the land file written protests, the effort fails. Otherwise the council may annex the property by ordinance. Much of the municipal expansion which has occurred in Southern California since World War II has been through annexation of such uninhabited territory, a good deal of it as the result of quiet negotiations between land developers and city councils.

Consolidation.--Up to 1909, California had no procedure whereby one already established city might consolidate with another. At that time, however, Los Angeles City became keenly interested in having as many as possible of the neighboring suburbs merge their lot with hers. Two considerations were dominant. In the first place, the leaders of the central city knew that it could never win a big place in the sun unless through a large stretch of "strip annexation" and consolidation with Wilmington and San Pedro it could acquire a big seaport. In the second place they realized that, depending on how quickly and fully they exploited the vast enlargement of their water supply via the Owens Valley aqueduct destined for completion in 1913, that costly venture could either turn out to be a good investment or come a cropper.

Working with the Legislature they secured in 1909 the enactment of a statute making consolidation possible when approved by the voters of both cities involved. This accomplished, the city proceeded with its plans and, over the next 23 years, ten suburbs consolidated with Los Angeles. (There have been none since 1932.)

1909	Wilmington	1923	Eagle Rock
1909	San Pedro	1925	Venice
1910	Hollywood	1926	Watts
1922	Sawtelle	1927	Barnes City
1923	Hyde Park	1932	Tujunga

Special district formation.--California has been alert for half a century or more to the potentialities for easing, if not solving, metropolitan problems through the device of creating special districts of various kinds--single purpose and multipurpose; county-wise, intra-county or multi-county; governed by their own boards or governed by other officers, e.g., boards of supervisors, serving ex officio; created by the Legislature itself, created by county boards of supervisors under explicit authorization from the Legislature, or created by the people themselves acting in accordance with a general statute.

The newest special district, and one of enormous potential significance in connection with services affected by fiscal disparities is the Southern California Rapid Transit District (RTD), created by the Legislature as the counterpart in this region of Bay Area Rapid Transit (BART) in the San Francisco-Oakland SMSA. All it is doing now is operating the buses taken over from the former Los Angeles Metropolitan Transit Authority (MTA) which provide the only public transportation available within the City of Los Angeles and likewise the cheapest and most frequent bus service between the central city and the key cities in the neighboring counties of Riverside and San Bernardino. But it is making intensive cost and engineering studies looking to the construction over the next eight-ten years of a system of mass rapid transit connecting all the more densely settled parts of the area.

Interlocal contracting.--Intergovernmental contracts on the local level have a long and voluminous history in California, the state having recognized the need for



arrangements of this kind as early as 1895 when it authorized cities to transfer to the county the functions of tax assessment and collection and negotiate agreements for reimbursement of costs. In 1903 cities were authorized to work out contracts with each other looking to cooperation in the solution of such problems as water supply, fire fighting, street cleaning, and park irrigation. In 1913-15 cities were authorized to transfer still other functions to the county. And in 1935 the Legislature authorized cities and counties to negotiate general intergovernmental contracts for minimum terms of five years.

Joint exercise of powers.--Mention should also be made of the passage by the Legislature in 1921 of the Joint Powers Act. Drafted in rather broad terms, this measure permits a county, city, public district or corporation, the state itself, or any Federal agency operating within California to enter into an intergovernmental agreement for the joint exercise of powers. One of its first and most valuable uses was to make it possible for all the sanitary districts in Los Angeles County to arrange with one district to administer a joint-district county-wide sewage disposal system. This arrangement continues to the present day and by common consent represents one of the great successes of intergovernmental cooperation in the Los Angeles metropolitan area.

#### State-Local Division of Labor

Generally speaking, California has a clear and sensible division of responsibility between state and local governments, and among local governments themselves for provision of the public services. There are, to be sure, a number of important "spillover" areas but only if misunderstandings are compounded by tough financial problems is the tension even likely to become severe. Here is the division of labor between the two levels limited to those functions involving serious danger of overlap.

<u>State Functions</u>	<u>Overlap</u>	<u>Local Functions</u>
Assessment of public utilities	-	Assessment of all other property
Collection of sales and use taxes	-	Collection of property taxes
Higher education	Junior colleges	Public education
Highways	Freeway routing	Streets
Highway patrol	Freeways in cities	Traffic regulation
Health research	Mental health	Health service
Supervision of welfare	-	Administration of welfare

#### School Consolidation

Ever since World War II, the cost of public education has been skyrocketing in California, partly because of inflation but mainly because of the burgeoning school population. Inevitably this has meant that local communities have in many cases been finding it harder and harder to cover their share of the costs involved. While Governors Warren, Knight, Brown and Reagan have all been concerned about the plight of the poorer local districts and have been prepared to support larger appropriations for school aid, they have also made it increasingly clear that they are not willing to subsidize waste or inefficiency in the form either of unduly small districts or of continued separation of elementary and high school districts.

No one in Sacramento has been more insistent on this point than Jesse M. Unruh, Speaker of the Assembly. Trying to use the psychology of inducements rather than penalties, he persuaded the Legislature to vote in 1964 a \$15 per ADA increase for all unified school districts (offering both elementary and high school work) and likewise for all elementary districts voting "yes" in an unsuccessful election for unification. California still has far too many school districts for its own good, but there have been

over 200 consolidations during the past decade. This is how the situation has changed in the Los Angeles-Long Beach SMSA in the last 11 years.

1955-56	Elementary	71	High	17	Junior College	17	Unified	18	Total	123
1966-67	"	40	"	11	"	11	"	38	"	100

#### State Involvement in Local Finance

From the standpoint of state involvement in local finance, California policies since 1879 fall into three periods. During the first, 1879-1907, property taxes constituted the chief source of revenue for both state and local government. During the second, 1909-33, the basic scheme was for counties, cities, schools and special districts to use the property tax but for the state to rely on taxes levied on the gross earnings of privately owned utilities and of certain businesses operating on a state-wide basis. The third and last period began in the bottom of the Depression. This period, which still continues, is known by the revenue experts as that of the Riley-Stewart Plan, Mr. Riley having then been State Controller and Mr. Stewart a key member of the State Board of Equalization. What it did was to return privately owned public utility property to the local tax rolls and to shift state revenue to these main sources: a) sales and use taxes, b) personal income taxes and a variety of taxes on state-wide business.<sup>18/</sup> To bring the state revenue picture up to date, here in Table 14 is the actual record of receipts for 1965-66.

Two other policies of the state government also have a major impact on local finance. California inaugurated in the early 1920's what has since become a rather substantial program of state-raised, locally-shared taxes. What it amounts to at present is that cities and counties get a share of gas tax and vehicle license revenues and of state vehicle code fines, plus a share of the motor vehicle "in lieu" tax for the improvement and maintenance of their streets and roads and that cities get a share of liquor tax and license moneys for the support of their police forces. All of these shared taxes are divided among local communities according to population. After allowing chartered cities to experiment with sales and use taxes for a number of years, the Legislature adopted in 1956 what is called the Bradley-Burns Act. It provides a) that counties and cities may both levy a 1-cent supplement to the 3- and probably soon to be 4-cent state sales and use tax, b) that for the bare costs involved the state will collect the extra cent and rebate the money collected on the basis of point-of-sale, but c) that any municipal tax shall count within its boundaries as an offset against the county tax.

These two policies and the sizable amounts of money they involve have had tremendous influence on the pattern of urban development in the Los Angeles-Long Beach metropolitan area, particularly because of the availability in this county of the Lakewood Plan. No one can be sure how many new cities would have been incorporated in Los Angeles County during the past 13 years a) if they had not been able to count on contracting with the county for nearly the full range of municipal services and b) if they had not been assured in advance of getting substantial sales tax and motor vehicle funds without lifting a finger. But there can be no doubt whatever that the number would have been much smaller than the 31 which were formed, for 29 of these have used the Lakewood Plan. . . .

Despite the distortion earmarked subventions from Sacramento sometimes entail for local budgets, the general effect of the state-raised, locally-shared taxes adopted up to now has been good. But it is impossible to say the same thing about the Bradley-Burns Act. Why? Because as a result of the clause providing that the 1-cent sales tax receipts be distributed to cities and counties (for unincorporated areas), not on the basis of population but on the basis of point-of-sale, the process of incorporating a new city--which ought to quicken one's civic spirit and signalize the achievement of

TABLE 14.--STATE OF CALIFORNIA, ACTUAL REVENUES, 1965-1966  
(thousands)

<u>Source</u>	<u>Amount</u>	<u>Percent</u>
Excise tax: beer and wine	\$ 12,606	.3%
Excise tax: distilled spirits	56,918	1.5
Liquor license fees	14,898	.4
Bank and corporation franchise and income taxes	435,597	12.2
Cigarette taxes	74,578	2.1
Gift tax	9,955	.2
Horse racing (pari-mutuel) license fees	47,442	1.3
Inheritance tax	113,826	3.1
Insurance companies tax	100,854	2.8
Motor vehicle license fees (in lieu of property tax)	187,251	5.2
Motor vehicle fuel tax: gasoline	518,888	14.4
Motor vehicle fuel tax: diesel and liquid pe- troleum gas	31,220	.8
Motor vehicle registration and other fees	195,405	5.4
Motor vehicle transportation tax	17,373	.4
Personal income tax	454,625	12.6
Private car tax	2,205	.0
Retail sales and use taxes (3 cents)	1,096,162	30.6
Other revenues	210,305	5.8
Grand total	3,580,888	100.0

some genuine sense of community--has often degenerated into the tawdry business of establishing a mere tax shelter.

### Local Taxing Powers

As already indicated, counties, school districts, and special districts are for all practical purposes limited to the property tax. Cities are in much the same position, but with these qualifications. Home rule cities may levy any kind of tax not prohibited either by their charters or by state law. In addition, all cities are free to levy separate charges for such services as water, sanitary drainage, or refuse collection and disposal.

Whether property should be exempt from taxation and, if so, to what extent are matters which in California are decided by the state. Some critics of the present arrangement argue that, since the state grants the exemptions, it should reimburse local communities for the tax revenues they lose as a result. But there is no real agitation about the matter, not even in Claremont, which--because of the Claremont Colleges, Pilgrim Place (for retired clergymen and missionaries) and three church-sponsored retirement homes--has an extraordinarily large proportion of its assessed valuation exempt. Table 15 gives the limits on county, municipal, and school district tax rates and also the statutory limitations on their borrowing power.

### Local Borrowing Power

The formal, legal limits on the borrowing power of counties, cities and school districts are indicated in the table just referred to. Realistically, however, the borrowing power of any local unit is governed by the relative amount of its assessed valuation, by its record of managerial success, and by whatever equity it has in revenue-producing enterprises such as an electric utility system. For Moody's ratings of the representative communities and corresponding school districts listed in its 1967 reports, see Table 16.

### Open Occupancy

Early in this decade the California Legislature approved the Rumford Act designed to eliminate racial discrimination with regard to housing. Though the law was enforced with moderation rather than fanaticism, many people objected to it and in 1964 they sponsored an initiative amendment to the state constitution repealing the Rumford Act and stipulating that a property owner should have absolute discretion with regard to the sale or rental of his property. The initiative, known as Proposition 14, passed by something like a 2-1 majority.

The result was that the battle for open housing was shifted to the courts. Believing that Proposition 14 was in conflict with the "equal protection" clause of the Federal Constitution, its opponents challenged its validity before the California Supreme Court which, in May 1966, declared it to be invalid. The case, or rather cases, were then appealed to the U.S. Supreme Court by the California Real Estate Association, which had been one of the sponsors of the initiative.

By a 5-4 vote, the Court sustained in May 1967 the decision of the California Supreme Court. This means that the Rumford Act is still in force.

TABLE 15.--LIMITATIONS ON LOCAL TAXING AND BORROWING POWER  
TAX RATE LIMITS PER \$100 OF ASSESSED VALUATION

Counties: For accumulative capital outlay fund	\$0.10
For library service	.30
For exploitation and exposition (4¢ each)	.08
For road funds	.40
For flood control maintenance	.15
Cities (general-law)	1.00
School Districts (limits for 1966-67 which could not be exceeded by unified districts without a vote of the people approving an override)	
For districts whose current expenses of education for the fiscal year 1963-64 were:	

	<u>Grades K-12</u>	<u>Grades K-14</u>
\$600 or more per ADA	\$1.65	\$2.00
Less than \$600 per ADA	2.20	2.55

Limitations on Bonded Indebtedness

Counties	5 percent of assessed valuation
Cities	15 percent of assessed valuation
School districts	
Grades K-12	10 percent of assessed valuation
Grades K-14	15 percent of assessed valuation

TABLE 16.--MOODY'S RATINGS OF SELECTED COMMUNITIES AND SCHOOL DISTRICTS IN THE  
LOS ANGELES-LONG BEACH METROPOLITAN AREA, 1967

<u>City</u>	<u>Rating</u>	<u>School District</u>	<u>Rating</u>
Los Angeles	Aa	Los Angeles U.S.D.	Aa
Department of Water and Power	Aa	Los Angeles J.C.D.	Aa
Harbor Department	A		
Long Beach	Aa	Long Beach U.S.D.	A
Glendale	A	Glendale U.S.D.	A
Pasadena	Aa	Pasadena U.S.D.	Aa
Pomona	A	Pomona U.S.D.	A
Beverly Hills	Aa	Beverly Hills U.S.D.	Aa
Vernon	A	Walnut E.S.D.	Baa
Claremont	A	Claremont U.S.D.	A
		Palos Verdes Peninsula U.S.D.	Baa
		San Marino U.S.D.	Aa
		West Covina U.S.D.	Baa
		Baldwin Park U.S.D.	Baa

#### Regional Government Policies

##### Urban Development

Assuming the word "regional" to mean in this case the whole territory of Southern California, one could cite only a couple of pieces of tangible evidence of there being something in the nature of (functional) regional government in this area, but one of them has been of the greatest importance. This is the Metropolitan Water District of Southern California created in 1927 for the purpose of bringing Colorado River water to the Los Angeles and San Diego areas once Hoover Dam had been completed. Without its vital service, the prodigious urban growth which has occurred in this region would have been literally impossible.

The only other significant instance of a "regional" governmental operation is that afforded by the Southern California Rapid Transit District. RTD, as it is commonly called, reflects the determination of the counties and cities of this region to develop an effective system of rapid rail mass transportation. Up to now its operations have been limited to running the bus service set up by its predecessor the Metropolitan Transit Authority (MTA) referred to earlier. Its staff is hard at work, however, on plans for the rail network.

##### Planning

Two kinds of regional planning are under way in the Los Angeles-Long Beach SMSA today. One is the work of the Los Angeles County Regional Planning Commission. It is responsible for developing a master plan for the whole county, for working with other public agencies to insure the fulfillment of existing plans, and for handling matters of zoning in unincorporated areas. The other is the kind of work being launched in July 1967 by the newly formed Southern California Association of Governments.

SCAG, the counterpart of ABAG in the Bay area, is composed of 6 counties--Los Angeles, Orange, Riverside, San Bernardino, Ventura and Imperial--and 89 out of a possible 142 cities. It is strictly advisory in character. Whether any of the plans formulated by its staff are translated into action will depend on the response they evoke

from the governing bodies of the counties and cities to which they pertain. Its potential value lies initially in the merit of the work done by its staff, which is just now being recruited, and ultimately in the leverage it has by reason of the fact that many Federal grants depend on its approval, especially those within the jurisdiction of the Department of Housing and Urban Development. Its biggest handicap, on the other hand, is the fact that many people are suspicious of it for fear that it might open the door to metropolitan supergovernment.

### Recreation

Los Angeles County shows its concern for regional recreation facilities in several ways. Through its Parks and Recreation Department it plans and operates a number of county parks, playgrounds, golf courses and beaches and provides services to a number of special parkway districts. In addition, through its Department of Real Estate Management, it has developed and manages several small craft harbors along the Pacific Coast.

### Public Safety

Two policies of Los Angeles County deserve special mention in connection with public safety. By setting up a county-wide Disaster and Civil Defense Commission including representatives of cities as well as its own agencies, the county has shown appreciation of the fact that physical trouble is no respecter of governmental boundaries. The other regional contribution to public safety stems from the Lakewood formula which the county perfected in the middle Fifties. By virtue of the police service the Sheriff's Office supplies to a great many of the contract cities, not to mention fire protection and several others, Los Angeles County provides the whole SMSA with at least the beginnings of a regional system of public safety.

### Regional Special Districts

Here also there are two agencies created by Los Angeles County which are emblematic of regional concern. One is the county-wide Flood Control District dating from 1915. Its work is costly of the taxpayers' money but its service is essential to the security of life and property in many parts of the area. The other is the Air Pollution Control District of more recent vintage. Early in the postwar period Los Angeles County adopted a policy of unrelenting pressure against smog and it has never forgotten the pledge. Both districts are run by the Board of Supervisors; they relieve city governments of what would otherwise be some very heavy burdens.

## Local Government Policies

### Tax Competition for Business and Industry

Competition between cities for new business establishments and industrial plants is probably as keen in Southern California as it is anywhere in the country. Every city and its chamber of commerce does its best to alert the companies which are prime candidates for migration to the advantages it offers from the angles of transportation, zoning, water, power, and labor supply. But there is no resort to tax forgiveness whatever--nor indeed much disposition to emphasize differences in tax rates, for they are subject to change. Los Angeles, for example, might well lower its property tax rate to some extent by requiring its immensely profitable Department of Water and Power, one of the world's greatest utility enterprises, to make a larger annual contribution to the general fund of the city. But it hesitates to do so because one of its strongest "selling points" in persuading firms to locate within its boundaries

is that it can offer unlimited quantities of both water and power at rates lower than those prevailing in many if not most other communities in this area.

#### Use of Service Charges and Fees

Because of increasing complaints about the burden of property taxes, many representative communities in the Los Angeles-Long Beach metropolitan area have begun to make considerable use of service charges and to hike their business license fees--or at least to consider taking such steps. Lacking any big shopping center of its own, Claremont, for example, benefits only to a limited extent from its one-cent sales and use tax, despite the fact that its per capita purchasing power is relatively high. Under the circumstances what it has done is to make two service charges which together amount for the average household to \$34 per year: \$30 for refuse collection and disposal and \$4 for sewer service.

While the people of Claremont accepted the imposition of these charges without significant protest (probably because the city council made it clear that the only alternative was an increase in property taxes), the neighboring city of Pomona has had a different experience. Two years ago the council voted to impose a similar charge for sewer service except that it was called a sewer tax. One might have thought that this would be only a semantic difference, but it has proved to be otherwise. Both the winning candidate for mayor and one of the winning candidates for the council this spring ran on a platform promising to "repeal the sewer tax." Now they have the problem of redeeming this pledge without incurring ill will either by a reduction in city services or by a new hike in property taxes.

The central city has also been giving serious consideration to the device of the service charge as a means of balancing its budget. Faced with an \$18,000,000 revenue gap, Mayor Samuel W. Yorty proposed as part of a five-point program a service charge for refuse collection as one way of coping with a large fraction of the deficit. In contrast, the chairman of the council's committee on revenue and taxation urged a package approach including a) a 2-percent utilities use tax on gas, electric and telephone bills, b) a 10-percent increase in the business license tax, which had already been raised once or twice in recent years, c) an increase in the dog license fee from \$3 to \$4, d) fees for excavation and trench resurfacing by private utilities, e) fees for police permits, f) continuation of the realty transfer tax which had been adopted on a trial basis a year ago, and g) a tax on office building rentals.

Other proposals included a 1-percent payroll tax, with a \$4,000 exemption, on all wages earned within the city, a \$5 monthly fee for parking in city-owned buildings and facilities, and a 2-cent increase in the cigarette tax. As for the Mayor's five-point proposal, it was designed to raise \$50,000,000 and reduce the property tax rate by 49¢ for every \$100 of assessed valuation. As of mid-July 1967, the nature of the final solution remained in doubt, the Council not being obliged to adopt specific revenue measures until late August.

#### Open Occupancy

Since the invalidation of Proposition 14 by the U.S. Supreme Court in May 1967, both proponents and opponents of the policy of open housing have been conferring for the purpose of achieving a compromise that will insure voluntary compliance with that standard. They are looking for a middle ground between the 4,500,000 Californians who in November 1964 voted for Proposition 14 and the 2,300,000 who opposed it in favor of sustaining the 1959 Rumford Housing Act.

The initiative in arranging for these discussions has been taken by the Housing Advisory Committee of the Fair Employment Practices Commission which is the state's enforcement agency for the Rumford Act. Having been beaten in both the California and



Federal courts, it is understandable why the opponents of open housing are interested in compromising. But why the proponents? The answer lies in two facts. On the one hand, the backers of the Rumford Act realize the enormous complexity of the task of making any such law truly effective. On the other, they are obliged to consider the possibility that the Rumford Act might actually be repealed by the more conservative Legislature elected along with Governor Reagan in November 1966.

What FEPC's Housing Advisory Committee has proposed to the California Real Estate Association, which was the prime sponsor of Proposition 14, is a massive publicity campaign designed to promote acceptance of the idea of voluntary recognition of every person's right to equal opportunity in the field of housing. If CREA responds sympathetically, which seems likely, and if FEPC itself approves the form and content of the advertising, the plan will be submitted to one or two of the major national foundations in the hope that they would underwrite the greater part of the \$1,000,000 of expenses it would entail.

Meanwhile the first effort by FEPC to test its enforcement authority with regard to rentals in apartment houses of less than five units has just gotten under way in the city of Glendale. Up to now it has been limited to investigating complaints about discrimination with respect to apartments with five or more units and to sales and rentals of housing built with government financial assistance. But last April a decision by a Superior Court, granting FEPC a preliminary injunction prohibiting the owner of a duplex from evicting a Caucasian tenant and his Negro wife pending a hearing into the couple's insistence that they were being asked to move solely because of her race, has opened the door to an expansion of the Commission's power.

#### Utilization of Federal Funds for Urban Development

The principal contribution made by the Federal government toward urban development in the Los Angeles-Long Beach area has undoubtedly come as a by-product of its expenditures in the key "spill-over" areas--for highways, public welfare, education, health and hospitals. This is so because these all comprise part of the foundation, the infrastructure, for civilized life. However, beyond the range of such programs, Federal funding has also made more direct and specific contributions to the strengthening or improvement of many urban communities.

Most of these have to do with urban renewal. Despite the fact that only bits and pieces of the vision originally stimulated by this phrase have been realized, a number of important things have been happening. Cities like Los Angeles (in the Bunker Hill, Hoover and Watts districts), Pasadena, Torrance, Redondo Beach and Santa Fe Springs all have projects in various stages of planning or execution. In every case, what has made the difference between talk and action has been the availability of "money from Washington" to pay for part of the planning and then, a plan having been approved and a local renewal agency having been established, to acquire and clear the land so that the actual work of rebuilding could begin.

Finally, mention should be made of the fact that, with all its faults, the War on Poverty program and also the beautification and open space programs adopted by Congress in 1965, are helping to make a number of communities in this area better places in which to live.

#### Federal Government Policies

#### Federal Financial Involvement in Key "Spill-Over" Areas

Highways.--Supplementing what has just been noted in the preceding section, some comment should probably be made regarding the impact of Federal activity in at

least three of the major "spill-over" areas. Los Angeles is the first of the great metropolitan regions to have been built up since the automobile came into common use. It has no comprehensive system of public transportation and even the proposed RTD system of mass rapid transit will leave hundreds of thousands of people in scores of areas dependent on their motor cars for getting from place to place efficiently. Under these circumstances--and especially in view of the tremendous size of the Los Angeles-Long Beach region--Federal aid for U.S. highways and the new interstate highways has been indispensable. Without them the people of Los Angeles County would find it almost impossible to develop any sense of community.

Education.--Special aid for school districts in "Federally-impacted" areas around defense installations has been important to a number of communities in recent years, but Federal aid to education generally started only a year or two ago. It has, however, been significant for the poorer communities both inside the central city and outside. Consider the Los Angeles Unified School District. According to an article by Curtis J. Sitomer (Christian Science Monitor, Western Edition, May 6, 1967), every eighth child in the system requires some kind of special attention, the total cost amounting to \$32 a year. Not quite all of this is paid by the Federal government, but much of it is. Consequently there was something approaching consternation in many parts of the district this spring (1967) when the Office of Economic Opportunity warned the superintendent that Los Angeles might lose \$4,000,000 from its antipoverty allotment, and California's state compensatory education office notified him that, on top of this, the district would probably suffer a severe cutback in the \$21,000,000 it was currently receiving under the Federal Elementary and Secondary Education Act.

Among the children getting special help through these funds have been the following: a) the 15 percent of the city's junior and senior high school students who are classed as "underachievers," b) the thousands of Mexican-American youngsters who need special language instruction because they have trouble speaking, reading, and writing English, c) the juvenile delinquents with police records who are required to attend special adjustment schools costing \$1,052 per pupil per year, twice the average for ordinary students. Los Angeles may have to curtail some of these programs but is most reluctant to do so, in part because they help to relieve the social tensions in areas like Watts and East Los Angeles.

Public welfare.--Southern California is prosperous as few places on earth have been, but her economy is also marked by great inequality in the distribution of income. As already indicated, there are heavy OAS and AFDC case loads in many sections of Los Angeles County, and these entail heavy expenditures on the part of the Federal, state and county governments. Though these are called "categorical aids"--meaning that such assistance must be meted out to any applicant who fits the stipulations--it has been possible up to now for a state to insist on a residence requirement in connection with them. Recently, however, a three-judge Federal court in Connecticut declared any such requirement unconstitutional on the ground that to enforce it would interfere with a person's "right of interstate travel."

Should this ruling be upheld, it could "alter the basic welfare structure of the entire nation," as the Los Angeles Times argued editorially shortly afterward (July 7, 1967). No one can be sure to what extent such case loads would grow but welfare officials in this huge SMSA are understandably apprehensive for Los Angeles normally rejects from 150 to 200 applicants every month on the ground of their not meeting the residence requirement. State and local governments now bear approximately 60 percent of all such welfare costs; they would have no option but to demand that the Federal government pay a substantially larger share.

#### Federal Financial Involvement in Urban Development

Already by 1964 there were 43 separate Federal urban development programs on the statute books and several others have been adopted during the past three years.

Just how many of these have been used in the Los Angeles-Long Beach metropolitan area it is impossible to say. As indicated above, some of the major schemes have been welcomed and a number of projects are under way. But the combination of economic affluence and political conservatism has seriously restricted the scope of the Federal government's involvement in urban development or redevelopment throughout the county.

#### Federal Lending and Insurance Activities for Housing

Home building and home ownership have grown apace in the Los Angeles-Long Beach SMSA for a full quarter century and, from the financial standpoint, two Federal policies or programs are primarily responsible. These are a) the Federal Housing Administration (FHA) lending and insurance program which has enabled hundreds of thousands of middle income families to buy homes long before they would have otherwise been able to do so, and b) the Veterans housing and insurance plans which have done the same for men and women veterans of the armed services.

By facilitating so much home construction, these Federal policies have contributed enormously to the broadening and strengthening of the tax base for all local governments in the area. If any criticism be warranted, perhaps it would be that the Congress might have tried harder to develop a similar formula for families on lower income levels.

#### Intergovernmental Property Tax Immunity

Within the state of California this is the situation with regard to property tax immunity between governmental units. Local governments (they are the only ones using this source of revenue) have no power to tax any state or Federal property. Article XIII of the California constitution, dealing with Revenue and Taxation, provides however, in Section 1, that all other property "shall be taxed in proportion to its value" except that used for free public libraries, free museums, growing crops or public schools.

If lands and improvements owned by a county or municipal corporation, but located outside its limits, were taxable when acquired, they continue to be subject to taxation afterward provided that "no improvements of any character whatever" subsequently constructed by any county, city and county (San Francisco is the only example) or municipal corporation" may ever be taxed. . . . Thousands of people all over the Los Angeles-Long Beach metropolitan area got a reminder of these facts recently when the Los Angeles City Council complained that this year Mono and Inyo counties had unduly increased their assessments of the value of the Owens Valley property bought by its Department of Water and Power more than half a century ago. (Los Angeles Times, July 13, 1967.)

### Prognosis Regarding Disparities

#### The Central City

#### Los Angeles in Comparison with the Rest of the SMSA

While it is possible statistically to add or average many kinds of financial data pertaining to the suburban communities in the Los Angeles-Long Beach metropolitan area and then compare them with corresponding data for the City of Los Angeles itself, one must beware of assuming that such comparisons could yield many clues to what happens in real life. The suburbs do not normally act in concert either for the central city or against it, nor does the central city maintain a set posture toward all of them or an unvarying position toward any one of them.

Every community, large or small, has a personality of its own, and its own unique resources and limitations. Some of them are, to be sure, subject to common influences or pressures and these can make a difference insofar as their relations with their neighbors are concerned. But to a very considerable extent each can be the master of its own fate.

Of no city is this more true than of the City of Los Angeles itself. Notwithstanding the occurrence of the Watts riot, it is a clean and decent city and one financially sound. It governs itself, admittedly, with a strange mayor-council-cum functional commissions and city administrative officer kind of system, but it balances its budget every year and it has no serious problem of bonded indebtedness. It owns and operates a prodigiously successful water and power utility, a magnificent airport and a great harbor. It is gradually becoming less dependent on the property tax for municipal revenues, but, even so, confidently expects somewhat increased yields from this basic source of funds. . . .

But this is not all. Downtown Los Angeles is currently being revitalized by a half billion dollar building and redevelopment program climaxing, as Ray Hebert, Urban Affairs Editor of the Los Angeles Times reported on June 19, 1967, a period of growth that began in the late 1950's after the central business district had experienced an economic decline familiar to the centers of most large cities. Since then about \$100,000,000 a year in private and public funds has been invested in rebuilding the downtown area and refashioning its skyline. Some 43 percent of all the high rise buildings erected in Southern California since World War II are within an 80 square block area in the center of Los Angeles. Multi-story parking garages are also being built to insure convenient access to the new buildings.

Finally there is the matter of gathering momentum for the construction of a mass rapid transit system for the metropolitan area. When this is completed and in use it will further enhance the prospects not only of the central city itself but of its central business district.

#### Disparities Among Communities Within the Central City

There are fiscal disparities galore among the lesser communities of which the larger community of the City of the Angels is composed, but most of them need be of no concern to those responsible for public policy. Bel-Air and Westwood (the lush area around the UCLA campus) are richer by far per capita than Eagle Rock and Van Nuys. Malibu and the Wilshire District are also well-to-do compared with San Pedro or Westchester. But what does it matter? All of them are getting along fine. The people in all these communities can readily afford to pay their tax bills to the city, the county, the school district, and the flood control district on the local level and likewise to the state of California and the United States Government. In turn they enjoy equal treatment with other sections of the city when it comes to governmental services.

But things are different with regard to the disparities between these middle and upper income sections of the city and places like Watts and Pacoima and Green Meadows and Boyle Heights and El Sereno. . . . These low income communities within the central city are full of people--in the first three cases Negroes and in the latter two Mexican-Americans--who have not yet succeeded in earning middle class incomes or, what is intrinsically far more important, in developing those middle class attitudes which are prerequisite to earning such incomes.

This means that they are not yet at the "take-off" stage and thus the question arises as to whether they will even be able to sustain their relative position in the life of the big city in the future. One of the most sobering facts on the international scene today is that the gulf between rich lands and poor lands is growing apace. Those who are concerned about the survival of democracy under the impact of metropolitanitis

must realize that there is also danger of the same thing happening between rich and poor communities inside a big city too.

What with all the emphasis on equal opportunity that has been precipitated during the past generation by Roosevelt's Fair Employment Practices Committee, by Truman's Commission on Civil Rights, by the Supreme Court's broadening the application of the "equal protection" clause, by President Johnson's "war on poverty" and by the efforts of Negro leaders to capitalize on the centennial of the victory of freedom over slavery in the Civil War, both of the two main minority groups in the Los Angeles-Long Beach area have begun to get some help and to make some progress toward their goal of equality with the dominant White Anglo-Saxon Protestant WASP's. But they have a long, long way to go before they escape from their ghettos as suggested by Conrad's recent cartoon comparing Watts with East Berlin.

### The Suburban Communities

#### The LA-LB SMSA As a Whole

At least one prediction with regard to the future of this huge metropolitan area can be made with confidence: the urbanization of Los Angeles County will continue until all the open land south of the San Gabriel range--except that deliberately reserved for parks or other specific uses--has been built up. . . . Probably some of these newly built-up areas will remain unincorporated for extended periods, but most of them will either be annexed to already established cities or become incorporated themselves. If the experience of the past 12 or 13 years furnishes an accurate guide, most of them will try to incorporate.

Though the Local Agency Formation Commission will undoubtedly do its best to prevent the establishment of any new city likely to have serious financial trouble, it would be unreasonable to assume that it will never make a mistake. Hence the disparity prognosis on this score is one anticipating some additional troublesome inequalities among the municipalities in the SMSA, but only a few.

A "new town" like Diamond Bar, near the eastern edge of the county, should have no difficulty in "making it" if its residents decide to incorporate rather than seek annexation to Pomona. The Transamerica Corporation is gradually developing this historic ranch into a residential community as a commercial venture and showing good judgment in the process. Its population, approximately 10,000 now, is expected to reach its natural limit of 80,000 by 1980. With most of its families in the middle income bracket, the chances are that it will incorporate by 1975 if not earlier.

#### Suburban Cities Per Se

The real problem is posed by the 76 cities which have already been formed within the County. . . . Will all of them be able to see their way through the next 8-10 years in good financial health? In most cases the answer is yes. They have enough resources to survive without having to get more help from either the state or Federal government. But some of them may have to get additional help either in the form of grants-in-aid or state-raised, locally-shared taxes. One hesitates to "name names" in this matter but it is quite possible that suburbs like Baldwin Park, Pico Rivera and Compton will need more and more help if they are to avoid sinking deeper into the morass of fiscal difficulty and despair.

What is important above all is that the blight represented by communities like Willowbrook, Compton, and East Los Angeles be arrested and that their economic life be stabilized at a level high enough to keep hope burning in the breasts of all those who call such places home. For the state and Federal governments not to cooperate in

giving them the help they need will be to run the risk not only of their own slow demise but of the spreading of the cancer of grinding poverty in ever-widening circles.

### School Districts

It is patently clear that there are serious disparities among the school districts in this metropolitan area from the standpoint of their own capacity to finance their public schools. But of all the problems posed by the differences in revenue-raising capacity among the communities within Los Angeles County, this one alone seems already to be clearly in the course of solution. California's and the nation's commitment to equality of education is so strong that only time will be required to make it for all practical purposes a reality.

### Recommendations for Remedial Action

Democracy means the equal right of every man to prove himself unequal--and the same principle applies to groups and communities. Some kind of inequality, some measure of disparity, among local communities in a metropolitan area is therefore natural. Free men invariably choose to use their freedom to get different goods and services in different degrees and the first recommendation to be offered is one prompted by the implications of this basic truth.

1. Let everyone--citizen, official, research analyst--recognize that disparities, even fiscal disparities among local communities in the same metropolitan area, are not necessarily evils to be avoided unless they either stem from lack of freedom or hamper the freedom of men and communities to develop the best that is in them.

### Public Action

#### By Local Communities Themselves

2. By Los Angeles County: Capitalize even more than at present on its great good fortune of being so large and so situated as to embrace the whole inner circle of the Los Angeles-Long Beach metropolitan area and prepare for even greater service in the field of urban affairs (see accompanying Enlarged Map of Los Angeles District).
  - a. By charter revision based on the principle of the separation of legislative power from administrative authority;
  - b. By enlarging the membership of the Board of Supervisors from five (each representing about 1,400,000 people) to say 25 or 33 members all elected on the basis of "one man, one vote";
  - c. By continuing the Lakewood or "contract cities" plan, charging exactly what the services requested actually cost and making the most of the arrangement for metropolitan coordination of those services;
  - d. By making maximum use of its Local Agency Formation Commission (LAFCO), not only to forestall the incorporation of new cities and special districts that would be neither balanced nor viable, but also to encourage consolidation on the

part of certain existing cities which should never have been incorporated in the first place;

e. By being willing to establish and operate subordinate county service areas wherever such a device would obviate, either for a time or permanently, the incorporation of a new city or the creation of a special district.

3. By the City of Los Angeles: Recognize that because of being surrounded by incorporated cities (or the foothills of the San Gabriel range), prospects for further growth by annexation are sharply limited. Capitalize on its tremendous capacity for further growth within its 450 square miles of land and strengthen its position vis-a-vis the other 75 cities in the county:

a. By revising its charter to establish, in place of its present "mayor-council-commissions-city administrative officer plan," what might well be called a mayor-council-manager plan;

b. By persisting in its efforts, jointly with the county and its neighboring communities, to build a mass rapid transit system;

c. By working in good faith as a member of SCAG, the Southern California Association of Governments, to consider every major governmental activity from the standpoint of what would be best for all of Southern California;

d. By trying harder than ever, and with whatever help may be secured, to heal the big sore that is Watts and South Central Los Angeles (and where, two years after the great riot everything seems remarkably--and dangerously--the same), and also to heal the smaller sores that are Pacoima, Boyle Heights and the like.

4. By the Cities Outside the Central City: Work together through the League of California Cities and in other ways to secure a greater measure of home rule with respect both to making and enforcing laws and regulations relating to the growing realm of municipal affairs, or better yet, of urban responsibilities and to levying whatever taxes or service charges are required to meet their needs. Having gotten it, justify the grant:

a. By better planning and zoning;

b. By better management of municipal finances;

c. By better service;

d. By more extensive use of the Joint Powers Act for doing jointly whatever can best be done that way;

e. By considering consolidation either with the central city of the SMSA where that would be mutually advantageous, or with some smaller neighbor where that would make more sense.

5. By School Districts: Proceed with consolidation with all deliberate speed until all elementary and high school districts have become members of unified districts. Strive for a better balance between

"life adjustment" and mastery of subject matter. Attempt through state school boards association to secure repeal of existing limits on taxing powers of local school districts. Press jointly for acceptance by the state of responsibility for fully half the cost of local public schools.

6. By Special Districts: Insist on their right to existence and operation wherever no general purpose unit of government is prepared to provide the service needed. Otherwise work with the Local Agency Formation Commission for their dissolution and perhaps for the transfer of their functions to subordinate county service areas.

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By Regional Agencies

7. By the Southern California Association of Governments: Do its best during these first years following its establishment to avoid the twin evils of doing nothing and thus generating the spectre of futility or attempting too much and thus raising the spectre of regional or metropolitan government.

8. By the Metropolitan Water District: Keep up the indispensable work of the past 40 years insuring adequate supplies of water for the Los Angeles and San Diego metropolitan areas.

9. By the Rapid Transit District: Finish those planning studies so that, if and as the Legislature provides the needed funds, the work of construction can begin.

10. By the Two County-Wide Districts: Move ahead with flood control and air pollution controls with all deliberate speed, especially in respect of the latter.

11. By the Local Agency Formation Commission: Authorize and encourage the Local Agency Formation Commission to work positively for consolidations and annexations, and for the dissolution of unviable cities or special districts, as well as for the orderly denial of applications to arrange for elections to establish new cities.

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By the State of California

12. Revision of the Constitution: Amend the sections pertaining to local government to embody these principles:

a. Counties shall constitute both subdivisions of the state for the more convenient and effective administration of its own laws and regulations and units of local self-government legally capable of performing, either on a county-wide or limited-territorial basis, any public service--rural, urban, or metropolitan--which its citizens want it to perform, provided only that no person be taxed for a service from which he does not benefit.

b. Cities shall constitute general-purpose units of local self-government and shall likewise be capable, legally, of performing, either on a city-wide or more limited territorial basis, any public service which its citizens want them to perform, provided only that no person be taxed for a service from which he does not benefit.



c. No new county may be formed having a population of less than 50,000 and no new city with a population of less than 2,500. Any community having less than 2,500 people may ask for recognition as a "county service area," in which case the county in which it is located shall arrange with a citizens advisory committee for the appointment of a service area manager, provide the services requested, and tax the residents accordingly.

d. County and city governments shall both be organized on the basis of separating legislative power from administrative authority and to this end every county and every city shall adopt some form of "elective council-appointive manager" plan under which not more than two offices may be made elective in addition to those of the supervisors or councilmen. No legislative body may number less than five or more than 33 and all members shall be elected on the basis of one man-one vote.

e. Counties and cities may levy whatever taxes, fines, penalties, service charges, and license, permit or franchise fees as may be required to meet their needs, except as specifically prohibited by law.

f. Special districts with their own boards and taxing power shall be created only when the services they would perform cannot be provided by counties or cities. No election may be held to establish such a district unless the petition has been approved by a county "local agencies formation commission" composed of two members designated from among its membership by the board of supervisors, two members selected by their fellow councilmen from among all mayors and city councilmen within the county, and a public or state member designated by the Governor.

g. Responsibility for public education shall be vested locally in school districts operating under their own elective nonpartisan boards and offering both elementary and secondary work and, at their option, junior college courses. No such district shall be organized unless the average daily attendance of pupils gives promise of totalling 500.

h. Counties, school districts, and special districts may borrow up to 5 percent, and cities up to 15 percent, of the assessed valuation of their property on the basis of a simple majority of those voting on the issue, provided four-fifths of the members of their governing boards agree. Otherwise a 60 percent majority shall be required.

i. Nothing in this constitution shall prohibit the Legislature from enabling the people of a metropolitan area from forming a regional government supplemental to their county and city governments in case these basic local units should, in their judgment, prove unable to cope effectively with problems metropolitan in character or dimension. When and if such regional governments are formed, their legislative bodies consisting of a maximum of 33 members shall be elected on a one man-one vote basis and shall have appropriate taxing power. Before authorizing the establishment of such a regional agency, however, and vesting it with governmental power, the Legislature shall give due consideration to using the county, or to consolidating two or more counties, for this purpose.

13. Action by the Governor and Legislature:

a. Make a vigorous, sustained and good-spirited attempt to simplify the maze of local governments and eliminate the smaller and less efficient units by offering substantial financial inducements in the form of proportionately larger grants or subventions, guaranteed for not less than five years, to counties, cities, school districts and special districts which would either consolidate with neighboring units of the same type (or adopt the status of county service areas) to meet the minimum population standards indicated.

b. Continue the Intergovernmental Council on Urban Growth, established in 1963, but enlarge it to include at least two Senators and two Assemblymen; strengthen its influence and symbolize the substantial and enduring interest of the state in urban problems by establishing in the Governor's Council a Department of Local Government and having it serve as the secretariat for the Council.

c. Revise the state-local revenue system along these lines: 1) ease the property tax burden for local communities, and especially for counties and school districts, by increasing state aid for social welfare and public education--but only for districts showing serious tax effort--in the latter case until such assistance covers from 50 to 60 percent of all current costs.

d. Insist on greater professionalization on the part of property assessors and, to this end, increase the supervisory authority of the State Board of Equalization over county assessors.

e. Levy a 25 percent local supplement to the state personal income tax and disburse the full amount collected from the residents of each county to that county, simultaneously limiting counties to a maximum property tax rate of 50¢ per \$100 of assessed valuation. (For 1966-67 the rate was \$2.3891 in Los Angeles County.)

f. Remove all limitations on property tax rates for cities and school districts for general fund purposes.

g. Reimburse local governments for revenues lost because of property exemptions granted by the state, likewise for revenues lost because of the inability of local units to tax state property. Subject all exemptions to periodic review.

h. Increase the rate of the state sales and use tax from 3 to 4 cents and use the increased revenue for the larger grants or subventions recommended under "c" above. Otherwise, impose a 1-cent local supplement and disburse the proceeds to cities and counties on the basis of population. In no case should the revenues from a second 1-cent local sales-use tax be distributed on the basis of point of sale as is the case with the first cent.

i. Broaden the base of the sales and use tax by extending it to include consumer services. Food should, however, continue to be excluded from the base.

j. Repeal the motor vehicle "in lieu" tax but increase the motor vehicle license tax by 50 percent and continue sharing the proceeds with cities and counties according to the present formula.

k. Should the state itself need more funds to carry out the foregoing program, increase the rates for the California personal income tax, at the same time making the rate structure more progressive and putting payments on a withholding basis.

#### By the Federal Government

14. Reimburse local governments for the costs of whatever services they render to Federal property.

15. Consolidate and simplify the present complex "system" of grants-in-aid to states and localities.

#### Private Agencies

16. Mass Media: Let it be hoped that the Los Angeles Times, the great and responsible newspaper of this burgeoning metropolitan area--together with all the other mass media of press, radio and television which measure themselves by comparably high standards--continue both to cultivate among the people of this area a vision of the city just, humane and magnificent, and to provide them with the information and analyses on which they can base intelligent voting and effective civic action.

17. Let private business follow the lead of the Management Council for Merit Employment Training and Research, headed by H. C. "Chad" McClellan, in providing more and more opportunities for Negroes and Mexican-Americans to find jobs that will enable them to earn decent incomes for their families.

#### Public and Private Joint Action Programs

Perhaps all that need be said here is this. The problems posed by the inferior position of the Negro and Mexican-American minorities are so great--even in so generally fortunate a metropolitan community as that of the Los Angeles-Long Beach area--that it is imperative that the church, the mass media, business, government, organized labor, and not least the schools and colleges all work on them together.

#### Epilogue

Here is the draft working hypothesis with which the author began intensive work on the project in mid-May. Now at the end, in mid-July (1967), he would like to think himself entitled to write at the end: Q.E.D.

1. There are many sizable, dramatic, regrettable, and in some ways inequitable fiscal disparities among local communities in the Los Angeles-Long Beach metropolitan area. Thanks, however, to the affluence of Southern California and to the relative generosity of the state by way of basic aid for all local school districts and of equalization

aid and supplemental support for the poorer ones, hardly any of these inequalities can fairly be described as critical. Many units of local government in the region have difficulty in paying for the services they need and want, but disaster is nowhere imminent.

2. Even more encouraging is the prospect that the more serious among these disparities seem destined in course of time to be eased or eliminated. Three main developments account for this: a) the enactment by the Legislature in 1963 of a law requiring each county to set up a Local Agency Formation Commission (LAFCO) to prohibit from now on either the incorporation of any community not genuinely viable, or (what is likewise of major importance in California) the establishment of any special district not urgently needed; b) the adoption and implementation by the state of a policy of offering smaller and weaker school districts tangible inducements to consolidate; and c) gradually increasing reliance on state-raised, locally-shared taxes with regard to city and county services as well as public education.

3. Yet two qualifications of this generally happy prognosis must be made: a) to the extent that the Legislature enacts additional programs of health, welfare or any other kind of service and charges local governments with responsibility for their administration without providing the revenues needed for their support, the disparities now existing might well be increased; in some cases they could then become critical; b) unless Southern California's Negro and Mexican-American minorities are given both more substantial and more imaginative assistance toward full participation in California's economic and political life, there is a danger, particularly in the Watts-Willowbrook area, that this low-festering sore could grow until it blights the prospects not only of the central city but those of its suburbs as well.

Footnote References

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- 3/ Los Angeles County, Auditor-Controller: Taxpayer's Guide, 1965-1966 and Los Angeles County Superintendent of Schools: Alphabetical and Rank Order Arrangement of Pupil Cost and Other Related Data for Elementary, High, Junior College, and Unified School Districts, 1965-1966 (mimeographed).
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- 8/ Ibid.
- 9/ Ibid.
- 10/ State Board of Equalization: County Ratios of Assessed to Full Cash Value of Locally Assessable Tangible Property as of March 7, 1966 (single sheet, mimeographed).
- 11/ Los Angeles City Administrative Officer: Message to City Council Committee on Revenue and Taxation, February 15, 1967.
- 12/ Nearly all of the data in Section IB have been obtained from reports issued by the U.S. Bureau of the Census. Particularly valuable has been the Technical Study (Series P-23, No. 18, June 28, 1966) entitled "Characteristics of the South and East Los Angeles Areas, November, 1965." Also of great value has been the Community Economic Profile compiled by the Office of Economic Opportunity.
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- 14/ Los Angeles Police Department: Statistical Digest, 1965.
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- 16/ Winston W. Crouch and Beatrice Dinerman, Southern California Metropolis, Los Angeles, 1963.
- 17/ Stanley Scott, "California Legislation Concerning Municipal Incorporation" in Ernest A. Engelbert, Metropolitan California, Governor's Commission on Metropolitan Area Problems, Sacramento, 1961, pp. 107-108.
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Fiscal Disparities in the  
SAN FRANCISCO-OAKLAND, CALIFORNIA  
Metropolitan Area

Excerpts from a Report by  
George F. Break  
University of California, Berkeley

<u>Major Fiscal Disparities, 1965</u>	<u>Central City</u>	<u>Outside Central City</u>
Per capita State and Federal aid	\$133	\$150
Per capita revenue from taxes	248	217
Per capita educational expenditure	79	158
Per capita noneducational expenditure	269	222
Total estimated population, 1964 (thousands)	1,109	1,783

The disparities are considerable among the five counties that make up the San Francisco-Oakland metropolitan area, but their effect is being lessened in several important ways. Education, handled by school districts, has benefited from the unification of these districts encouraged by the Unruh School Consolidation Act of 1964.

Public welfare is a county function, and cities in the San Francisco area can therefore devote their budgets to localized public services with no spillover effects. Both cities and counties rely heavily on the property tax for financing, and a new law will aid greatly in eliminating nonuniform assessment ratios that have created horizontal and vertical disparities in tax administration.

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- I. Introduction
- II. Elementary and Secondary Education
  - Fiscal Disparities in SFO Schools

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- III. County Fiscal and Welfare Disparities
  - Welfare Disparities
  - Property Tax Disparities
- IV. Cities
- V. Intergovernmental Relations

Midway in the long, tumultuous summer of 1967 it is all too clear that in no metropolitan area in the country have public services reached, or even come close to, the scope and quality required to provide equality of economic opportunity to all citizens. These fiscal gaps are greatest, of course, wherever the poor are highly concentrated, and in the SFO SMSA this occurs in San Francisco and its immediate suburbs to the south and in Oakland, Berkeley and Richmond in the East Bay. Though their critical importance seems indisputable, these disparities cannot be objectively quantified, given our present uncertainties concerning the best ways and means of developing human economic capital, and this report consequently can do no more than note their existence. The analysis below, in other words, deals not with disparities between aspirations and achievements but rather with disparities between good performance and poor performance and between high and low fiscal resources. The mitigation of fiscal disparities of this latter sort is an important task, but it represents only a first step in the solution of our outstanding metropolitan fiscal problems.

## INTRODUCTION

. . . Primary attention was given to elementary and secondary education partly because it ranks first among all metropolitan spending programs and partly because the gap between needs and performance seems especially large in this area. Section II deals first with questions of size and efficiency and concludes that although unduly small school districts still exist in the SFO SMSA, notable progress has been made under the stimulus of State incentives, in the formation of unified school districts that are large enough, given the will and the resources, to provide high quality educational services to their residents. Alternative measures of fiscal resources and of tax effort are then presented. How critical the disparities thus revealed are is a debatable question, but the measures developed may be used as a basis for the evaluation of such much-discussed fiscal reforms as the use of areawide property taxes to finance schools, the expansion of Federal ESEA grants, and changes in the design of State grants for school purposes.

The second major area of metropolitan fiscal concern, analyzed in Section III is that of public welfare. In spite of well developed Federal and State grants-in-aid, this function still absorbs a significant amount of local funds, and our analysis shows that these burdens vary considerably from one Bay Area county to another. These disparities exist regardless of whether the property tax base is measured by assessed valuations or by estimated market values, and they are even greater when measured by adjusted gross income reported on State tax returns or by taxable retail sales. Given the uneven distribution within the metropolitan area of welfare case loads and the much wider diffusion of the social benefits of income-maintenance programs, local financing of these public activities should be discontinued. Full Federal financing is in my opinion desirable, and its adoption would release a significant amount of local tax resources in the SFO SMSA for the support of important metropolitan development programs.

Section IV deals with the fiscal disparities of SFO municipalities, and fiscal data are presented for a systematically selected sample of 22 cities. Evaluation of the results is complicated by the blending of different amounts of benefits-received and ability-to-pay taxation. Disparities arising from the former, it is argued, create no need for policy action, and until the latter are successfully isolated, specific inter-governmental fiscal reforms cannot be designed. Nonetheless, the data presented do bring out some of the basic fiscal characteristics of high-income bedroom communities, industrial enclaves, middle income commercial cities and so forth.

The final section of the report deals with special districts and presents summary data on the nine major multicounty agencies operating in the Bay Area. These handle such important interregional problems as air pollution control, intercity transportation, urban planning, and open space (both land and water) conservation and development. Though their activities may seem hesitant and tentative and their powers are



strictly limited, an important beginning has been made, an extensive program of data collection and analysis is underway, and there is promise at least of cooperative solutions to outstanding metropolitan problems.

#### ELEMENTARY AND SECONDARY EDUCATION

. . . The combining of existing elementary and secondary districts into a single, "unified" district has been optional under California State law since 1945. Beginning in the fiscal year 1953-54, the State offered a financial inducement for unification. However, the rich districts, i.e., those not receiving equalization aid, did not get any extra money and for the others, the percentage amount of increase in state aid varied directly with assessed valuation per pupil. The absolute amount of bonus per unified district depended on its proportion of elementary students; in any case, it was in the order of \$10-\$20 per student in the first year and tapered down to zero after the fifth. Aside from the complicated nature of the bonus and the fact that it was temporary, the progress of unification was impeded by the provision that a negative vote in any single district included within the proposed unification plan vetoed the plan.

Assembly Bill No. 145, Chapter 132, Statutes of 1964, First Extraordinary Session, improved the outlook for unification in several ways. First, the legislature expressed its clear intent that unified school districts, kindergarten or grade 1 through grade 12 be adopted throughout the state, and this had not before been stated. Secondly, the unification bonus was changed to a flat \$15 per student and as far as anyone knows will be continued indefinitely, i.e., it does not taper off. Third, once county committees had drawn new unification plans and had had them approved by the State Board of Education, new local elections on the formation of districts were required to be held. The outcome rested on a simple majority vote of the whole area of the new district (no single component district could veto). If the total vote was unfavorable, then an area-wide tax of \$0.60 per \$100 would be applied to the assessed valuation of the elementary districts and a tax of \$0.50 per \$100 to the valuation of the high school district, both sums to be distributed among the component districts on the basis, essentially, of enrollment. No tax haven that is, can any longer go scot-free with respect to local contribution for public education. Finally, those component districts that voted favorably, when the total vote was unfavorable, received the \$15 per student bonus, even though they did not become, of course, a part of a unified district.

Between the school years 1963-64 and 1966-67, the number of unified districts increased by 73, while the number of elementary districts declined by 350 and the number of high school districts by 69. The State Department of Education has reported, "In fact, in the two years 1965 and 1966 school district unification just about equalled that of the 20 years immediately preceding 1965."<sup>1/</sup>

. . . . .

The statutes of California made no reference to the minimum size of unified districts until 1964. . . . Now, the approved minimum size of school districts in California is 2,000.

Recent support for 50,000 to 80,000 as the optimal sizes for school districts is provided by an empirical study by Nels W. Hanson, but Werner Hirsch failed to find significant economies of scale in his study of St. Louis schools.<sup>2/</sup> In any case . . .

<sup>1/</sup> California State Department of Education, Recommendations on Public School Support, 1967, Sacramento, The Department, 1967, pp. 57-58.

<sup>2/</sup> Hanson, "Economy of Scale as a Cost Factor in Financing Public Schools," National Tax Journal (March 1964) and Hirsch, "Determinants of Public Education Expenditures," (continued)

in 1965-66 only two unified school districts in the Bay Area exceeded the 50,000 level, one being Oakland with 62,756 pupils and the other being San Francisco with 100,407 (adjusted to a K-12 basis). . . . All five counties have increased the proportion of their students attending unified school districts with more than the state's official minimum size enrollment (2,000) and with more than Charles S. Benson's minimum size enrollment (10,000). San Francisco met both tests in 1960-61, and the other four counties all improved their situations over the five-year period of comparison, Alameda and Contra Costa being especially notable in this respect. Important progress, in short, has been made.

#### COUNTY FISCAL AND WELFARE DISPARITIES

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California counties spend most of their money on public welfare and raise most of their own funds from the property tax. . . .

. . . The following table brings together some indicators of fiscal need and ability. In the former category are population, locally-financed welfare expenditures and ESEA school grants; in the latter are two measures of taxable property, one based on assessed valuations and the other on estimated market values, two measures of taxable income, and the final measure shows the base of the state sales tax. Some very interesting county characteristics are revealed by these data. Alameda is a high need, low ability county, though a sales tax would apparently provide its most productive source of revenue relative to the other counties. Marin and San Mateo, in contrast, have larger relative shares of taxable resources than they do of fiscal needs, and the sales tax would be their least favorable source of revenue. There is also a strong indication that the three basic measures of taxpaying ability--property, income and sales--are distributed quite differently among the five counties.

#### Cities

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The following tables present the basic fiscal and economic data for the sample of 22 cities selected for study. . . . All California cities currently spend most of their money on rather localized public services (i.e., with relatively unimportant spillover benefits). For taxes they rely almost entirely on property and sales levies, with the former being almost twice as important as the latter.

. . . The most important disparities, as far as the ability of these cities to support additional public services or services of higher quality is concerned, are those shown by sales and property tax revenues. There seems to be slightly more dispersion with the sales than with the property tax and not much evidence of changes over time for either. Perhaps more important than these disparities are the differences for individual cities. Clearly these are very great. Note the low sales tax revenues received by the high-income residential suburbs (Piedmont and Hillsborough) but the high property tax receipts of these cities. The industrial cities (Antioch and Pittsburg) also do better under the property tax, though the differences are not nearly so sharp. Walnut Creek, on the other hand, obtained in 1964-65 more than twice as much per capita from the sales than from the property tax.

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(Continued)/National Tax Journal (March 1960).

PERCENTAGE DISTRIBUTIONS OF SELECTED INDICATORS OF FISCAL NEED AND ABILITY BY COUNTY

Indicator	County					Total
	Alameda	Contra Costa	Marin	San Francisco	San Mateo	
Population, June 30, 1965	34.3%	16.9%	6.3%	24.9%	17.7%	100.0%
Own welfare expenditures, 1964-1965	32.1	20.1	4.4	30.0	13.4	100.0
ESEA grants, 1965-1966	40.3	18.1	3.3	28.6	9.7	100.0
Assessed valuation of taxable prop- erty, 1964-1965	29.1	19.1	6.3	27.6	17.9	100.0
Market value of taxable property, 1964-1965	28.9	17.8	6.4	26.9	20.0	100.0
Adjusted gross income on state income tax returns, 1963	30.9	15.1	6.4	28.7	18.7	100.0
Disposable personal income, 1966	31.2	14.6	7.0	28.2	18.9	100.0
Taxable sales, 1964-1965	33.9	11.2	4.3	34.7	15.9	100.0

PER CAPITA AMOUNTS OF SELECTED GENERAL REVENUES AND EXPENDITURES FOR THE SFO SAMPLE OF CITIES, 1964-1965

City	General Revenue	General Expenditures	All Taxes	Property Taxes	Sales Tax	CSC <sup>a</sup>	IGR <sup>b</sup>	General Government	Police	Fire	Streets	Parks	Estimated Market Value of Taxable Property	City Classification <sup>c</sup>
San Francisco <sup>c</sup>	\$304.29	\$301.90	\$166.80	\$139.12	\$ 23.05	\$19.27	\$84.72	\$173.81	\$24.82	\$ 22.76	\$16.11	\$16.41	\$ 9,810.80	CC
Oakland	116.33	109.63	77.92	56.61	20.40	5.74	16.74	29.83	20.34	17.42	15.30	12.46 <sup>d</sup>	8,290.50	CC
Alameda	68.91	67.04	31.27	24.24	6.71	5.85	14.83	17.98	8.34	11.53	10.00	9.21	4,685.80	G/R
Berkeley	103.99	101.46	53.38	42.44	15.12	14.85	17.52	25.54	13.61	16.56	9.77	11.63	7,349.00	E/R(ML)
Emeryville	397.99	347.73	298.96	137.75	154.50	1.12	25.32	60.68	90.10	135.15	47.28	-	90,704.00	I
Hayward	81.47	68.07	44.22	22.13	20.64	8.06	17.34	22.41	10.72	13.15	7.63	2.05	6,750.30	B/R(M)
Livermore	93.28	101.23	31.70	21.34	9.80	8.66	42.85	13.91	8.26	7.59	7.47	2.29	5,487.90	G/R(M)
Piedmont	107.04	89.77	76.10	76.57	0.81	8.10	17.27	17.90	16.01	17.27	19.43	15.29	10,399.10	R(H)
San Leandro	89.27	85.68	61.45	26.29	34.27	5.45	16.26	20.66	11.26	11.25	14.32	12.80	10,936.60	B/R(M)
Antioch	77.64	76.95	42.91	28.18	14.60	12.75	11.43	25.08	11.82	14.18	7.58	7.71	5,283.30	I
Brentwood	65.42	46.66	40.26	12.81	25.16	0.14	15.55	16.01	19.67	- <sup>d</sup>	8.23	0.18 <sup>d</sup>	5,374.40	UR
Concord	57.07	49.34	24.68	12.26	11.91	5.68	15.60	12.37	10.83	- <sup>d</sup>	10.16	5.87	4,904.30	R(M)
El Cerrito	62.55	59.39	41.15	24.85	15.01	3.84	12.82	13.90	12.06	11.06	11.20	7.50	7,491.10	R(M)
Pittsburg	87.51	81.44	37.42	25.98	10.91	16.84	13.01	27.13	15.60	8.95	7.61	6.17	4,644.00	I/R(L)
San Pablo	47.91	41.46	21.89	11.23	9.46	4.04	14.41	9.33	15.27	- <sup>d</sup>	9.98	3.44	4,048.80	R(L)
Walnut Creek	122.90	110.92	77.10	24.51	50.53	9.36	10.75	31.92	19.72	- <sup>d</sup>	34.76	10.42	11,235.30	R(M)
Mill Valley	101.76	94.99	62.24	46.14	15.20	13.39	14.20	17.82	11.40	11.04	15.56	11.76	9,461.40	R(H)
San Rafael	91.09	83.68	61.05	23.93	36.29	3.99	11.13	15.18	11.85	17.43	22.66	7.10	12,374.30	R/R(M)
Daly City	59.79	59.09	30.00	18.55	10.96	0.53	13.72	24.86	9.57	9.19	4.99	3.97	6,423.80	I/R(M)
Hillsborough	84.99	79.69	54.81	52.69	1.06	1.85	15.49	14.30	19.99	25.15	9.27	1.59	25,406.10	R(M)
Pacifica	50.99	42.35	24.77	19.34	4.62	5.09	16.39	7.60	7.35	6.12	7.76	3.33	4,876.10	R(M)
Redwood City	92.38	81.29	60.06	40.77	18.22	8.39	14.80	21.60	12.89	11.11	13.76	6.89	10,273.20	B/R(M)

<sup>a</sup>CSC = Current service charges.

<sup>b</sup>IGR = Intergovernmental revenue.

<sup>c</sup>City and county combined.

<sup>d</sup>Special districts are responsible wholly or in part for these services.

\*B = Balanced; CC = City Classification; E = Educational; G = Government; I = Industrial; R = Residential; UR = Urban-Rural; (L) = Low income; (ML) = Medium-Low income; (M) = Middle income; (HM) = High-Middle income; and (H) = High income.

## PER CAPITA AMOUNTS OF SELECTED GENERAL REVENUES AND EXPENDITURES FOR THE SFO SAMPLE OF CITIES, 1960-1961

City	General Revenue	General Expenditures	All Taxes	Property Taxes	Sales Tax	CSC <sup>a</sup>	IGR <sup>b</sup>	General Government	Police	Fire	Streets	Parks
San Francisco <sup>c</sup>	\$236.95	\$229.58	\$144.26	\$120.76	\$ 22.89	\$10.22	\$50.58	\$125.29	\$20.98	\$ 19.35	\$14.20	\$12.03
Oakland	101.32	107.90	70.51	50.07	19.26	2.46	11.67	31.70	18.53	15.30	19.00	10.87 <sup>d</sup>
Alameda	63.70	66.70	29.80	22.73	6.76	5.14	11.56	17.15	9.12	11.14	10.13	9.09
Berkeley	87.13	87.07	51.85	37.38	13.75	14.31	11.78	19.61	11.89	14.62	7.32	8.43
Emeryville	359.64	291.93	281.35	135.40	137.73	2.16	23.31	54.54	61.68	103.91	63.10	-
Hayward	63.08	66.67	38.03	21.05	16.30	6.37	10.59	18.65	9.49	7.98	9.49	2.71 <sup>d</sup>
Livermore	55.29	52.54	31.81	22.49	8.79	3.62	11.65	16.43	9.93	4.69	6.46	- <sup>d</sup>
Piedmont	77.65	78.71	63.37	61.98	0.66	0.17	11.53	13.26	13.43	13.79	23.81	13.30
San Leandro	69.75	68.80	50.14	24.98	24.42	3.03	11.58	16.29	8.22	8.25	11.22	10.33
Antioch	67.96	63.46	38.64	26.24	11.51	12.96	7.07	21.71	9.63	9.12	7.98	4.97
Brentwood	46.77	37.55	30.86	9.31	19.65	0.07	7.44	10.08	15.56	- <sup>d</sup>	6.81	0.20 <sup>d</sup>
Concord	47.74	46.53	25.85	12.92	12.48	7.27	9.00	13.09	9.85	-	7.16	3.73
El Cerrito	45.51	50.96	27.74	14.67	12.18	0.82	11.63	10.87	14.68	8.72	6.26	5.33
Pittsburg	69.26	66.27	29.30	17.57	10.77	5.82	16.44	17.34	11.64	6.96	5.15	12.68
San Pablo	52.77	52.29	13.58	7.18	5.44	2.84	19.84	12.78	11.57	- <sup>d</sup>	21.91	3.47
Walnut Creek	124.75	106.57	86.53	24.90	59.64	6.38	9.06	39.25	19.57	- <sup>d</sup>	18.21	14.05
Mill Valley	69.67	72.91	48.08	33.39	13.91	7.59	5.90	16.14	8.16	8.70	11.33	13.92
San Rafael	88.63	91.80	59.51	21.96	36.78	3.64	7.25	17.55	12.14	19.40	25.80	5.95
Daly City	39.04	34.85	24.79	16.75	7.57	0.49	7.72	8.09	6.97	6.39	6.06	2.96
Hillsborough	72.71	65.62	44.24	43.24	0.05	3.03	14.21	14.05	15.73	19.63	7.19	1.44
Pacific	39.70	34.44	20.59	19.01	.95	2.64	13.55	4.58	5.49	6.12	5.05	3.31
Redwood City	64.88	60.02	45.31	41.13	3.58	5.36	7.26	19.00	10.03	8.83	7.43	5.86

<sup>a</sup>CSC = Current service charges.<sup>b</sup>IGR = Intergovernmental revenue.<sup>c</sup>City and county combined.<sup>d</sup>Special districts are responsible wholly or in part for these services.





