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CITY NEED AND THE RESPONSIVENESS OF FEDERAL GRANTS PROGRAMS

SUBCOMMITTEE ON THE CITY

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
HOUSE OF REPRESENTATIVES

95th Congress, Second Session

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LETTER OF TRANSMITTAL

August 31, 1978

To Members of the Committee on Banking, Finance and Urban Affairs:

Transmitted herewith for use by the full Banking, Finance and Urban Affairs Committee is a Congressional Budget Office study on "City Need and the Responsiveness of Federal Grants Programs," which was prepared for the Subcommittee on The City at my request. I wish to thank Ms. Peggy Cuciti of the Congressional Budget Office staff for her fine work in designing and carrying out this important study.

Sincerely,

HENRY S. REUSS,
Chairman, Subcommittee
on the City.

PREFACE

The Congress is currently considering the renewal or adoption of several programs that are important components of a national urban policy. To assist the Congress in these deliberations, Representative Henry Reuss, Chairman of the Subcommittee on the City, asked the Congressional Budget Office to prepare this background report which considers alternative measures of urban need, identifies patterns of need among cities, and determines whether existing grant programs distribute funds in ways responsive to differences in need. In keeping with CBO's mandate to provide objective and nonpartisan analysis, this report includes no recommendations.

City Need and the Responsiveness of Federal Grant Programs was written by Peggy L. Cuciti of CBO's Human Resources and Community Development Division, under the supervision of Robert D. Reischauer and David S. Mundel. Numerous individuals helped improve the substance or presentation of this analysis by providing guidance, data, research assistance, or critical reviews. In particular, the author wishes to thank Holly Stabler and Mike Bell of the Subcommittee on the City; Hal Wolman and Catherine Kweit formerly with the Subcommittee; Richard Nathan, Jim Fossett, and Paul Dommel of the Brookings Institution; Harold Bunce of the Department of Housing and Urban Development, and John Ellwood, Reid Ewing, Justine Finch, Robert Levine, David Lucey, and Paul Warren, all of CBO. Patricia H. Johnston edited the manuscript and Jill Bury, with great skill and patience, typed the several drafts and prepared the report for publication.

Alice M. Rivlin
Director

August 1978

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SUMMARY

Urban need is a broad concept--widely discussed, but ill-defined and poorly measured. The three dimensions of urban need--social, economic, and fiscal--correspond roughly to the problems faced by people, businesses, and local governments in urban areas. A city may be defined as having high social need if a large proportion of its residents face the problems of low income, poverty, unemployment, underemployment, and crime. Cities that find it difficult to attract or maintain businesses and population may be said to have high economic need, whether their decline stems from changes in technology, consumer income and preferences, or federal policy. Fiscal need can stem from either short-term financial difficulties or from a long-term imbalance between expenditure needs and revenue-raising ability.

The persistence and severity of urban needs have led the Congress and the Administration to consider alternative means of aiding the Nation's cities. The increase in direct federal aid to cities and the urban policy initiative proposed by the Carter Administration in March 1978 are examples of efforts to aid cities. Two of the central questions in these considerations are:

- o How much cities differ in terms of need?
- o How well are current programs targeted on those with greatest need?

While the kinds of urban needs are clear, the task of determining which cities have the greatest "need" is formidable. An estimate of city need is premised on: Which problems are to be emphasized? Is the focus on levels or trends? Are there satisfactory data on which to base a measure? How should measures of specific problems be combined into a comprehensive measure of urban need? Since answers to these questions depend on subjective judgment, there is no single "objective" standard of need.

Patterns of Urban Need

Which cities have greatest need depends on which dimension of need is emphasized and which measures are examined:

- o Social needs are most severe in southern cities of all sizes and in large cities in the Northeast and Midwest. Recent income data suggest that smaller northeastern cities should also be counted among the neediest. On most measures, western cities appear relatively well off although large cities in that region have unemployment and crime rates well above the national average.

- o Economic decline is a problem for northeastern cities of all sizes, especially large ones, and for large midwestern cities. All of the indicators of change--whether they be of population, income, manufacturing activity, or retail sales volume--point to these cities as being the ones having greatest difficulty.

- o Fiscal problems are greater in large and medium-sized cities in the Northeast and South and in large cities of the Midwest. These cities are characterized by resource bases that are small relative to the national average and service needs, as indicated by population and community characteristics, that are relatively high. This unfavorable balance translates into weak financial status in only some city govenments, however. High tax effort, budget deficits, and low liquidity are more common in northeastern cities than elsewhere.

Thus, regardless of the dimension of need, large cities in the Northeast and Midwest appear deeply troubled. Other groups of cities have some serious problems, but in comparison, they are limited in scope and number.

The need of specific large cities also depends upon the problem focus. In the sample of 45 large cities examined in this paper, only two cities--Newark and St. Louis--rank among the ten neediest cities on all three dimensions (see Table S-1). Many more of the cities rank among the top ten on two of the measures simultaneously: New York, Jersey City, Boston, and Philadelphia have serious economic and fiscal problems; Cleveland and Buffalo combine relatively severe economic and social problems; social and fiscal problems beset Detroit, Baltimore, and Birmingham.

The Distribution of Grants Relative to Need Among Major Cities

Five grant programs of great significance to cities are: general revenue sharing, antirecession fiscal assistance (ARFA), community development block grants (CDBG), comprehensive employment and training assistance (CETA), and local public works (LPW). In fiscal year 1978, these programs will have combined outlays of $21.4 billion, roughly 90 percent of which will go to local governments. Because all of these programs are broad in purpose and offer great discretion to local officials regarding program content, general measures of urban need are relevant to the design and evaluation of distribution patterns (see Table S-2).

- o Antirecession fiscal assistance provides general purpose aid to local governments having unemployment rates higher than 4.5 percent when national unemployment exceeds 6 percent. The distribution of grants correlated relatively highly with the composite measures of economic, social, and fiscal need.

- o The Local Public Works program provides funds to state and local governments for the construction or rehabilitation of public works. The distribution pattern is determined by a formula that includes measures of total unemployment and unemployment in excess of 6.5 percent. Among the 45 cities studied, those with relatively high social, economic, and fiscal need received larger per capita grants than cities with lesser need.

- o The General Revenue Sharing program provides relatively unrestricted assistance to virtually all state and general purpose local governments. The distribution among local areas is based on a formula that measures tax effort, income, and population. In the 45 cities studied, the formula was responsive to differences in fiscal need. If the shares of grants to overlying county governments are credited to the cities, then the general revenue sharing distribution appears moderately responsive to differences in social need as well as fiscal need. Revenue sharing payments to cities with high economic need, however, were not much larger than payments to other cities in the sample.

TABLE S-1. COMPOSITE MEASURES OF SOCIAL, ECONOMIC, AND FISCAL NEED FOR 45 LARGE CITIES

City	Social Need		Economic Need		Fiscal Need	
	Score	Rank	Score	Rank	Score	Rank
Northeast						
Albany	NA	--	59	21	28	28
Boston	45	15	74	8	72	2
Buffalo	61	6	77	5	44	13
Jersey City	48	13	78	3	47	8
Newark	100	1	84	1	65	4
New York	41	21	80	2	67	3
Patterson	NA	--	72	9	45	12
Philadelphia	49	12	70	12	53	6
Pittsburgh	43	20	71	10	37	18
Rochester	44	19	70	11	36	19
Midwest						
Akron	37	25	64	17	27	29
Chicago	46	16	76	6	NA	--
Cincinnati	45	17	65	16	44	14
Cleveland	67	2	78	4	42	16
Columbus	34	26	51	28	28	26
Detroit	62	4	66	15	46	9
Gary	58	8	58	22	31	24
Indianapolis	21	35	37	37	22	32
Kansas City	29	30	56	24	NA	--
Milwaukee	37	23	64	18	NA	--
Minneapolis	20	37	62	20	23	31
Oklahoma City	30	29	34	39	NA	--
St. Louis	64	3	74	7	61	5

(Continued)

SOURCE: CBO calculations.

TABLE S-1. (Continued)

City	Social Need		Economic Need		Fiscal Need	
	Score	Rank	Score	Rank	Score	Rank
South						
Atlanta	47	14	45	30	NA	--
Baltimore	55	9	63	19	52	7
Birmingham	51	11	45	31	46	10
Dallas	11	39	35	38	NA	--
El Paso	NA	--	30	41	34	21
Houston	21	34	26	43	NA	--
Louisville	45	18	51	27	35	20
Miami	60	7	42	34	31	23
New Orleans	61	5	53	26	45	11
Norfolk	30	28	40	36	44	15
Tampa	51	10	29	42	29	25
Washington, D.C.	NA	--	54	25	84	1
West						
Anaheim	NA	--	31	40	10	38
Denver	20	36	41	35	33	22
Los Angeles	27	31	57	23	18	34
Phoenix	24	32	16	45	18	33
Sacramento	40	22	43	33	24	30
San Bernadino	NA	--	49	29	28	27
San Diego	30	27	43	32	17	35
San Jose	37	24	24	44	12	37
San Francisco	22	33	68	13	39	17
Seattle	16	38	66	14	13	36

NOTE: N.A. = not available. Composite measure of need could not be created because one or more data items were not available.

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TABLE S-2. RESPONSIVENESS OF GRANTS DISTRIBUTION TO DIFFERENCES IN SOCIAL, ECONOMIC, AND FISCAL NEED, BASED ON SAMPLE OF FORTY-FIVE CITIES

Responsiveness	Social Need	Economic Need	Fiscal Need
High	ARFA CETA, Title I CDBG, 1980 Projection Local Public Works CETA, Title II	CDBG, 1980 Projection ARFA Local Public Works	General Revenue Sharing ARFA CDBG, 1977 Distribution Local Public Works CDBG, 1980 Projection
Moderate	CETA, Title VI	CETA, Title I General Revenue Sharing CETA, Title VI	CETA, Title I
Low	General Revenue Sharing CDBG, 1977 Distribution	CETA, Title II CDBG, 1977 Distribution	CETA, Title VI CETA, Title II

NOTE: These rankings are based on the Pearson correlation coefficients reported in Table 26. All programs listed as being highly responsive had correlations of .5 or higher with measures of need. Moderate responsiveness means the correlation was between .4 and .5. Correlations in the low responsiveness group ranged from .028 to .399. The correlations between CETA, Titles II and VI and fiscal need were statistically insignificant at the .05 level suggesting that the grants distribution may be unrelated to differences in need.

- The Comprehensive Employment and Training Act (CETA) authorizes several grant programs, the largest of which are the manpower block grant program authorized under Title I and the public service employment programs authorized under Titles II and VI. Funds for all three titles are distributed by formula to prime sponsors, which sometimes are city governments but which may also be state and county governments or consortia of local governments. The Title I formula includes measures of prior-year funding levels, the size of the low-income population, and the number of unemployed. The formula does moderately well at distinguishing differences in social need, the dimension most closely related to the program's purpose. It is somewhat less successful at making grant awards proportional to economic and fiscal need. Public service employment funds of Titles II and VI are distributed through formulas that are based on the rate and number of unemployed. Both Titles II and VI are less well-targeted on needy cities. The size of the grants received by the 45 cities vary significantly only with respect to economic need.

- The Community Development Block Grant program provides funds to localities to be used for projects that aid low- and moderate-income families or contribute to the elimination of blight. The 1974 enabling legislation specified a formula that counted total population, poverty population, and number of overcrowded housing units. For the first several years of the program, however, the distribution was adjusted to reflect funding patterns under the categorical programs replaced by the block grant. For the 45 cities examined, the 1977 distribution was largely governed by this hold-harmless calculation. It did not reflect differences in social and economic need, though it was relatively responsive to differences in fiscal need. Had there been no hold-harmless calculation, the grant award to most cities in the sample would have been smaller, but the pattern would have more closely matched differences among cities in social need.

When the community development program was reauthorized in 1977, a dual formula approach to distribution was adopted. A community's allocation will be based either on the original formula or on a second formula that counts poverty population, old housing, and population growth lag. For the 45 cities in the sample, this dual formula method produces a distribution pattern that is highly correlated with all three composite measures of urban need.

CHAPTER I. INTRODUCTION

The persistence and severity of urban problems have led the Congress and the Administration to review the effects of existing federal policies on cities and to consider the adoption of new programs. A proposal for a "New Partnership to Conserve America's Communities" was submitted by the President to the Congress on March 27, 1978. It includes several programs designed to extend fiscal relief to hard-pressed local governments and to provide incentives for private investment in distressed communities.

A major consideration in the development of new programs and the modification of existing ones is the question of urban need. There is increasing recognition that cities differ with respect to the type and severity of their problems. At the same time there is less agreement on what constitutes urban need, what is the best way to measure it, and which cities have the most of it, however defined or measured.

This paper addresses these questions. It starts with a discussion of the various meanings that have been given to the concept of urban need (Chapter II) and of the problems that arise in efforts to measure urban need (Chapter III). The location and type of cities having the greatest need are identified in Chapter IV. In Chapter V, several existing grant programs that relate to urban problems are analyzed to determine the extent to which the needs of cities are recognized in the distribution of monies. The programs studied are general revenue sharing, community development block grants, antirecession fiscal assistance, comprehensive employment and training, and local public works.

CHAPTER II. DIMENSIONS OF URBAN NEED

Recent discussions of urban need have tended to focus on three broad classes of problems--social, economic, and fiscal. Social need refers to the problems of the resident population, economic need to the problems of local business and commerce, and fiscal need to the problems of city governments.

Any classification of urban problems is somewhat arbitrary since the problems are clearly related to each other. Each of the problems may be said to be the cause of the others and at the same time to be caused by them. For example, job loss is a serious economic problem for many cities. It results when a city becomes a less desirable location for businesses. While a variety of factors are considered in making location choices, high rates of crime, poverty, and other social ills as well as high tax rates can militate against the selection of central city sites. With economic disinvestment comes increased social problems (such as poverty and unemployment) and fiscal problems (for example, weakened tax base and higher tax rates). Because of these interrelationships, a wide range of problems must be considered, even though some are undoubtedly symptoms rather than causes.

SOCIAL NEED

Since the 1960s, considerable attention has been focus on the social problems found in cities--poverty, joblessnes lack of upward mobility, high rates of crime and juvenile delinquency, and the weakness of family and community institutions. Ideally, any effort to distinguish among cities with respect to social need would be based on an examination of such interrelated factors as:

- The number and percent of families and individuals with inadequate incomes (for example, below the poverty line) and the circumstances surrounding their low incomes (for example, health problems, educational deficiencies, substandard housing, etc.).

- The number and percent of individuals unemployed or underemployed.

- The strength of family structures and community institutions.

- Crime rates.

High concentrations of low-income and low-skilled people in cities are not a recent phenomenon. Cities have always attracted poor immigrants seeking economic opportunities. Early immigrants found an urban economy in need of their labor. But more recent immigrants--especially those from the rural South, Mexico, and Puerto Rico--have found a less receptive environment. Structural changes in the economy have reduced the number of low-skill jobs that are available in central city locations. Exclusionary land-use policies, racial discrimination, normal housing market forces, and weak transportation linkages between central cities and suburbs have placed many suburban low-skill jobs out of reach of recent urban immigrants.

Limited economic opportunities have combined with other forces to strain the family and neighborhood institutions that are essential to the viability of any community. Once weakened, these social structures are less capable of limiting asocial behavior and mobilizing resources either for self-help or the protection of community interests in dealings with outside political and economic forces.

A cycle of deterioration can be set in motion. As crime and vandalism increase, families that have the resources and that are a stabilizing influence on the community seek homes elsewhere. A process of economic disinvestment may begin--businesses eventually close and the repairs necessary for the maintenance of housing are not made. The opportunities and choices available to community residents narrow and the community becomes increasingly dependent upon welfare and public services. The debilitating aspects of the process are not limited to the neighborhood itself. Driven by a fear of crime, rising tax burdens, racial prejudice, and heightened racial tensions, middle-class families and businesses in adjoining neighborhoods may choose to move to the suburbs. With these departures the resource base needed by the city to respond to the needs of poor and minority communities is further diminished.

ECONOMIC NEED

The weak performance of some local economies represents a second dimension of urban need. While the national recession of 1974-1975 undoubtedly contributed to the severity of the economic problems that have faced urban residents and businesses in recent years, it is not the only cause. Structural forces are also at work. Indeed, some analysts have gone so far as to suggest that some of the older American cities are economically obsolete. 1/

Many of America's cities grew and became prosperous as a result of the industrial revolution, but changes in the technologies of production, transportation, and communication, as well as changes in real income and consumer tastes, have made many older cities less desirable locations for businesses or residences. Certain characteristics of cities that were once important determinants of business location--for example, access to rail or port facilities--are either less important, or like high density, are now a liability. 2/ As a result of these changes, economic activity has decentralized in two ways. Initially economic growth and development shifted outward to undeveloped fringe--now suburban--locations. More recently a regional shift has occurred; growth rates in the South and in the West exceed those in the northeast and north central regions.

Many cities--particularly central cities--have been adversely affected by these trends. More people and businesses are moving out than in and there are not enough new firms being established nor existing firms expanding to replace the jobs lost by outmigration and business failures.

Cities with weak economies can be identified in two ways. First, identification can be based on low rates of growth (or

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1/ See George Sternlieb and James Hughes, "No Jobs Equals No Housing," The Rebirth of the American City, Hearings before the House Committee on Banking, Currency and Housing, 94:2, Part 1 (September 20-24, 1976), p.347.

2/ For a fuller discussion of factors influencing urban economic development patterns, see CBO, Barriers to Urban Economic Development, Background Paper, (May 1978).

on declines) in population, employment, earnings, or value of output. Second, identification can be based on the presence of factors believed to be responsible for low growth--for example, outmoded plant and equipment; lack of land for development; high density; high costs of and/or uncertain supply of skilled labor, energy, or other inputs necessary for production; high taxes; high crime rates and other social ills; and an unfavorable business climate. The extent to which the economic base of an area is made up of declining industries can also be used as an indicator of economic need.

FISCAL NEED

The fiscal problems of local governments constitute a third dimension of urban need. Local governments are vulnerable to two types of interrelated fiscal problems. The first type are financial problems as manifested in unbalanced budgets, low liquidity, high taxes, large debt, and low bond ratings. These problems stem from local policy choices and management practices as well as from underlying social and economic conditions. The second type of fiscal problem is more long term and stems from a mismatch between the need of the local population for public services and the resources available to the local government to pay for those services. Such imbalances need not manifest themselves in financial difficulties; a government can have a balanced budget and a triple A bond rating but its admirable financial position may be accompanied by below average quality public services or unusually high tax rates.

Financial Difficulties

Financial difficulties occur when a government lacks the funds to meet expenditure obligations--whether these obligations are in the form of welfare checks, vendor bills, payroll, or loan notes coming due. In a true financial emergency, an outside source of funds would probably be required to avoid default since time would be too short to make the necesary tax or service adjustments. If the situation was recognized soon enough, however, major tax rate increases and service cutbacks might be combined to bring the budget into balance. In the wake of the New York City fiscal crisis, there has been considerable interest in comparing the fiscal practices of city governments to determine whether factors that led to New York City's insolvency are

present elsewhere. The emphasis has been on financial indicators and on predicting the occurance of extreme budget balancing difficulties or financial emergencies.

Some governments are more vulnerable than others to financial difficulties because their expenditure obligations are larger and less controllable or because their revenue bases are weak and their reserves are low.

In the short-run, a whole range of expenditures are relatively uncontrollable--payroll and vendor bills may be for services that have already been rendered; contracts have been signed and must be honored. But even future budgets are constrained by expenditure items that are relatively uncontrollable, such as principal and interest payments on debt, pension liabilities, and expenditures mandated by state or federal law.

All local governments are subject to occasional revenue shortfalls attributable to temporary and unforeseen circumstances, such as a national recession or a natural disaster. For some governments, shortfalls will mean budget crises if they have no cash reserves to draw on to meet budgeted expenditures.

The probability of a local government facing a fiscal crisis is also increased if tax rates are relatively high, or if because of economic base changes, tax yields are increasing more slowly than prices. In the latter instance, politically difficult decisions to raise tax rates or cut services must be made much more frequently. And if tax rates are already high relative to neighboring jurisdictions, the local officials' choices are even further limited. An increase in tax rates may cause tax base erosion and taxpayer delinquency, thereby offsetting expected revenue gains.

Long-Term Fiscal Imbalances

A government experiences the second type of fiscal need when there is a serious and persistent imbalance between the need for public services and a government's ability to finance the necessary expenditures. Differences among city governments in service needs are a function of three factors: (1) scope of responsibility, (2) underlying social and economic conditions, and (3) price factors.

States vary in their assignment of responsibility for the financing and delivering of public services. In some states, city governments are responsible for providing health, education, and welfare services while in others, cities have no legal power or responsibility to respond to problems in these functional areas. Assessments of the fiscal need of city governments should take these differences in responsibility into account, but currently there is no adequate method for doing so. Without any adjustment, area need rather than government need is being measured.

The amount of public services that ought to be provided in any community is a political question that cannot be determined analytically. It is sometimes useful, however, to distinguish differences in service needs based solely on differences in social, economic, and physical conditions. A local government's workload is determined by a wide variety of conditions, some involving the characteristics of the residential population and others relating to environmental conditions or settlement patterns. For example, cities with larger numbers of school-age children must have a larger education budget; those with higher crime rates, a larger police budget; those with more poor people, a larger budget for welfare services; and so on if equal services are to be provided. Communities with little or no snowfall need not budget for snow removal services while others must be prepared to spend a large amount. Densely settled communities often require more sophisticated and expensive sewage collection facilities to prevent contamination of water supplies and ensure an adequate level of public health. While the examples that can be cited are numerous, much work remains to be done before the links between various social, economic, and physical conditions and expenditures for public services can be fully specified.

Price and cost differential factors, the third element that affects a measure of service needs, are easy to conceptualize, but difficult to measure. Since public services are labor intensive, the most important differences in cost stem from variations in the price of labor. Wage levels differ among labor market areas depending upon the supply and demand for the services of persons with different types of skills. These price differences are reflected in differences in public employee compensation across jurisdictions but cannot be measured by looking at those differences because some are attributable to factors other than price differentials dictated by labor supply constraints. For example, two cities may differ in

the average salary paid to teachers. The higher salaries in one city may reflect a decision to provide better than average education (by hiring teachers with more education and experience) rather than differences in the price of similar labor. Alternatively, the higher salaries may reflect the greater political strength and bargaining skills of public employee unions. Comparing salaries paid private sector employees with specific skills might provide a better indication of differences in labor costs facing local governments.

The price of other factors necessary for the production of public services may also vary among cities in different geographic areas. For example, the cost of fuel necessary for running police cars and garbage trucks and for heating public buildings may be higher in some areas than in others.

High expenditure needs are not necessarily a problem if a local government simultaneously has high fiscal capacity. Fiscal capacity refers to the resources than can be tapped by a local government to finance public services. City governments differ in the wealth and income of residents, in the exportability of taxes, and in the level of support received from overlying governments. Local taxes are exported when industrial or commercial taxpayers in the city pass on the burden of their tax costs through higher prices to nonresident consumers or lower dividends to stockholders. By so doing, the cost to resident taxpayers of any given level of services is reduced. 3/

If the ratio of service requirements to fiscal capacity is high relative to other cities, then a city is less able to provide any specific level of public services and hence has greater fiscal need. A fiscally needy city must tax itself at relatively high rates merely to provide average quality public services.

It should be noted that the concept of fiscal need outlined above is independent of a city's actual behavior. How a city responds to its difficult fiscal circumstances--by raising tax rates to provide good services or by holding the line on

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3/ For a discussion of the difficulties involved in measuring fiscal capacity, see Advisory Commission on Intergovernmental Relations, Measuring the Fiscal Capacity and Effort of State and Local Areas, Report M-58 (March 1971).

taxes and sacrificing service quality--is immaterial. It can be argued that this concept of fiscal need is incomplete and that a city's response to its circumstances ought to be considered. Possibly cities that have raised their tax rates to provide better public services should be considered as having greater fiscal needs than those that have responded to the same circumstances with lower rates and lesser services. 4/ An alternative measure of fiscal need would recognize this concern and would include existing tax effort as well as service requirements and fiscal capacity. 5/

4/ Characteristics of the population and of the environment could be similar in two cities. At the same time demand for public services might be less in one than in the other if for historical and cultural reasons citizens prefer to secure services through the private sector. These differences in demand would be reflected in the measure of tax effort.

5/ Many proposals for an equalizing grant system include tax effort in proposed grant formulas in order that the following standard of fiscal equity might be achieved: That any two jurisdictions willing to make an equal sacrifice with respect to taxes ought to have equal levels of service, regardless of their wealth. This standard of fiscal equity has been argued most strongly with respect to education services and has received judicial recognition in several states.

CHAPTER III. MEASUREMENT DIFFICULTIES

It is difficult to construct measures that can be used to differentiate among cities according to the level or severity of their need. This chapter discusses some of the considerations and choices that go into the specification of such measures.

MEASUREMENT PROBLEMS

No Established Measurements for Some Problems

Certain attributes of cities are easily measured since there is an established unit for counting. For example, geographic size can be expressed in terms of square miles and density in terms of population per square mile. But for many conditions identified as being problematic, there are no clear yardsticks. How do you measure differences in business climate or in the strength of community institutions? These concepts are not impossible to measure but they are difficult because primary reliance must be placed on qualitative judgments rather than quantitative indixes.

Choice of Summary Statistics Influences Measurement

When need stems from conditions or characteristics of groups of people or businesses within a city, a measure must first be chosen that adequately describes individuals' conditions and then that measure must be combined or aggregated to define the city's need. Various statistics can be used to summarize group experiences. The mean and median describe the typical experience. Sometimes, however, it is preferable to describe the range of experience. For example, if one is interested in identifying needy cities based on the low income of their populations, then one can look for cities with either low average incomes or a high proportion of people with incomes below the poverty line. In some cases it may not matter which summary statistic is chosen; for example, the city that has the lower average income may also have the higher proportion in poverty. But this need not always be the case. For example, in 1970, the average per capita

income in Phoenix ($3,253) was lower than it was in Los Angeles ($3,951), suggesting that Phoenix was worse off. The incidence of poverty in Phoenix (11.6 percent), however, was lower than it was in Los Angeles (13.0 percent), suggesting the opposite conclusion. This example suggests that careful consideration be given to the objectives of a program before choosing a summary statistic for use in a formula.

Which Geographic Areas to Measure?

Because most measures of urban problems describe the experience of individuals or businesses within the city as a whole, problems in a given neighborhood within a city may not be adequately represented. Some argue that this should not be a concern from the perspective of federal policy since cities in which problems are limited to specific neighborhoods are better able to address those problems themselves than cities in which problems are widespread. On the other hand, some believe that it is inequitable to deny assistance to any area, no matter how small, so long as its problems are as severe as those of another that does receive aid.

A related issue arises in cities that have expanded their boundaries through annexation or consolidation. Since the areas that are added to the city by such actions generally have fewer problems than the original core areas, statistics based on the totality of experience within the new boundaries will show the city to be relatively less needy than statistics based on experience in the original core area only. To the extent that these statistics are incorporated in federal aid formulas, they will penalize areas that have attempted to resolve their own problems through expansion.

Levels vs. Trends

Most urban problems can be measured in two ways--one emphasizing the condition as it exists at a given time and one emphasizing the change in the condition over time. Conditions can either be bad or good, deteriorating or improving. A city characterized by conditions that are bad and getting worse is clearly needier than one where conditions are bad but improving. But the determination of relative need is more difficult when the two methods of measurement point in different directions.

Whether the city that has the bad problem that is getting better or the not-so-bad problem that is getting worse should receive priority treatment probably depends on the type of aid that is being contemplated, the rate at which change is taking place, and the likelihood that the trend can be reversed.

Worse But How Much Worse?

While many measures of urban problems have numerical scales that suggest rather precise differentiation among cities, all too often the precision is more apparent than real. Just because a city's score on a given yardstick is twice that of another, one cannot conclude that its problem is twice as severe. Assuming the measure has validity, it is reasonable to conclude that its problem is worse, but whether it is more or less than twice as bad must be determined by separate analysis. For example, in 1976, El Paso had an unemployment rate of 11.5 percent, almost three times as high as Dallas' 4.2 percent. Given that some unemployment, perhaps 4 percent, is probably associated with job mobility, one might argue that the difference between the two cities is even greater than suggested by the numerical scale.

Different Ways of Combining Measures

Some urban problems have so many facets that more than one measure or a combination of dimensions is required. The assessment of any one city's need relative to others is highly dependent on the measures included and the way they are combined. There are many ways that this can be done: measures can be added, multiplied or divided, and they can be assigned different weights in the process depending upon their relative importance. It is difficult to judge a priori the implications of different mathematical formulations since they are in part dependent on the characteristics of the component measures. It is necessary to consider such things as the amount of variation that exists on individual measures and any interrelationships that exist among the several measures comprising the index.

Data Difficulties

A final set of measurement problems has to do with the availability and quality of data:

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- There are some concepts that, in principal, we know how to measure but for which there are no data available.

- There are some measures for which data are available but on a relatively infrequent basis. The decennial census is the source of much of the information about cities but to the extent that circumstances are changing, assessments of need based on data that are eight years old are likely to be wrong.

- There are some measures for which data are inaccurate or collected on a noncomparable basis because the data that are used were collected for some other purpose. For example, the starting point for Bureau of Labor Statistic's calculations of local area unemployment rates is data collected for the purpose of administering state unemployment insurance programs. Differences in state programs regarding such things as eligibility and duration of benefits makes it difficult to translate information on insured unemployment to consistent estimates of local area unemployment totals.

CONCLUSION

While most data collection difficulties can be overcome with a sufficient commitment of resources, the other measurement problems discussed in this chapter are less amenable to technical solution. It clearly matters how a problem is measured but the technical grounds for making choices about how to measure need are limited. Methods that are clearly "wrong" can be eliminated from consideration but choice will remain among several "right" methods or approaches. As a result, no single "objective" standard of urban need is possible.

CHAPTER IV. IDENTIFYING CITIES WITH THE GREATEST PROBLEMS

This chapter analyzes the patterns of social, economic, and fiscal need among cities. 1/ Because these patterns of need depend on the problems considered and the measures used, no single comprehensive measure of need exists that fully describes differences among cities. At the same time, however, some cities, under a variety of measures, seem consistently to face above average difficulties. In general:

- Large northeastern cities (for example, Newark and Buffalo), and very large cities in the Midwest (for example, St. Louis) have serious social, economic, and fiscal problems.

- Large southern cities (for example, Birmingham and New Orleans) have significant social and fiscal problems but are not subject to the same level of economic difficulties as are their northern counterparts.

Other types of cities have relatively high need with respect to a limited number of problems.

THE PATTERN OF SOCIAL NEED AMONG CITIES

Low Income and Poverty

In 1969 the average city of over 50,000 persons had a per capita income of $3,265 and a median family income of $9,984;

1/ For the most part the analysis reported in this chapter is conducted using statistical measures that are available from the Bureau of the Census or other executive agencies for all cities over 50,000. Some measures are drawn from others' studies of urban need and the sample is therefore constrained to that used by the original researcher. Wherever possible data are arrayed by region and size classification in order to give the reader some understanding of which cities are most needy with respect to any given problem. Data for specific cities are discussed in Chapter V.

12.2 percent of its population had incomes below the poverty level. There was considerable diversity among cities: per capita income ranged from $1,487 to $5,385; median family income ranged from $4,893 to $15,462, and the poverty rate ranged from 2.1 percent to 45.4 percent.

Differences among cities on the income-related measures of social need are closely related to regional location:

- o On this dimension, southern cities appeared on average to be needier than cities in other regions in 1969. They had the lowest average per capita income, the lowest median family income, and the highest average poverty rate of any of the regional groupings (see Table 1). Only the per capita income measure is available for a more recent year. In 1974, the average per capita income in southern cities was still less than that for any other regional grouping but the differences were substantially smaller.

- o Cities in all size categories in the Northeast and large cities in the Midwest also had relatively low average incomes and high poverty rates. Based on the per capita income measure, it appears that the relative need of these two groups of cities increased between 1969 and 1974. Indeed, by 1974, among all cities larger than 100,000, northeastern cities rather than southern cities appeared to have the greatest need based on their low average per capita incomes.

- o Western cities in all size categories had relatively high per capita and median family incomes. Larger cities in the region, however, simultaneously had a relatively high incidence of poverty.

If income figures were adjusted for differences in the cost of living, the relative social need of southern cities would probably appear lower than is indicated by the income measures presented in Table 1. Capacity to measure cost-of-living differences is still somewhat limited and no measures exist for a wide range of cities. Nevertheless, calculations by the Bureau of Labor Statistics for 39 metropolitan areas

TABLE 1. INDICATORS OF SOCIAL PROBLEMS FOR CITIES GROUPED BY REGION AND SIZE

	Number of Cities	Per Capita Income 1969	Per Capita Income 1974	Median Family Income 1969	Percent Poor 1969	Unemployment Rate 1970	Unemployment Rate 1976	Crime Rate Rate a/ 1970
U.S. All Cities	361	$3,265	$4,724	$9,984	12.2	4.6	7.6	37
Northeastern Cities	79	3,270	4,250	9,943	11.2	4.2	9.4	33
50,000-75,000	32	3,244	4,524	10,062	10.1	4.0	9.2	24
75,000-100,000	19	3,442	4,735	10,463	9.3	4.1	8.8	29
100,000-250,000	20	3,227	4,431	9,597	13.0	4.4	9.9	46
250,000-500,000	4	2,916	3,977	8,957	15.6	5.3	11.3	49
500,000 and larger	4	3,220	4,463	9,081	15.0	4.6	9.4	51
Southern Cities	100	2,922	4,441	8,613	17.5	4.0	6.8	38
50,000-75,000	35	2,745	4,190	8,102	19.8	4.4	6.8	33
75,000-100,000	14	2,974	4,475	9,169	13.6	3.8	5.9	31
100,000-250,000	31	3,048	4,677	8,910	16.5	3.8	6.4	40
250,000-500,000	12	2,952	4,397	8,258	17.1	4.1	8.3	44
500,000 and larger	8	3,071	4,627	8,845	18.3	4.1	7.2	55
Midwestern Cities	96	3,347	4,837	10,727	9.5	4.3	6.7	33
50,000-75,000	35	3,350	4,824	10,844	8.6	4.1	6.1	24
75,000-100,000	21	3,478	5,074	11,232	8.5	4.6	7.3	31
100,000-250,000	25	3,312	4,788	10,662	9.6	4.3	6.4	37
250,000-500,000	7	3,295	4,805	9,945	11.7	4.5	7.1	43
500,000 and larger	8	3,144	4,459	9,773	14.0	4.9	8.1	53
Western Cities	86	3,570	5,113	10,789	10.0	5.9	8.1	43
50,000-75,000	39	3,537	5,091	10,888	9.1	5.5	7.4	36
75,000-100,000	16	3,706	5,234	11,285	9.0	6.1	8.9	47
100,000-250,000	19	3,499	4,989	10,564	10.9	6.1	8.1	45
250,000-500,000	6	3,461	5,000	10,013	12.7	6.5	9.4	49
500,000 and larger	6	3,757	5,435	10,303	12.1	6.1	9.6	60

SOURCES: CBO calculations from Census data except for per capita income 1974 and unemployment 1976, which were provided by the Department of Housing and Urban Development. All figures are unweighted averages. Each city, regardless of size, counts equally in the determination of group averages.

a/ Serious crimes per 1,000 population.

suggest that there may be significant regional differences in the cost of achieving any given standard of living. 1/

Unemployment 2/

Unemployment results from both local and national economic circumstances, but not all local economies respond to the same degree or with the same timing to national economic cycles. Hence differences among cities, or the pattern of need suggested by an examination of unemployment rates, will shift over time.

In 1970, unemployment was higher in western cities (5.9 percent) than in northern (4.2 percent), midwestern (4.3 percent), or southern (4.0 percent) cities. There were no consistent differences based on size.

In 1976, unemployment was higher overall and was distributed differently around the nation. Northeastern cities had the highest average unemployment rate, or 9.4 percent. Western

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1/ See "Urban Family Budgets updated to Autumn 1976," in Monthly Labor Review (July 1977). On the index that distinguishes differences in the cost of achieving an intermediate living standard, the mean score for Standard Metropolitan Statistical Areas (SMSAs) was 105.8 in the Northeast, 102.0 in the West, 99.1 in the Midwest, and 93.1 in the South.

2/ Unemployment data should be interpreted with caution since the methodology for producing local unemployment rate estimates is not considered to be very reliable. (Statement of Julius Shiskin, Commissioner, Bureau of Labor Statistics, Department of Labor; Intergovernmental Antirecession Assistance Act of 1977, hearings before a Subcommittee of the House Committee on Government Operations, 95:1, on H.R. 3730 and Related Bills, pp. 88-116.) Also it should be recognized that unemployment rates reflect only part of the problem. Not counted at all are discouraged workers--those who have so little hope of finding a job that they have stopped looking--and underemployed workers--those who are working part time but would prefer to be working full time.

cities were next with 8.1 percent, while the average rate among cities in the South was 6.8 percent and in the Midwest, 6.7 percent. Within every region, larger cities tended to have a higher unemployment rate. While the shift in pattern between 1970 and 1976 is in part due to the national 1974-1975 recession, it may also reflect the structural decline of the Northeast.

Crime 3/

The severity of the crime problem varies, depending on both size and regional location of cities.

- o Larger cities had higher crime rates than smaller ones. The rate was almost twice as high in cities with populations larger than 500,000 as in cities with populations between 50,000 and 75,000.

- o Western cities on average had higher crime rates than than cities in other regions.

Composite Measures of Social Need

Richard Nathan and Charles Adams of the Brookings Institution have combined six measures to develop two indexes of urban social need. 4/ The measures include:

- o Unemployment (percent of civilian labor force unemployed in 1970);

- o Income level (per capita income, 1969);

3/ It should be recognized that crime statistics are not a fully adequate measure of differences in relative public safety. The responsibility for collecting statistics is highly decentralized and local police departments may vary in their reporting capabilities.

4/ See Richard P. Nathan and Charles Adams, "Understanding Central City Hardship," Political Science Quarterly, vol. 91, no. 1 (Spring 1976), pp. 47-62.

- Poverty (percent of families below 125 percent of low-income level);

- Dependency (persons less than 18 or over 64 years of age as a percent of total population).

- Education (percent of persons 25 years of age or more with less than a twelfth-grade education); and

- Crowded housing (percent of occupied housing units with more than one person per room).

An intercity hardship index was created by assigning scores for each item to individual central cities based on the severity of its condition relative to those in other central cities and then adding the scores together. 5/ Using this index to compare the central cities of 55 large metropolitan areas, Nathan and Adams found that the social need of western cities was less than that of cities in other regions. As shown in Table 2, differences among cities in the South, Northeast, and Midwest were relatively small.

A second index was created that identifies needy cities based on disparities that exist within metropolitan areas. Nathan and Adams argue that in metropolitan areas where the central city is disadvantaged relative to its suburbs, central city conditions are likely to deteriorate still further since more affluent families and businesses have the option of "escaping" city problems and tax burdens without leaving the metropolitan area. According to this index, needs were greatest in the midwestern and northeastern Standard Metropolitan Statistical Areas (SMSAs). This finding reflects the older age of the cities and the more rigid annexation procedures that tend to prevail in those parts of the country.

Newark, St. Louis, Gary, Baltimore, and Cleveland appear to be particularly needy as they had relatively high scores on both the intercity and intrametropolitan disparities indexes. In

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5/ The index was constructed in a way that assigned equal importance to each of the six conditions using the methodology described in the Appendix.

1970, socioeconomic conditions were worse in these cities than in four-fifths of the cities studied. At the same time, the disparities between these cities and their suburbs were also worse than in four-fifths of the metropolitan areas.

THE ECONOMIC NEED OF CITIES

Trends in Economic Performance

Because few of the indicators that are used to monitor the national economy (for example, gross national product) are available at the local level, the following measures are generally used to provide some indication of patterns of economic strength at the city level: changes in population, changes in per capita income, changes in the employment of manufacturing establishments, and changes in retail sales. 6/

Changes in Population. Population change reflects net migration and births and deaths in a community as well as annexation. Population loss is a good measure of economic decline because it implies a shrinking consumer market and labor supply. Even small changes can be important since those leaving tend to be younger and more affluent than the population that remains behind.

6/ Since measures of population and per capita income are used in the distribution of general revenue sharing funds, the Census Bureau attempts to estimate these on a fairly regular basis. Thus relatively recent economic shifts can be identified using this data. Data on manufacturing employment and retail sales are available in the Census of Business, a comprehensive survey of manufacturing, service, retail taxes and wholesale trade establishments which is conducted at five-year intervals. Unfortunately, longitudinal analysis of this data is not easily undertaken, since the data for the different years are not readily available on a merged basis. Some items from the 1962 and 1967 census have been combined and trends can be established for all cities larger than 50,000. An analysis of more recent trends affecting large metropolitan areas is found in the Advisory Commission on Intergovernmental Relations, Trends in Metropolitan America (Washington, D.C., February 1977), M-108.

TABLE 2. INDEXES OF URBAN HARDSHIP CONDITIONS

	Intercity Hardship Index	Intrametropolitan Disparity Index
U.S., All Cities	46.7	160
Northeast	51.1	193
Newark	85.5	422
Buffalo	57.2	169
Jersey City	56.6	129
Hartford	56.2	317
Providence	52.7	121
Springfield, Mass.	52.0	152
Philadelphia	50.0	205
Pittsburgh	47.1	146
Rochester	46.3	215
Boston	45.8	198
New York	45.3	211
Syracuse	40.8	103
Allentown	29.1	100
Midwest	48.8	178
St. Louis	75.5	231
Gary	70.0	213
Youngstown	60.3	180
Cleveland	59.6	331
Detroit	58.6	210
Cincinnati	53.5	148
Grand Rapids	50.3	119
Chicago	49.3	245
Dayton	46.9	211
Akron	43.4	152
Milwaukee	42.2	195
Toledo	41.4	116
Indianapolis	40.3	124
Kansas City, Mo.	38.9	152
Omaha	35.3	98
Columbus, Ohio	34.9	173
Minneapolis	28.9	131

(Continued)

TABLE 2. (Continued)

	Intercity Hardship Index	Intrametropolitan Disparity Index
South	47.0	139
New Orleans	72.6	168
Miami	62.5	172
Birmingham	61.8	131
Baltimore	60.0	256
Louisville	55.9	185
Tampa	50.9	107
Atlanta	50.1	226
Richmond	46.2	209
Norfolk	43.4	82
Ft. Worth	42.8	149
Houston	38.2	93
Oklahoma City	35.5	128
Dallas	32.6	97
Greensboro, N.C.	28.2	43
Ft. Lauderdale	24.0	64
West	36.2	110
Sacramento	50.4	135
San Jose	41.9	181
Los Angeles	37.9	105
Portland, Oregon	37.7	100
Salt Lake City	37.6	80
San Diego	33.2	77
Denver	30.0	143
San Francisco	28.8	105
Seattle	28.5	67

SOURCE: Richard P. Nathan and Charles Adams, "Understanding Central City Hardship," Political Science Quarterly, vol. 91, no. 1 (Spring 1976), pp. 47-62.

Over the period 1960-1975, population in the United States increased by 17.8 percent while northeastern cities larger than 75,000 and midwestern cities larger than 250,000 on average lost population (see Table 3). Over the last five years of that period, smaller cities in the Northeast and Midwest and cities with populations between 250,000 and 500,000 in the West also experienced population decline.

Changes in Per Capita Income. Since the per capita income of city residents depends on local economic conditions, changes in per capita income provide some indication of relative levels of growth. A better measure of economic vitality would be the rate of change in private sector earnings, but this measure is not available for cities.

The lowest average rate of growth in per capita income between 1969 and 1974 was found in northeastern cities (see Table 3). The average change for each size grouping of cities in that region was below 40 percent while the average for all cities in the United States was over 45 percent. Within the Northeast, larger cities, like Boston and New York, were somewhat worse off than small ones, such as Harrisburg or Trenton.

Growth in Manufacturing Employment. Over the period 1963 to 1972, manufacturing employment grew more rapidly in the suburban parts of metropolitan areas than in central cities in all regions (see Table 4). There were significant differences among regions in the rate at which manufacturing employment grew within metropolitan areas. Growth was greatest in southern and western areas. Central cities in the Midwest on average experienced a very small increase in employment (3 percent) but this figure hides considerable diversity in experience. Some cities, like Fort Wayne and Wichita, had marked increases in manufacturing employment (64 percent and 44 percent, respectively), while other cities, such as Chicago, St. Louis, and Akron, sustained considerable job losses. The experience in the Northeast was fairly consistent, with central cities (Philadelphia and Bridgeport, for example) losing an average of 19 percent of their manufacturing jobs. Suburban areas in both regions tended to gain but at a much lower rate than suburban areas in the South.

TABLE 3. MEASURES OF ECONOMIC NEED FOR CITIES GROUPED BY REGION AND SIZE

	Percent Population Change		Percent Growth in Per Capita Income	Density (Population Per Square Mile)	Percent Old Housing a/
	1960-1975	1970-1975	1969 - 1974		
U.S., All Cities	38.3	1.6	45.1	5,160	39.8
Northeastern Cities	-3.2	-4.2	38.5	8,679	67.8
50,000-75,000	2.5	-3.3	39.7	8,094	65.8
75,000-100,000	-3.2	-3.5	38.1	7,407	66.9
100,000-250,000	-8.0	-4.8	37.4	8,411	69.1
250,000-500,000	-16.9	-9.9	36.3	13,201	78.1
500,000 & Larger	-11.5	-6.1	38.9	16,216	70.8
Southern Cities	57.4	5.8	52.1	3,060	27.6
50,000-75,000	25.0	4.9	52.5	2,694	31.4
75,000-100,000	45.0	9.0	50.8	2,659	22.9
100,000-250,000	119.0	8.6	53.5	2,919	23.2
150,000-500,000	22.2	0	49.2	3,668	29.8
500,000 & Larger	33.1	1.5	51.0	5,004	32.7
Midwestern Cities	13.5	2.2	44.8	4,773	45.5
50,000-75,000	16.6	0.3	44.4	4,842	43.1
75,000-100,000	21.5	-1.5	46.4	4,435	42.9
100,000-250,000	13.5	-3.1	44.6	3,889	44.8
250,000-500,000	-3.1	-6.0	45.8	5,309	54.1
500,000 & Larger	-4.5	-8.6	41.9	7,655	57.6
Western Cities	83.3	6.4	43.5	4,803	22.1
50,000-75,000	102.2	9.1	44.2	4,668	19.1
75,000-100,000	49.3	1.8	41.3	5,352	16.0
100,000-250,000	109.9	7.8	42.9	4,185	25.5
250,000-500,000	38.6	3.0	44.8	4,617	32.8
500,000 & Larger	11.9	-1.7	45.1	6,356	36.8

SOURCE: CBO calculations from Census data. All figures are unweighted averages. Each city, regardless of size, counts equally in the determination of group averages.

a/ Percent of housing stock built before 1940.

TABLE 4. INDICATORS OF ECONOMIC GROWTH FOR CENTRAL CITY AND SUBURBAN PARTS OF METROPOLITAN AREAS, BY REGION

	Number of Metropolitan Areas	1972 Manufacturing Employment as Percent of 1963		1972 Retail Sales As Percent of 1963	
		Central Cities	Suburban Areas	Central Cities	Suburban Areas
U. S.	85	114.2	136.4	172.0	252.3
Northeast	18	81.1	115.4	129.7	218.4
Midwest	22	103.0	127.2	154.5	238.5
South	27	138.6	164.2	207.4	279.8
West	18	124.0	126.5	182.8	258.0

SOURCE: Advisory Commission on Intergovernmental Relations, Trends in Metropolitan America, Rept. M-108 (February 1977). Cities selected represent the 85 largest metropolitan areas of the United States. Each area, except Albany, had a central city population of 150,000 or more in 1970. The Albany metropolitan area is included for consistency with other ACIR reports.

NOTE: All percentages are unweighted averages. Each metropolitan area, regardless of size, counts equally in the determination of regional averages.

Changes in Retail Sales. The vitality of the retail sector is directly linked to population changes. If an area is losing population or if the composition of the population is changing to include a greater proportion of people with limited purchasing power, retail sales may be expected to grow very slowly or even decline.

Between 1962 and 1972, suburban areas in all regions had greater rates of growth in retail sales than did central cities (see Table 4). The greatest growth was experienced in southern

metropolitan areas where central cities and suburbs both experienced greater retail growth than did their counterparts in other regions. The slowest rate of growth was found in the central cities of the Northeast. For this region, sales increased by only 29.7 percent during a period when the cost of living increased by 38.3 percent.

Factors Contributing to Long-Term Economic Decline

The factors that contribute to urban economic decline include concentrations of social problems, high tax rates, density and congestion, outmoded and deteriorating capital stock, lack of developable land, high production input costs, lack of skilled and reliable labor, and unfavorable business climates. Those places most disadvantaged by the first two of these factors are identified elsewhere in this chapter. Of the remaining factors, only density can be measured in a satisfactory fashion. The age of a city's housing stock has been used as a proxy for the condition of a city's capital stock. There are no satisfactory measures of differences in the availability or cost of different production input factors (such as land and labor) or of differences in business climate.

Density. Northeastern cities, such as New York and Jersey City, are generally much denser than other American cities. For example, Northeastern cities larger than 500,000, had 16,217 people per square mile, more than three times the national average for cities (see Table 3). Southern and western cities, which are newer, tend to have the lower densities.

Age of Housing Stock. Older housing is concentrated in cities in the Northeast and Midwest, such as Boston and Duluth. Units built before 1940 constituted 67.8 percent of all housing units in the average northeastern city in 1970. The equivalent statistic for midwestern cities is 45.5 percent. Not surprisingly, in southern and western cities, older housing constitutes a much smaller percentage--27.6 and 22.1 percent, respectively--of the total.

THE FISCAL NEEDS OF CITIES

Financial Difficulties

Governments find themselves in financial difficulty when expenditure commitments currently exceed or are likely to exceed revenue flows. One measure that distinguishes levels of financial difficulty among cities is the existence of cumulative budget deficits. Other measures, such as the size of cash reserves (liquidity), debt burdens, and tax efforts, are less direct, but are useful in identifying governments that are vulnerable to financial emergencies. Other factors, such as pension liabilities and tax-base changes, contribute to fiscal difficulties, but the capacity to measure them is less well developed.

Cumulative Budget Deficits. In a study commissioned by the First Boston Corporation, Philip Dearborn examined the financial records of 30 cities and found that in 23 expenditures exceeded revenues in one or more of the three years studied. 7/ Two cities--New York and Philadelphia--had run deficits in all three years and six other cities during two years. Dearborn also calculated the size of the cumulative deficit relative to total expenditures over the period. Since many of the cities that ran deficits in one year had offsetting surpluses in another, fewer cities show an accumulated deficit over the three-year period; of the eight that do, four are in the Northeast (see Table 5). On average, cities in regions other than the Northeast had accumulated surpluses over the three year period.

7/ Philip H. Dearborn, Elements of Municipal Financial Analysis, Part II: Budget Performance, Special Report (First Boston Corporation, 1977). The three years studied were during the recent recession, thus a higher incidence of budget deficits was found than would ordinarily be expected.

TABLE 5. CUMULATIVE BUDGET DEFICITS AS A MEASURE OF FINANCIAL DIFFICULTY, SELECTED CITIES

City and Latest of Three Reported Years, if Other Than 1975	Accumulated Surplus or Deficit as Percent of Three-Year Expenditures	Number of Years Expenditures Exceeded Revenues
Northeast	-4.8	2.3
New York (1976)	-7.0	3.0
Philadelphia (1976)	-5.0	3.0
Pittsburgh	-3.0	1.0
Buffalo (1976)	-4.0	2.0
Midwest	+1.3	1.0
Chicago	+5.0	1.0
Detroit	+2.0	1.0
Cleveland	+ 0	1.0
Milwaukee (1976)	-2.0	2.0
St. Louis (1976)	+1.0	1.0
Columbus (1976)	-1.0	2.0
Kansas City (1976)	+2.0	0
Cincinnati	+3.0	0
Minneapolis	+1.0	1.0
South	+2.0	.9
Houston (1976)	+3.0	0
Baltimore (1976)	+2.0	1.0
Dallas (1976)	+2.0	1.0
San Antonio (1976)	+ 0	1.0
Memphis (1976)	- 0	2.0
New Orleans	+2.0	1.0
Jacksonville (1976)	+2.0	1.0
Atlanta	+3.0	1.0
Nashville (1976)	+5.0	0
Memphis (1976)	- 0	2.0
West	+2.0	1.0
Los Angeles (1976)	+4.0	0
San Francisco	+2.0	1.0
San Diego (1976)	+5.0	0
Phoenix (1976)	+ 0	2.0
Seattle	-1.0	2.0
Denver	+2.0	1.0

SOURCE: Philip M. Dearborn, Elements of Municipal Financial Analysis, Part II: Budget Performance, Special Report (First Boston Corporation, 1977), Table 11. Regional averages calculated by CBO.

Cash Reserves. Of the 30 cities studied by Dearborn, those in the Northeast, such as New York and Philadelphia, had the smallest average assets relative to the size of their expenditure budgets. 8/ Western cities, for example, Seattle, had relatively large reserves making them better able to withstand unforseen revenue shortfalls or expenditure requirements (see Table 6).

Debt Burden. One measure of debt burden used to compare cities is the total value of debt outstanding, standardized by the annual revenue collections of the local governments. It is important to express the measure in these terms to eliminate as much as possible differences in debt levels attributable solely to variation in the assignment of functional responsibilities among levels and types of government. As shown in Table 7, Southern cities of all sizes and large Midwestern cities seem to be neediest based on the size of their long-term debt burden.

Tax Effort. Tax effort tends to be higher in larger cities than in small cities. On average, cities in the Northeast have higher tax rates than cities elsewhere. Northeastern cities with populations larger than 500,000 had the highest tax rates, followed by cities of similar size in the South.

The measure of tax effort used here is equivalent to a tax rate--the taxes paid in a jurisdiction relative to the value of the property tax base. Only taxes for purposes other than education are considered. In this way differences in effort attributable to differing assignments of responsibility are

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8/ Philip M. Dearborn, Elements of Municipal Financial Analysis, Part 1: Measuring Liquidity, Special Report (First Boston Corporation, 1977). The measure of liquidity used by Dearborn is the excess of total cash and nonpension fund investments over outstanding short-term debt. All cash was included even though some might be restricted for specific purposes (for example, debt retirement), since governments often draw upon these reserves on a temporary basis when they are short of cash. To compare cities, net cash and investments are reported as percentage of general fund expenditures. The data necessary to measure liquidity are available in the financial records of city governments but are not currently collected by the federal government.

TABLE 6. LOW LIQUIDITY AS A MEASURE OF FINANCIAL DIFFICULTY, SELECTED CITIES

City and Latest Reporting Year, if Other Than 1975	Net Cash and Investments as a Percent of General Fund Expenditures
U.S.	78.2
Northeast	17.4
New York (1976)	-8
Philadelphia	2
Pittsburgh	61
Buffalo (1976)	15
Boston	17
Midwest	74.6
Chicago	3
Detroit	42
Cleveland (1974)	62
Milwaukee	119
St. Louis (1976)	54
Columbus	22
Kansas City (1976)	147
Cincinnati	177
Indianapolis	45
Minneapolis	108
South	93.9
Houston	92
Baltimore	68
Dallas	142
San Antonio (1976)	102
Memphis (1976)	53
New Orleans	59
Jacksonville (1976)	44
Atlanta	148
Nashville (1976)	137
Memphis (1976)	53
West	105.7
Los Angeles (1976)	103
San Francisco	39
San Diego (1976)	71
Phoenix (1976)	60
Seattle	246
Denver	115

SOURCE: Philip M. Dearborn, Elements of Municipal Financial Analysis, Part II: Budget Performance, Special Report (First Boston Corporation, 1977), Table 1. Regional averages calculated by CBO.

TABLE 7. DEBT BURDEN AND TAX EFFORT AS INDICATORS OF FINANCIAL DIFFICULTY FOR CITY GOVERNMENTS, GROUPED BY REGION AND SIZE

	Debt as Proportion of General Revenues	Tax Effort
U. S., All Cities	1.82	.017
Northeastern Cities	1.07	.025
50,000-75,000	.98	.020
75,000-100,000	1.11	.027
100,000-250,000	1.11	.027
250,000-500,000	1.05	.025
500,000 & Larger	1.46	.047
Southern Cities	2.84	.019
50,000-75,000	3.17	.013
75,000-100,000	3.52	.016
100,000-250,000	2.26	.020
250,000-500,000	2.97	.022
500,000 & Larger	2.33	.037
Midwestern Cities	1.73	.016
50,000-75,000	1.63	.016
75,000-100,000	1.88	.013
100,000-250,000	1.55	.015
250,000-500,000	1.94	.017
500,000 & Larger	2.13	.024
Western Cities	1.43	.012
50,000-75,000	1.33	.010
75,000-100,000	1.40	.011
100,000-250,000	1.55	.012
250,000-500,000	1.31	.015
500,000 & Larger	1.84	.015

SOURCE: Debt burden calculated by CBO from Census data; cities grouped according to 1970 population. Tax effort calculated by HUD from data estimated by the Census Bureau for general revenue sharing purposes; cities grouped according to 1975 population. All figures are unweighted averages. Each city, regardless of size, counts equally in the determination of group averages.

minimized. Otherwise, where schools are funded by city governments rather than independent school districts, tax effort would appear to be higher although cumulative (school district plus municipal and county) tax rates facing residents might not differ.

Long-Term Fiscal Imbalances

A city has high fiscal need of this second type if public service needs are large relative to fiscal capacity. Measuring service needs is highly problematic. Given that there is no objective standard of need, one alternative is to use actual expenditure levels as the indicator of service needs. But local government expenditures are not a very good measure because they reflect citizens' preferences for public services relative to private consumption and their collective financial abilities as well as their "need" for public services. As argued in Chapter II, a more complex measure of need that reflects differences in government responsibility, underlying social and economic conditions, and price factors is preferable, but the development of such a measure is beyond the scope of this study.

In an analysis of the general revenue sharing program, the Institute for the Future developed a comprehensive measure of fiscal need that took into account public service requirements, financial ability, and levels of tax effort. 9/ Service requirements in several functional areas--health, social services, recreation, environment, public safety, and transportation--were measured, based on a factor analysis of multiple indexes that describe characteristics of the population or community believed to affect government workloads. For example, the index of need for health services is based on the suicide rate, infant mortality rates, birth and death rates, the size of the aged population, and other factors. To create a composite measure of service need, the service specific measures were added together with each assigned a weight based on the proportion of total state and local expenditures devoted to that service area.

9/ Gregory Schmid, Hubert Lipinsky, Michael Palmer, An Alternative Approach to General Revenue Sharing: A Needs Based Allocation Formula, SR-43, (Washington, D.C.: Institute for the Future, June 1975). The study was based on a random sample consisting of 40 cities larger than 100,000 and 100 cities with populations between 25,000 and 100,000.

The Institute for the Future study found that large cities (those with populations larger than 100,000) in the Northeast and cities of all sizes in the South were found to have above average service requirements (see Table 8). The five cities with the highest service need were Atlantic City, New Jersey; Harlingen, Texas; Newark, New Jersey; Fort Pierce, Florida; and St. Louis, Missouri.

The second dimension of need was related to the governments' financial ability to provide services as measured by the equalized assessed value of property in 1972. On this measure, large cities in the South were most needy. Large cities in the Northeast and Midwest also had smaller than average tax bases and thus relatively high need. The five cities found to have the lowest tax capacity were Alexandria, Louisiana; Jackson, Mississippi; Baltimore, Maryland; Shreveport, Louisiana; and Council Bluffs, Iowa.

The city's own effort to meet its service needs is the third factor in the Institute for the Future's composite measure of fiscal need. The size of a government's tax collections for the support of services other than education relative to national average tax collections constitutes the Institute's measure of effort. (This is not comparable to the concept of effort previously described which attempted to get at the level of tax collections required to support public services relative to the size of the tax base.) As used in the final evaluation formula, the effort (or tax collection) factor plays a useful role in that it partially corrects for differences in the scope of responsibility of governments. Northeastern cities have a much higher average effort score than cities elsewhere. In all regions, effort is much lower in small cities than large ones.

In an effort to develop a composite index, the Institute for the Future study combined the three factors so that the neediest cities would have the highest scores. 10/ Based on this index, large northeastern cities (populations larger than 100,000) were found to have the greatest need. The average score for these cities was over twice as high as the national average.

10/ The final evaluation index took the following form:

$$\text{Evaluation Index} = \frac{\text{Service Requirements} \times \text{Effort}}{\text{Ability}}$$

TABLE 8. COMPOSITE MEASURE OF FISCAL NEED AND ITS COMPONENTS DEVELOPED BY THE INSTITUTE FOR THE FUTURE, CITIES GROUPED BY REGION AND SIZE

	Number of Cities	Composite Fiscal Need Evaluation Index	Aspects of Need		
			Requirements	Ability	Effort
Northeast					
Large cities	8	2.359	1.153	.948	1.573
Small cities	23	1.303	.893	1.105	1.325
Midwest					
Large cities	15	1.144	.981	.903	.907
Small cities	31	.557	.836	1.016	.609
South					
Large cities	8	1.668	1.185	.769	.936
Small cities	23	.889	1.139	1.025	.692
West					
Large cities	8	.786	.887	1.171	.957
Small ciites	23	.348	.780	1.218	.515

SOURCE: CBO calculations based on Gregory Schmid, Hubert Lipinsky, Michael Palmer, An Alternative Approach to General Revenue Sharing: A Needs Based Allocation Formula, SR-43 (Institute for the Future, June 1975), Table 11.

NOTE: A high score on requirements and effort and a low score on ability indicate greater need. The evaluation index is based on the formula:

$$\text{Evaluation Index} = \frac{\text{Service Requirements} \times \text{Effort}}{\text{Ability}}$$

Each index is normalized so that 1.0 equals the weighted national average for all municipalities. Large cities had populations larger than 100,000. Small cities had populations between 25,000 and 100,000. The averages presented for each grouping of cities were calculated by CBO and are unweighted averages.

Large southern cities also had need that was substantially above average. Western cities generally and small ones in particular seemed least in need of federal assistance. The cities found to have the greatest fiscal need were Atlantic City (6.65), Newark (5.90), St. Louis (3.79), Baltimore (3.69), and Philadelphia (3.68).

A second comprehensive measure of fiscal need was developed by the Department of Housing and Urban Development (HUD) for use in evaluating the Community Development Block Grant program. 11/ First, a measure of community development need was created using a factor analysis of 13 measures related to urban blight and neighborhood instability. Then this measure was combined with measures of fiscal capacity and tax effort to create a composite evaluation index.

The highest need scores on the community development or service component of the index were found in the large cities of the Northeast (all size categories above 100,000 population) and in the very large cities (larger than 500,000) of the South and Midwest (see Table 9). Smaller cities in the South and Northeast also had above average service needs.

HUD's findings concerning the location and type of city having low fiscal capacity are roughly similar to those in the Institute for the Future study even though HUD relied on per capita income to measure capacity rather than the equalized assessed value of property. Low fiscal capacity was found in southern and northeastern cities of all sizes and in large

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11/ See Harold Bunce, An Evaluation of the Community Development Block Grant Formula, U.S. Department of Housing and Urban Development (December 1976). The variables used to create the measure of development need describe population characteristics and housing and environmental conditions. Using factor anlaysis, these measures were collapsed into five indexes of need which in turn were combined into a composite need measure using weights arbitrarily assigned by HUD based on its assessment of the relation of each to the objectives of the CDBG program. The dimensions and relative weights used are: poverty - 35; age of housing stock - 25; density - 20; crime and unemployment - 10; and lack of economic opportunity - 10.

TABLE 9. COMPOSITE MEASURE OF FISCAL NEED AND ITS COMPONENTS DEVEOPED BY HUD, CITIES GROUPED BY REGION AND SIZE

	Aspects of Need			Composite Fiscal Need Evaluation Indixes	
	Community Development Need	Tax Effort	Fiscal Capacity	Multiplicative Form	Linear Form
U.S., All Cities	1.05	.6643	.98	1.00	.95
Northeast	1.29	.95	.97	1.66	1.14
50-75,000	1.14	.78	.98	1.16	1.02
75-100,000	1.12	.97	.99	1.43	1.06
100-250,000	1.44	1.03	.96	2.01	1.24
250-500,000	1.77	.96	.86	2.58	1.42
500,000+	1.72	1.98	.98	4.46	1.61
South	1.19	.65	.93	1.09	1.03
50-75,000	1.29	.50	.89	.95	1.06
75-100,000	1.17	.47	.83	.98	1.02
100-250,000	1.06	.70	.98	1.01	.97
250-500,000	1.19	.72	.93	1.21	1.04
500,000+	1.37	1.10	.96	2.01	1.23
Midwest	.89	.56	.98	.74	.85
50-75,000	.80	.46	1.01	.51	.77
75-100,000	.78	.53	1.03	.59	.79
100-250,000	.90	.57	.98	.70	.85
250-500,000	1.11	.75	.99	1.13	1.00
500,000+	1.43	.86	.93	1.88	1.20
West	.80	.61	1.08	.63	.79
50-75,000	.73	.54	1.08	.47	.74
75-100,000	.71	.58	1.08	.51	.74
100-250,000	.85	.64	1.08	.69	.82
250-500,000	1.10	.76	1.08	1.01	.97
500,000+	.99	.94	1.11	1.23	.96

SOURCE: Special tabulation by HUD based on Harold Bunce, An Evaluation of the Community Development Block Grant Formula, U.S. Department of Housing and Urban Development (December 1976). Cities are grouped according to population in 1975. All scores reported are the unweighted average of individual scores for cities within the group.

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midwestern cities. Larger southern cities appeared relatively less disadvantaged in this study using per capita income than in the Institute for the Future study.

Two different composite indexes of fiscal need were created by HUD by combining the elements (development need, tax effort, and fiscal capacity) in different ways. 12/ On both indexes, cities with relatively high need and tax effort and low fiscal capacity have higher scores. The second index assigns less importance to the tax effort factor and produces a narrower range of scores among cities. In most instances, the relative position of the different groupings of cities is similar on both indexes.

On both composite indexes, larger cities in every region exhibited greater need than smaller cities. The highest scores were found in cities larger than 100,000 in the Northeast and in cities larger than 500,000 in the South and Midwest. The neediest cities on the first evaluation index were Atlantic City, Washington, D.C., New York, Boston, and Cambridge, Massachusetts. By reducing the relative importance of tax effort in the second evaluation index, two Texas cities--Brownsville and Laredo--and East St. Louis, Illinois, joined Atlantic City and Washington, D. C., in the group of neediest cities.

While the Institute for the Future and HUD studies are among the most comprehensive and sophisticated on this subject, both fall short of the ideal proposed in Chapter II. Neither relates the indexes of underlying social and economic conditions to the problems faced by local governments. Also neither measure adequately adjusts for differences among local governments in the

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12/ The first index looks similar to the index created by the Institute for the Future:

$$\text{Evaluation Index} = \frac{\text{Need x Tax Effort}}{\text{Capacity}}$$

The second index is linear in form. The various items are added together using weights that are assigned arbitrarily.

$$\text{Evaluation Index}_2 = .5 \times \text{Need} + .25 \times \text{Tax effort} + .25 \times \left(\frac{1}{\text{capacity}}\right)$$

scope of services performed, thus the measures are better interpreted in terms of "area" need rather than "city government" need.

CONCLUSIONS

The determination of which cities have greatest need is largely dependent on which dimension of need is emphasized:

- Social problems are most severe in southern cities of all sizes and in large cities in the Northeast and Midwest. Recent income data suggest that smaller northeastern cities should also be counted among the neediest. On the income measures, western cities appear to be relatively well off. Large cities in that region, however, have unemployment and crime rates that are well above the national average.

- Problems stemming from a declining economy are concentrated in the Northeast. Larger cities have had the greatest difficulties but smaller cities in the region are also losing population and business. Large midwestern cities also have serious economic problems.

- Fiscal problems are greatest in medium and large sized northeastern and southern cities, and in large midwestern cities.

The data are consistent in showing the large cities of the Northeast and Midwest to be deeply troubled. Other groups of cities also have serious problems, but they can be shown to be more limited in scope and number.

While these conclusions are true in general, it should be noted that they are based on the average experience of groups of cities and as such may not represent the experience of any given city within a group. The analysis of need among specific large cities presented in Chapter V will show this to be the case.

CHAPTER V. EVALUATING GRANT PROGRAMS FROM THE PERSPECTIVE OF URBAN NEED

Much of the interest in measuring urban need stems from a desire to evaluate and improve methods for distributing federal aid. This chapter assesses the effectiveness of several grant programs in targeting aid on more distressed cities. The programs analyzed are general revenue sharing, community development block grants, antirecession fiscal assistance, comprehensive employment and training assistance, and local public works. To determine whether these programs are responsive to differences in need among cities, grants made to 45 cities are analyzed, using composites of the measures of social, economic, and fiscal need that were discussed in Chapter IV. 1/

Two developments in the grant system have brought the question of distribution and targeting to the forefront of policy discussions:

- o Growth in funding levels, particularly for those programs that involve direct federal aid to local governments. In fiscal year 1978, approximately $78 billion will be provided in federal grants to state and local governments, more than triple the level 8 years ago. Traditionally states were the primary recipients of federal aid, but much of the recent growth in funding has occurred in new programs involving direct funding of local governments. The share of federal grant outlays accounted for by these programs grew from 12 percent in

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1/ Ideally grants to all cities would have been traced but such an analysis was not feasible. Currently there is no data collection effort across agencies that provides reliable estimates of individual program grants distributed to specific cities. Information on grants was acquired from the agencies or published sources and added to a data base containing information on social, economic, and fiscal characteristics of the cities. Published data on CETA distributions was adjusted to reflect individual cities' shares in instances where they were members of consortia.

1970 to 25 percent in 1976 (see Table 10). In 1978 the fraction will be even higher because of funding for economic stimulus programs--public service employment, antirecession fiscal assistance and local public works--all of which fund local governments directly. Of the amounts distributed directly from the federal government to local governments, over 40 percent ($5.8 billion in 1976) goes to cities with greater than 50,000 populations.

TABLE 10. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS, VARIOUS YEARS

Year	Total Grants to State and Local Governments (in millions of dollars)	Direct Federal Aid to Local Governments: In Millions of Dollars	Direct Federal Aid to Local Governments: As a Percent of Total	Direct Federal Aid to City Governments a/: In Millions of Dollars	Direct Federal Aid to City Governments a/: As a Percent of Aid Going to All Local Governments
1976	55,589	13,576	24.4	5,786	42.6
1975	47,054	10,906	23.2	4,467	41.0
1974	41,831	10,199	24.4	4,184	41.0
1973	39,256	7,903	20.1	3,506	44.4
1972	31,253	4,462	14.3	2,221	49.8
1971	26,146	3,392	13.0	1,047	30.9
1970	21,857	2,605	11.9	1,157	44.4
1965	11,029	1,155	10.5	407	35.2

SOURCE: U.S. Bureau of the Census Governmental Finances and City Government Finances, various years.

a/ City governments serving populations of 50,000 or more.

- Change in emphasis from narrow purpose project grants to broader purpose formula grants. Starting in the late 1960s, interest developed in decentralizing decision-making and increasing responsibility for elected local government officials. This led to the adoption of grant programs that differed from earlier programs in both scope and method of distribution. By substituting legislatively determined formulas for a method of funding based on specific project review by federal program administrators, the Congress made the distribution pattern an explicit object of deliberation and Congressional decision. By also broadening program scope and increasing the discretion of local officials over program content, the Congress made general measures of urban need relevant to the design and evaluation of grant programs.

PATTERNS OF NEED AMONG A SAMPLE OF CITIES 2/

Social Need

The two composite measures of hardship developed by Nathan and Adams using 1970 Census data were combined with more current measures of unemployment and per capita income to provide an indication of the difference in social need among the sample of cities (see Table 11). 3/ Of the ten cities found to have the greatest social need, two are in the Northeast--Newark and Buffalo; four are in the Midwest--Cleveland, St. Louis, Detroit, and Gary--and four are in the South--New Orleans, Miami, Baltimore, and Tampa. Newark's problems are by far the most

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2/ The cities were selected for illustrative purposes only. An effort was made to include the primary central city of all the large SMSAs, but in a number of instances cities were omitted because data were not available. The cities included vary in size but all have relatively large populations ranging in 1975 from 110,211 in Albany to 7,481,613 in New York. All regions are represented: 13 of the cities are in the South, 12 are in the Midwest, and 10 each are in the Northeast and West. The cities vary considerably in their level of need.

3/ The methodology for creating the index is shown in the Appendix.

TABLE 11. RANKING OF SELECTED CITIES ON MEASURES OF SOCIAL NEED

City	Composite Measure of Social Need		Brookings Indexes				1973 Per Capita Income		1976 Unemployment	
			Intrametropolitan Disparity Index		Intercity Hardship Index					
	Score	Rank	Score	Rank	Score	Rank	Dollars	Rank	Percent	Rank
High Need Cities										
Newark	100	1	422	1	85.5	1	2,964	1	14.5	1
Cleveland	67	2	331	2	59.6	8	3,160	2	8.8	18
St. Louis	64	3	231	5	75.5	2	3,393	4	8.3	24
Detroit	62	4	210	10	58.6	9	3,817	21	13.7	2
New Orleans	61	5	168	18	72.6	3	3,319	5	9.6	11
Buffalo	61	6	189	14	57.2	10	3,409	7	12.1	5
Miami, Fla.	60	7	172	17	62.5	5	3,592	11	12.0	6
Gary	58	8	213	8	70.0	4	3,320	6	7.5	30
Baltimore	55	9	256	3	60.0	7	3,595	12	8.4	22
Tampa	51	10	107	31	50.9	14	3,577	9	12.6	3
Moderate Need Cities										
Birmingham	51	11	131	27	61.8	6	3,177	3	7.6	29
Philadelphia	49	12	205	11	50.0	17	3,678	16	9.5	13
Jersey City	48	13	129	28	56.6	11	3,691	18	10.2	9
Atlanta	47	14	226	6	50.1	16	3,903	23	9.2	14
Boston	45	15	198	12	45.8	21	3,678	15	9.1	15
Chicago	46	16	245	4	49.3	18	3,984	25	8.9	17
Cincinnati	45	17	148	22	53.5	13	3,657	14	8.8	19
Louisville	45	18	165	19	55.9	12	3,687	17	8.0	27
Rochester	44	19	215	7	46.3	20	3,716	19	8.2	25
Pittsburgh	43	20	146	23	47.1	19	3,618	13	8.9	16
New York	41	21	211	9	45.3	22	4,309	34	10.2	8
Sacramento	40	22	135	25	50.4	15	4,076	28	9.6	12

(Continued)

TABLE 11. (Continued)

City	Composite Measure of Social Need		Brookings Indexes: Intrametropolitan Disparity Index		Brookings Indexes: Intercity Hardship Index		1973 Per Capita Income		1976 Unemployment	
	Score	Rank	Score	Rank	Score	Rank	Dollars	Rank	Percent	Rank
Moderate Need (continued)										
Milwaukee	37	23	195	13	42.2	25	3,809	20	7.2	31
San Jose	37	24	181	15	41.9	26	4,026	27	8.5	21
Akron	37	25	152	20	43.4	23	3,887	22	8.3	23
Columbus	34	26	173	16	34.9	33	3,547	8	6.7	34
San Diego	30	27	77	38	33.2	34	4,215	33	11.7	7
Norfolk	30	28	82	37	43.4	24	3,591	10	6.3	36
Oklahoma City	30	29	128	29	35.5	32	3,967	24	8.2	26
Low Need Cities										
Kansas City, Mo.	29	30	152	21	38.9	29	4,012	26	6.9	33
Los Angeles	27	31	105	33	37.9	31	4,545	36	10.0	10
Phoenix	24	32	85	36	40.1	28	4,118	30	7.0	32
San Francisco	22	33	105	32	28.8	38	5,029	39	12.2	4
Houston	21	34	93	35	38.2	30	4,128	31	6.0	37
Indianapolis	21	35	124	30	40.3	27	4,104	29	4.3	39
Denver	20	36	143	24	30.0	36	4,560	38	7.8	28
Minneapolis	20	37	131	26	28.9	37	4,202	32	6.4	35
Seattle	16	38	67	39	28.5	39	4,545	37	8.6	20
Dallas	11	39	97	34	32.6	35	4,432	35	4.4	38

SOURCE: CBO calculations.

NOTE: The composite index of need could not be created for Patterson, Albany, Washington, D. C., El Paso, San Bernadino, and Anaheim, because one or more data items were missing.

severe; it had the highest ranking on each of the components as well as on the combined index of social need. For other cities in the high need group, the rankings on the various components were not quite so consistent. For example, Cleveland had an unemployment rate of 8.8 percent, a figure slightly below the average for the sample, but nevertheless ranked second on the composite measure of need because of the large disparity between it and its suburbs and its relatively low per capita income.

Dallas, Seattle, Minneapolis, Denver, Indianapolis, Houston, San Francisco, Phoenix, Los Angeles, and Kansas City were among the cities in the sample with the least social need. All of these cities, except Indianapolis, are located west of the Mississippi River.

Economic Need

The following measures of economic vitality were combined into a composite measure of economic need: 4/

- Percent change in the number of manufacturing jobs within the city between 1963 and 1972;
- Percent change in population between 1960 and 1973;
- Percent change in the per capita income of city residents between 1960 and 1973;
- Percent change in total employment within the metropolitan area between 1970 and 1975;
- Density in 1970; and
- Proportion of housing stock built prior to 1940.

Data for the individual cities, their rankings on each of the individual measures and on the composite measure of economic need are all shown in Table 12.

4/ No adjustments have been made for changes in territorial boundaries over the period that growth is measured. Some of the growth attributed to these cities was achieved by annexation or consolidation.

The ten cities with the most serious economic difficulties are Newark, New York, Jersey City, Cleveland, Buffalo, Chicago, St. Louis, Boston, Patterson, and Pittsburgh. All are older cities; most are in the Northeast. Newark, which ranked highest on the composite index of economic need as well as social need, lost 37 percent of its manufacturing jobs between 1963 and 1972 and 9 percent of its population between 1960 and 1973. Per capita income in Newark increased by 65 percent between 1960 and 1973 but, when inflation is taken into account, this translates into a real increase of only 15 percent.

Of the 45 cities studied, nine of the ten with the least troubled economies--Phoenix, San Jose, Houston, Tampa, El Paso, Anaheim, Oklahoma City, Dallas, and Norfolk--are in the South and West and one--Indianapolis--is in the Midwest.

Fiscal Need

The fiscal need of the 45 sample cities is based on four measures: tax effort, property tax base, and two comprehensive measures developed by HUD that consider service needs within a city in relation to both tax base and tax effort. All of the measures of fiscal need, except tax base, are sensitive to differences among city governments with respect to the number of public services they are responsible for providing. While a partial control on these differences is achieved by eliminating school taxes from consideration, the cities in the sample still differ in the number of services they provide. Those with broader responsibilities are likely to show up as having greater need even if the underlying socioeconomic conditions are similar to those with fewer responsibilities.

On the composite index of fiscal need, the cities that score highest are Washington, D.C., Boston, New York, Newark, St. Louis, Philadelphia, Baltimore, Jersey City, Detroit, and Birmingham (see Table 13). Washington, of course, is unique, functioning effectively as both a city and state. Of the remaining nine cities, five perform functions that in other areas would be the responsibility of an overlying county government.

It should be noted that several of the high-need cities have relatively large property tax bases per capita and thus the capacity to cope with above average service needs. Despite this, cities such as Washington and New York are judged to

TABLE 12. RANKING OF SELECTED CITIES ON MEASURES OF ECONOMIC NEED

City	Composite Measure of Economic Need		Density		Percent Old Housing		Change in Manufacturing Jobs, 1963-72	
	Score	Rank	Persons Per Acre	Rank	Percent	Rank	Percent Change	Rank
High Need Cities								
Newark	84	1	25	3	68	11	-37	2
New York	80	2	41	1	62	15	-18	10
Jersey City	78	3	27	2	79	3	-15	12
Cleveland	78	4	15	13	73	8	-23	9
Buffalo	77	5	18	9	86	1	-7	25
Chicago	76	6	24	4	67	14	-16	11
St. Louis	74	7	16	12	74	7	-24	6
Boston	74	8	22	6	77	4	-29	4
Patterson	72	9	15	14	71	9	-14	13
Pittsburgh	71	10	15	16	74	6	-23	8
Moderate Need Cities								
Rochester	70	11	13	17	79	2	-7	24
Philadelphia	70	12	24	5	70	10	-23	7
San Francisco	68	13	17	11	67	13	-28	5
Seattle	66	14	8	27	48	24	-43	1
Detroit	66	15	17	10	62	16	-10	20
Cincinnati	65	16	9	23	59	18	-12	18
Akron	64	17	8	28	57	19	-14	16
Milwaukee	64	18	12	18	55	20	-11	19
Baltimore	63	19	18	8	60	17	-13	17
Minneapolis	62	20	11	19	68	12	-14	15
Albany, N.Y.	59	21	10	20	75	5	-4	29
Gary	58	22	7	29	44	26	-6	28
Los Angeles	57	23	10	21	32	31	0	30
Kansas City	56	24	3	44	51	22	-9	21
Washington, D.C.	54	25	19	7	47	25	-14	14
New Orleans	53	26	5	36	49	23	-7	26
Louisville	51	27	9	22	53	21	3	32
Columbus	51	28	6	31	39	30	-6	27
San Bernadino	49	29	3	42	23	38	12	34
Atlanta	45	30	6	32	30	33	-8	23
Birmingham	45	31	6	31	43	27	3	31
San Diego	43	32	3	41	22	40	-8	22
Sacramento	43	33	4	39	28	37	50	43
Miami, Fla.	42	34	15	15	30	34	37	40
Denver	41	35	8	25	41	28	11	33
Low Need Cities								
Norfolk	40	36	8	26	31	32	15	35
Indianapolis	37	37	3	43	40	29	33	38
Dallas	35	38	5	35	18	41	24	36
Oklahoma City	34	39	1	45	29	35	42	41
Anaheim	31	40	9	24	6	45	-34	3
El Paso	30	41	4	38	23	39	79	44
Tampa	29	42	6	33	29	36	42	42
Houston	26	43	5	37	17	42	36	39
San Jose	24	44	5	34	14	43	29	37
Phoenix	16	45	4	40	11	44	79	45

(Continued)

TABLE 12. (Continued)

City	Population Change 1960-1973		Per Capita Income Change 1960-1973		Total SMSA Employment Change 1970-1975	
	Percent Change	Rank	Percent Change	Rank	Percent Change	Rank
High Need Cities						
Newark	-9	15	65	2	-1	7
New York	-2	25	87	21	-8	2
Jersey City	-8	17	88	24	-11	1
Cleveland	-23	2	70	4	-1	9
Buffalo	-20	5	78	8	-3	4
Chicago	-11	13	74	7	1	10
St. Louis	-26	1	83	15	-1	6
Boston	-11	12	92	28	-3	5
Patterson	0	28	80	11	-5	3
Pittsburgh	-21	3	86	19	1	11
Moderate Need Cities						
Rochester	-13	11	79	10	4	17
Philadelphia	-7	21	96	32	-1	8
San Francisco	-7	19	87	23	5	21
Seattle	-1	26	71	5	10	25
Detroit	-17	6	90	26	1	12
Cincinnati	-15	7	79	9	5	20
Akron	-10	14	83	16	1	13
Milwaukee	-7	22	81	12	5	18
Baltimore	-7	23	93	29	5	19
Minneapolis	-21	4	87	22	14	31
Albany, N.Y.	-14	9	105	42	2	14
Gary	0	27	82	13	4	15
Los Angeles	11	32	73	6	6	23
Kansas City	3	30	84	18	5	22
Washington	-4	24	104	40	12	28
New Orleans	-9	16	91	27	12	27
Louisville	-14	8	109	45	4	17
Columbus	15	33	88	25	11	26
San Bernadino	21	36	69	3	14	32
Atlanta	-7	18	102	36	13	29
Birmingham	-13	10	102	39	17	36
San Diego	31	39	83	17	21	38
Sacramento	40	41	65	1	19	37
Miami, Fla.	21	37	95	31	15	33
Denver	5	30	100	36	25	40
Low Need Cities						
Norfolk	-7	20	109	44	13	30
Indianapolis	53	43	102	38	7	24
Dallas	20	35	100	33	15	34
Oklahoma City	15	34	100	35	15	35
Anaheim	79	44	94	30	36	44
El Paso	28	38	87	20	22	45
Tampa	0	29	108	43	30	41
Houston	38	40	100	34	30	42
San Jose	156	45	83	14	24	39
Phoenix	44	42	105	41	31	43

SOURCE: CBO calculations.

TABLE 13. RANKING OF SELECTED CITIES ON MEASURES OF FISCAL NEED

City	Composite Measure of Fiscal Need Score	Rank	Tax Effort a/ Percent	Rank	Property Tax Base Per Capita Dollars	Rank	HUD Index #1 b/ Score	Rank	HUD Index #2 c/ Score	Rank
High Need Cities										
Washington D.C.d/	84	1	13.2	1	11,114	34	678	1	202	1
Boston	72	2	9.5	3	7,340	18	516	3	169	4
New York	67	3	9.8	2	10,884	33	539	2	177	2
Newark	65	4	5.8	6	4,538	3	377	5	171	3
St. Louis	61	5	6.8	4	7,324	17	417	4	162	5
Philadelphia	53	6	5.7	7	5,593	6	282	7	138	11
Baltimore	52	7	4.2	15	4,148	1	246	9	143	8
Jersey City	47	8	4.0	17	4,687	5	205	17	133	15
Detroit	46	9	4.8	11	6,478	9	237	10	134	13
Birmingham	46	10	4.1	16	5,757	7	217	14	134	14
Moderate Need Cities										
New Orleans	45	11	3.7	18	6,792	13	229	11	146	7
Patterson	45	12	3.4	20	4,657	4	177	19	136	12
Buffalo	44	13	5.1	8	8,917	25	269	8	143	9
Cincinnati	44	14	4.5	12	7,071	15	228	12	131	16
Norfolk	44	15	4.9	10	6,033	8	210	15	122	21
Cleveland	42	16	3.6	19	6,944	14	207	16	139	10
San Francisco	39	17	6.6	5	14,973	38	346	6	154	6
Pittsburgh	37	18	3.2	25	6,725	11	159	22	125	18
Rochester	36	19	5.0	9	10,435	30	226	13	128	17
Louisville	35	20	3.2	23	6,711	10	145	23	117	22
El Paso	34	21	2.2	34	4,300	2	89	33	104	27
Denver	33	22	4.4	13	9,113	27	171	20	115	23
Miami, Fla.	31	23	3.2	24	9,522	28	168	21	124	19
Gary	31	24	2.8	27	6,755	12	107	28	105	26
Tampa	29	25	2.6	32	7,396	19	110	27	107	25
Columbus	28	26	2.7	31	7,220	16	98	30	99	31
San Bernardino	28	27	3.3	22	8,169	23	115	26	102	29
Albany, N.Y.	28	28	4.3	14	12,205	35	188	18	123	20

(Continued)

TABLE 13. (Continued)

City	Composite Measure of Fiscal Need Score	Rank	Tax Effort a/ Percent	Rank	Property Tax Base Per Capita Dollars	Rank	HUD Index #1 b/ Score	Rank	HUD Index #2 c/ Score	Rank
Low Need Cities										
Akron	27	29	2.9	26	8,149	22	105	29	101	30
Sacramento	24	30	2.8	28	8,508	24	93	32	94	33
Minneapolis	23	31	2.8	29	10,690	31	122	25	108	24
Indianapolis	22	32	2.5	33	7,563	20	64	34	80	34
Phoenix	18	33	2.1	35	8,100	21	50	36	74	36
Los Angeles	18	34	3.3	21	12,982	36	122	24	104	28
San Diego	17	35	2.0	38	8,615	25	53	35	77	35
Seattle	13	36	2.8	29	13,553	37	95	31	95	32
San Jose	12	37	2.0	37	10,247	29	44	37	70	37
Anaheim	10	38	2.0	36	10,709	32	38	38	65	38

NOTE: The composite index of fiscal need could not be created for Chicago, Milwaukee, Kansas City, Atlanta, Dallas, Oklahoma City, and Houston, because one or more data items were missing.

a/ Taxes as a percent of income.

b/ Multiplicative Form: (Community Development Need x Tax Effort) ÷ Fiscal Capacity. See discussion, infra pp. 36-39.

c/ Linear Form: .5 x Community Development Need + .25 x Tax Effort + .25 x $\left(\frac{1}{\text{Capacity}}\right)$ See discussion, infra pp. 36-39.

d/ Washington, D.C. is unique in that it functions as both a city and state. Its tax effort appears relatively high because taxes collected to finance functions ordinarily performed at the state level count toward the tax effort of the District of Columbia while comparable state taxes paid by citizens in the other sample cities are not included.

have high fiscal need because of the combination of high service needs, wide ranging responsibilities, and high tax effort.

Among the cities that appear to be relatively well-off with respect to fiscal matters are Anaheim, San Jose, Seattle, San Diego, Los Angeles, Phoenix, Indianapolis, Minneapolis, Sacramento, and Akron. As was the case on previous measures, many of the low-need cities are located in the West.

Need Across Multiple Dimensions

Only two cities--Newark and St. Louis--rank among the ten neediest cities on all three dimensions (see Figure 1 and Table 14). It is more common for cities to rank high on two dimensions simultaneously. New York, Jersey City, Boston, and Philadelphia have both serious economic and fiscal problems. Cleveland and Buffalo combine relatively severe economic and social problems while social and fiscal problems beset Detroit, Baltimore, and Birmingham.

Figure 1.
OVERLAP BETWEEN CITIES WITH HIGH SOCIAL, ECONOMIC AND FISCAL NEED

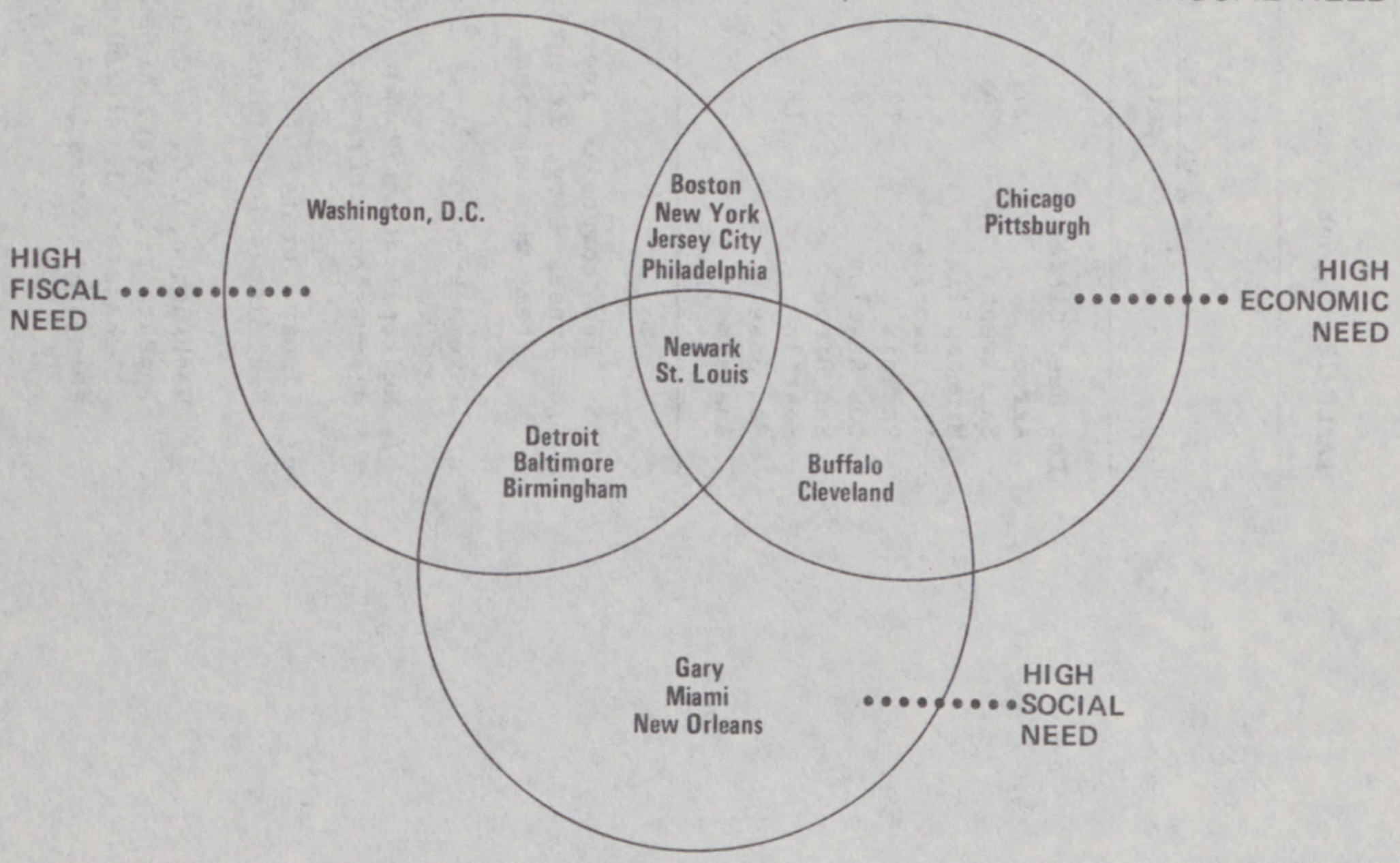

TABLE 14. COMPOSITE MEASURES OF SOCIAL, ECONOMIC, AND FISCAL NEED FOR 45 LARGE CITIES

City	Social Need		Economic Need		Fiscal Need	
	Score	Rank	Score	Rank	Score	Rank
Northeast						
Albany	NA	--	59	21	28	28
Boston	45	15	74	8	72	2
Buffalo	61	6	77	5	44	13
Jersey City	48	13	78	3	47	8
Newark	100	1	84	1	65	4
New York	41	21	80	2	67	3
Patterson	NA	--	72	9	45	12
Philadelphia	49	12	70	12	53	6
Pittsburgh	43	20	71	10	37	18
Rochester	44	19	70	11	36	19
Midwest						
Akron	37	25	64	17	27	29
Chicago	46	16	76	6	NA	--
Cincinnati	45	17	65	16	44	14
Cleveland	67	2	78	4	42	16
Columbus	34	26	51	28	28	26
Detroit	62	4	66	15	46	9
Gary	58	8	58	22	31	24
Indianapolis	21	35	37	37	22	32
Kansas City	29	30	56	24	NA	--
Milwaukee	37	23	64	18	NA	--
Minneapolis	20	37	62	20	23	31
Oklahoma City	30	29	34	39	NA	--
St. Louis	64	3	74	7	61	5
South						
Atlanta	47	14	45	30	NA	--
Baltimore	55	9	63	19	52	7
Birmingham	51	11	45	31	46	10
Dallas	11	39	35	38	NA	--
El Paso	NA	--	30	41	34	21
Houston	21	34	26	43	NA	--
Louisville	45	18	51	27	35	20
Miami	60	7	42	34	31	23
New Orleans	61	5	53	26	45	11
Norfolk	30	28	40	36	44	15
Tampa	51	10	29	42	29	25
Washington, D.C.	NA	--	54	25	84	1
West						
Anaheim	NA	--	31	40	10	38
Denver	20	36	41	35	33	22
Los Angeles	27	31	57	23	18	34
Phoenix	24	32	16	45	18	33
Sacramento	40	22	43	33	24	30
San Bernadino	NA	--	49	29	28	27
San Diego	30	27	43	32	17	35
San Jose	37	24	24	44	12	37
San Francisco	22	33	68	13	39	17
Seattle	16	38	66	14	13	36

SOURCE: CBO calculations.

N.A. = not available. Composite measure of need could not be created because one or more data items were not available.

THE DISTRIBUTION OF GRANTS RELATIVE TO CITY NEED

Five of the major programs providing grants directly to local governments by formula are:

- o General revenue sharing which provides general purpose fiscal assistance.
- o Community development block grants which provide broad-based aid to improve housing and neighborhood conditions and to increase opportunities for low- and moderate-income people.
- o Antirecession fiscal assistance aid which is general purpose aid to state and local governments in times of high national unemployment.
- o Comprehensive employment and training which provides aid for job opportunities, training, education, and other services to unemployed persons.
- o Local public works assistance which gives antirecession grants for the construction and rehabilitation of public facilities.

The analysis of each program is organized around three sets of questions:

- o How are the funds distributed? What types of governments are eligible? What mechanism is used to allocate funds? Which aspects of need are considered?
- o What proportion of program dollars are spent in cities?
- o Does the size of the grant vary with differences in need?

Each of the five grant programs distributes funds among the sample of 45 cities in a pattern that parallels either social, economic, or fiscal need. Antirecession fiscal assistance and local public works are most responsive in that their distributions correlate highly with all three dimensions of need.

General Revenue Sharing

Under the general revenue sharing program, funds are distributed annually to roughly 39,000 state and general purpose local governments. The program includes few restrictions concerning the uses to which funds may be put. In fiscal year 1977, federal spending in this program equalled $6.8 billion.

Revenue sharing funds are distributed by formula in a three stage process. First, funds are allocated among state areas, using either of two distribution formulas. The first considers five factors--population, relative per capita income (inversely), urbanized population, tax effort, and state personal income tax collections--and is used currently by 20 states. The second formula considers population, tax effort, and relative per capita income, and is currently used by the remaining 30 states. After one-third of every state's allocation is set aside for use by the state government, the three-factor formula is used to make sub-state allocations, first to county areas and then to local governments within counties. At each stage of the within-state distribution, the formula operates subject to a series of constraints. For example, no county area or specific unit of local government may receive a per capita allocation that exceeds 145 percent or falls below 20 percent of the per capita amount available for local distribution within the state.

One study of the general revenue sharing program found that municipalities larger than 50,000 were the direct recipients of approximately one-quarter of general revenue sharing funds in 1972. 5/ In addition, residents of these areas were found to benefit to some extent from grants to overlying state and county governments. If it is assumed that these larger governments spend in ways that benefit all residents equally, then the 36 percent of the population living in cities larger than 50,000 might be said to benefit from 41 percent of the general revenue sharing program dollars (see Table 15).

5/ Richard Nathan, Allen Manvel, and Susannah Calkins, Monitoring Revenue Sharing (Washington, D.C.: The Brookings Institution, 1975).

TABLE 15. GENERAL REVENUE SHARING PAYMENTS TO MUNICIPALLY GOVERNED AREAS, 1972

Item	All Areas	Population, 1970: 300,000 and Over	100,000–300,000	50,000–100,000	10,000–50,000	2,500–10,000	1,000–2,500	500–1,000	Under 500
Municipally Governed Areas									
Number	18,493	48	106	230	1,594	3,301	3,569	3,297	6,348
Percent	100.0	0.3	0.6	1.2	8.6	17.8	19.3	17.8	34.3
1970 Population (in thousands)	132,462	40,367	16,287	16,044	33,535	16,528	5,701	2,701	1,627
Percent	100.0	30.5	12.3	12.1	25.3	12.5	4.3	1.8	1.2
Shared Revenue for 1972									
Municipalities (millions of dollars)	1,912.8	794.8	254.3	198.8	388.5	182.6	59.2	21.9	12.5
Percent	100.0	41.6	13.3	10.4	20.3	9.5	3.1	1.1	0.7
Municipalities plus prorated county amounts (millions of dollars)	2,667.8	907.6	350.4	295.1	610.7	371.8	111.9	45.0	29.4
Percent	100.0	34.0	13.0	11.1	22.7	11.9	4.2	1.7	1.1
Municipalities plus prorated county and state amounts (millions of dollars)	3,805.1	1,252.5	487.5	435.2	899.4	459.3	161.8	65.7	43.7
Percent	100.0	32.9	12.8	11.4	23.6	12.1	4.3	1.7	1.1
	Averages for all Areas (in dollars)	Indexes (100 = average for all municipally governed areas)							
Shared Revenue of Municipalities									
Per Capita	14.5	136	108	86	80	76	72	64	55
Per $1,000 income	4.47	131	110	83	78	81	85	81	74
Shared Revenue of Municipalities plus Prorated County Amounts									
Per Capita	20.14	112	107	91	90	95	97	94	90
Per $1,000 income	6.23	107	109	88	88	101	115	118	121
Shared Revenue of Municipalities plus Prorated County and State Amounts									
Per Capita	28.73	108	104	94	93	97	99	96	93
Per $1,000 income	8.88	104	106	91	91	103	116	121	126

SOURCE: Nathan and others, Monitoring Revenue Sharing, p. 130.

Revenue sharing entitlements vary among cities. In general, cities with low per capita incomes and high tax efforts will receive larger per capita grants. Because of the hierarchical allocation process, however, cities with identical populations, tax efforts, and per capita incomes need not receive the same revenue sharing entitlement. The relative need of the state and county areas in which cities are located also influences the size of the allocation. 6/

The combination of state-, county-, and city-level factors used in the allocation process results in larger cities (those with populations over 100,000) receiving more revenue sharing per capita than smaller cities. Cities in each of the smaller size groupings (see Table 15) received less under the existing formula than they would have if the distribution had been based solely on population. When amounts going to overlying state and county governments were counted, larger municipalities still tended to receive a larger amount per capita than smaller ones but the differences were found to be smaller. The narrowing of the difference occurs because a number of the very large cities have no overlying county.

If an alternative standard for comparing the size of revenue sharing entitlements across cities--shared revenues per $1,000 income--is used and consideration is limited to revenue sharing paid directly to municipal govenments, then larger cities still appeared to do better than smaller ones. If, however, one takes into account the grants going to overlying units of government, then the advantage (based on this measure) shifts to smaller units of government.

An analysis of general revenue sharing payments to the sample cities suggests that the program is relatively responsive to differences in economic and fiscal need (see Table 16). As was intended, the program appears most responsive to differences in fiscal need: the grant per capita to fiscally high-need

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6/ See John Ross, Alternative Formulae for General Revenue Sharing: Population Based Measures of Need, Report NSF 74-27 (Center for Urban and Regional Study, Virginia Polytechnic Institute and State University, June 1975). This study indicates that, using regression analysis, state and county area characteristics account for 25.5 percent of the explained variation in city allocations.

TABLE 16. DISTRIBUTION OF GENERAL REVENUE SHARING RELATIVE TO SOCIAL, ECONOMIC, AND FISCAL NEED: DOLLARS PER CAPITA

	Number of Cities	General Revenue Sharing to City Government	General Revenue Sharing to City and Overlying County Government
Social Need			
All Cities	39	21.60	27.83
High	10	24.71	30.85
Medium	19	21.25 a/	28.23
Low	10	19.18	24.06
Economic Need			
All Cities	45	21.10	27.51
High	10	25.75	30.53
Medium	25	21.10	28.69
Low	10	16.44	21.52
Fiscal Need			
All Cities	38	21.25	27.72
High	10	28.29	31.55
Medium	18	21.74	28.62
Low	10	14.33	22.27

SOURCE: Calculated by CBO. Analysis is based on general revenue sharing entitlements for fiscal year 1976 as reported in Advisory Commission on Intergovernmental Relations, Trends in Metropolitan America, Report M-108 (February 1977), Table 19.

a/ The differences among these averages are insignificant at the .05 level. This means that one can have little confidence that the distribution of grants is in fact related to differences in need.

cities was $28.29, almost twice that received by low-need cities. The strength of this relationship is overstated. Several of the cities that have high fiscal need are city-counties. Their revenue sharing allocations are overstated relative to other cities since what would ordinarily be the county governments' share is credited to the cities. To improve comparability, other cities' grants were adjusted to reflect a proportional share of their overlying county governments' awards. When this is done, the program still appears to be responsive to differences in fiscal need but less so than before. The program's responsiveness to economic need also decreases slightly, but it increases with respect to social need.

Community Development Block Grants

The Community Development Block Grant (CDBG) program was authorized in 1974 as a replacement for several categorical programs, including urban renewal, model cities, neighborhood facilities, rehabilitation loans, public facilities loans, water and sewer facilities, and open space. The program was reauthorized in 1977 with several changes, the most significant of which was the adoption of a dual formula funding mechanism for entitlement cities. Roughly $3.5 billion is distributed annually under the program.

Communities are eligible to receive community development block grant funds on three bases. First, central cities, suburban cities larger than 50,000, and some urban counties are eligible to receive funds on an entitlement basis by formula. Second, smaller communities are eligible to compete for discretionary funding of specific projects. Finally, through 1980 a number of communities--large and small--receive funds based on the hold-harmless provisions of the law which were designed to give communities that were active participants in the replaced categorical program time to adjust to their funding status under the new program.

The allocation process proceeds in several stages. First, the total appropriation is divided into two parts--80 percent for use in metropolitan areas, 20 percent for use in nonmetropolitan areas. Next formula entitlements are determined. Under the original law, three factors were considered: population, poverty population, and overcrowded housing units. Starting in 1978, entitlements will also be calculated using an alternative

formula that considers poverty population, aged housing, and population growth lag. After formula entitlements have been met, remaining funds are used, first to meet hold-harmless payments and then to make discretionary grant awards.

Under the CDBG program, funds are disbursed more widely and more evenly than they were under the old categorical programs; as a result, the proportion of funds going to central cities and other cities larger than 50,000 has decreased. Entitlement cities received 76 percent of federal funds distributed under the old categoricals. These same cities received 66 percent of CDBG funds in fiscal years 1975. Prior to the reauthorization of the program, it was estimated that with the phaseout of hold harmless and with distributions based on the original formula, entitlement cities would have received only 47 percent of the 1980 CDBG appropriation. With the change to the dual formula funding approach, entitlement cities are expected to do somewhat better. HUD estimates that their share of total funds will be 62 percent in 1980.

While the proportion of funds going to all entitlement cities has decreased under the CDBG program, the distribution among them may better reflect differences in need for funds. HUD studied the extent to which various distributions among entitlement cities reflected differences in community development need. This study found that the distribution specified by the 1974 formula had a closer match with need than a distribution based solely on hold-harmless considerations (see Table 17). 7/ In particular, HUD found the 1974 formula to be highly responsive to need based on poverty but unresponsive to need based on other factors, such as age, population decline, and density. These latter dimensions of need did not go totally unrecognized in the actual distribution of block grant funds since hold-harmless payments appear to have been somewhat sensitive to these considerations. With the mandated phaseout of hold harmless, however, a change in the formula seemed necessary to insure that important dimensions of community development need were not ignored. The adoption of the second formula, using age of housing, growth lag, and poverty population as factors, should make the distribution more responsive to differences in city need.

7/ Harold Bunce, An Evaluation of the Community Development Block Grant Formula, U.S. Department of Housing and Urban Development (December 1976).

TABLE 17. COEFFICIENT OF CORRELATION BETWEEN MEASURES OF COMMUNITY DEVELOPMENT NEED AND VARIOUS PER CAPITA ALLOCATIONS

Dimensions of Community Development Need	Original Formula	Hold Harmless	Dual Formula
Poverty	.90	.17	.38
Age and Population Decline	.22	.33	.68
Density	.11	.26	.32

SOURCE: Harold Bunce, An Evaluation of the Community Development Block Grant Formula. Measures of need are derived from a factor analysis of 17 variables related to urban blight or neighborhood instability. All correlations are significant at .025 level.

NOTE: A correlation coefficient of 1.0 would mean that in every instance a city with greater need would receive a larger per capita grant and that the size of a city's grant could be predicted precisely based on its need score. A correlation coefficient of 0 would mean that the distribution of grants is random with respect to need.

Analysis of the actual distribution of funds in 1977 to 45 cities shows that it bore little relationship to differences in social or economic need (see Table 18). The ten cities with lowest need seemed in each instance to receive relatively small grants, but among the remaining cities differences in need were not reflected in the size of grant payments. An evaluation of the distribution pattern from the perspective of fiscal need is somewhat more favorable.

Had there been no hold-harmless provisions and had the formula in the 1974 act governed the 1977 distribution, then it would have matched more closely differences among cities in social need, but done less well with respect to economic need.

TABLE 18. THE DISTRIBUTION OF COMMUNITY DEVELOPMENT BLOCK GRANTS RELATIVE TO SOCIAL, ECONOMIC, AND FISCAL NEED: IN DOLLARS PER CAPITA

	Number of Cities	1977 Actual Distribution	1977 Distribution if Based Solely on Hold-Harmless Considerations	1977 Distribution if Based Solely on 1974 Act Formula Only	Estimated 1980 Distribution Based on Dual Formula and No Hold-Harmless
Social Need					
All Cities	39	27.86	25.53	18.78	35.63
High Need	10	29.90	27.85	22.85	44.85
Medium Need	19	28.71 a/	27.14 a/	18.11	34.61
Low Need	10	24.22	20.42	15.99	28.33
Economic Need					
All Cities	45	27.81	25.11	18.72	34.76
High Need	10	29.70	27.78	20.59	49.78
Medium Need	25	29.42 a/	27.91	18.85 a/	34.93
Low Need	10	21.89	15.44	16.55	19.31
Fiscal Need					
All Cities	38	28.66	26.23	18.84	35.93
High Need	10	33.89	31.96	21.27	44.11
Medium Need	18	30.62	28.18	20.04	37.93
Low Need	10	19.90	16.98	14.24	24.14

SOURCE: CBO calculations. The three distributions for 1977 are based on data supplied by the Department of Housing and Urban Development. The estimates of the 1980 distribution come from U.S. Department of Housing and Urban Development, Decentralizing Community Development, Appendix II, Projected CDBG Allocations to Entitlement Jurisdictions in Fiscal 1980, by Paul Dommel and others (forthcoming, 1978).

a/ The differences among these averages are insignificant at the .05 level. This means that one can have little confidence that the distribution of grants is in fact related to differences in need.

Simulations of the 1980 distribution--the first under the dual formula approach that will be free of the influence of hold-harmless considerations--show a pattern that is relatively responsive to all three dimensions of urban need. Both the best performance and the greatest improvement in performance occur for economic need. According to the simulation, the ten cities with the highest need would receive an average per capita grant of $49.78, well over twice the amount that would be received by low-need cities. Viewed from the perspective of social and fiscal need, the distribution that would be achieved does not

seem quite so well targeted. More needy cities would receive larger grants than less needy ones but the differences among the groups in average grant size would be somewhat less.

Antirecession Fiscal Assistance

The Antirecession Fiscal Assistance (ARFA) program was initiated in 1976 as part of the effort to stimulate economic growth and overcome the recession; the program is authorized through the end of fiscal year 1978. Under the program, funds are distributed in times of high unemployment to eligible state and local governments to be used for almost any purpose other than capital construction.

Funds for this program are authorized on a quarterly basis, with the amount contingent on the rate of national unemployment. 8/ Funding is cut off entirely if unemployment falls below 6 percent. The estimated outlays for fiscal year 1978 are $1.34 billion.

States and general purpose local governments serving areas with unemployment rates higher than 4.5 percent are eligible to receive antirecession fiscal assistance. One-third of the amount available for distribution in every quarter is set aside for state governments. General purpose local governments compete for the remaining two-thirds. Each eligible government's share is determined by a formula that includes unemployment in excess of 4.5 percent and the size of its general revenue sharing entitlement.

While the shape of the distribution is dynamic, depending upon the severity of economic problems and geographic differences in the pace of economic recovery, it appears that city governments serving 50,000 people or more are receiving approximately one quarter of all antirecession funds and 40 percent of all

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8/ A formula specifies a quarterly funding level of $125 million plus $30 million for each tenth of a percentage point by which unemployment exceeded 6 percent in the calendar quarter that ended three months prior.

payments to local governments. 9/ Residents of these areas might also be expected to benefit from payments made to overlying county and state governments.

The antirecession fiscal assistance program has been found to be quite effective in targeting funds on places with serious economic and fiscal problems. Half of the funds distributed in the fifth quarter of the program went to local governments serving areas with 10 percent or more unemployment. 10/ As shown in Table 19, per capita grants to governments were

TABLE 19. ANTIRECESSION FISCAL ASSISTANCE, PER CAPITA PAYMENTS TO LOCAL GOVERNMENTS, GROUPED BY UNEMPLOYMENT RATES a/

Unemployment Rates for Local Areas (in percent)	Average Per Capita Payment (in dollars)
16 to 18	26.48
14 to 16	11.12
12 to 14	9.32
10 to 12	6.92
9 to 10	5.96
8 to 9	4.56
7 to 8	2.60
6 to 7	2.16
5 to 6	1.88
4 to 5	0.08
less than 4	0.16

SOURCE: Department of the Treasury.

a/ Local governments grouped based on unemployment rate in the first quarter of 1976. National unemployment in that period equalled 7.7 percent. Per capita figures are annualized based on the distribution in the first quarter of 1977.

9/ See Department of the Treasury, Antirecession Allocation Summary Statement for the Fifth Quarter of the Program (July 1, 1977-September 30, 1977). The distribution was based on unemployment rates for January 1, 1977 to March 31, 1977, a period when the national unemployment rate was 7.5 percent.

substantially larger in areas with high unemployment rates than in those with low rates.

A Treasury Department study of large city governments found that those with high fiscal strain received larger grants than those with fewer fiscal difficulties (see Table 20). 11/

TABLE 20. ANTIRECESSION FISCAL ASSISTANCE ALLOCATIONS TO 48 LARGE CITY GOVERNMENTS, GROUPED ON THE BASIS OF FISCAL CONDITION

	High-Strain Cities	Moderate-Strain Cities	Low-Strain Cities	All Cities
Total ARFA Allocation (in millions of dollars)	458.7	189.0	41.5	687.2
Percent of Total	67.0	27.0	6.0	100.0
Per Capita ARFA Allocation (in dollars)	28.65	12.01	6.65	18.04
Estimated 1978 ARFA Allocations as an Equivalent Increase in Property Tax (dollars per each $100 of full-market value)	.15	.05	.02	.08
Estimated 1978 ARFA Allocations as Percent of Adjusted Own Source Revenue	2.5	1.8	1.3	2.1

SOURCE: Department of the Treasury, Fiscal Impact of the Economic Stimulus Package on 48 Large Urban Governments (January 23, 1978).

11/ U.S. Department of the Treasury, Office of State and Local Finance, Report on the Fiscal Impact of the Economic Stimulus Package on 48 Large Urban Governments (January 23, 1978). Cities were classified after combining a Treasury index with rankings developed by researchers at The Brookings Institution, The Urban Institute, The University of Chicago, and the National Planning Association. The Treasury Department's ranking was based on five measures: change in population, change in per capita income, own-source revenue growth relative to per capita income growth, and change in value of property tax base.

Similar conclusions are reached when grants to 45 large cities are analyzed with reference to various measures of need. Whether the focus is on social, economic or fiscal conditions, the ten cities with the greatest need received susbtantially higher per capita grants than less needy cities (see Table 21).

TABLE 21. DISTRIBUTION OF ANTIRECESSION FISCAL ASSISTANCE RELATIVE TO SOCIAL, ECONOMIC, AND FISCAL NEED: IN DOLLARS PER CAPITA

	Number of Cities	Antirecession Fiscal Assistance to City Government	Antirecession Fiscal Assistance to City Government and Overlying County Government a/
Social Need			
All Cities	39	5.96	7.18
High Need	10	9.26	10.39
Medium Need	19	5.49	7.03
Low Need	10	3.55	4.24
Economic Need			
All Cities	45	5.94	7.24
High Need	10	9.27	10.58
Medium Need	25	5.88	7.29
Low Need	10	2.76	3.78
Fiscal Need			
All Cities	38	6.46	7.88
High Need	10	9.65	10.64
Medium Need	18	6.54	8.06
Low Need	10	3.13	4.80

SOURCE: CBO calculations based on data for the first four quarters of the program (July 1, 1976 - June 30, 1977). Obtained from Department of the Treasury, Antirecession Fiscal Assistance to State and Local Governments, Quarter 4, (April 7, 1977).

a/ City is assumed to benefit from the payment to the overlying county in proportion to its population.

If a portion of the antirecession grant to the overlying county is added to the grant received by the city, the distribution pattern does not change substantially. Responsiveness to differences in social need remains the same, but drops slightly with respect to economic and fiscal need.

While the antirecession fiscal assistance formula produces a distribution pattern that is favorable to cities with long-term problems, it is less clear that it does well at targeting funds on governments that had the largest recession-induced revenue shortfalls. Since some view that as a major objective of the program, the formula has been criticized. 12/

Grants for Employment and Training

Most grants for employment and training are authorized in the various titles of the Comprehensive Employment and Training Act (CETA) of 1974. Title I authorizes a block grant to prime sponsors for comprehensive employment services. It replaces a number of smaller categorical programs and is intended to decentralize responsibility by providing greater discretion over program content to local officials. Titles II and VI authorize public service employment programs that are also administered by local prime sponsors. The Title VI program was not part of the original act; it was added in 1976 as part of efforts to fight the recession.

In areas with populations larger than 100,000, prime sponsors are individual local governments or consortia of local governments. In fiscal year 1975, 58 city governments, 156 county governments, and 134 consortia of local governments served as prime sponsors. In less populous areas, state governments may serve as prime sponsors.

All prime sponsors are eligible for funding under Titles I and VI. Title II funds are restricted to prime sponsors having areas of "substantial unemployment" which are defined in the law as contiguous areas containing at least 10,000 persons and having unemployment rates in excess of 6.5 percent

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12/ See General Accounting Office, Anti-Recession Assistance--An Evaluation, PAD-78-20 (November 29, 1977).

for 3 or more consecutive months. Since the last recession, high rates of unemployment are so widespread that few prime sponsors are ineligible for Title II funds.

Formulas are used to distribute funds among prime sponsors under Titles I, II, and VI.

- The Title I formula allocates 50 percent of available funds based on prior-year funding levels, 37.5 percent based on the number of unemployed, and 12.5 percent based on the low-income population. In addition, the Title I distribution is subject to a statutory constraint that no prime sponsor receive less than 90 percent or more than 150 percent of the previous year's funding level.

- Title II funds are distributed based on the number of unemployed persons living in areas of substantial unemployment.

- The Title VI formula allocates 50 percent of available funds based on the total number of unemployed, 25 percent based on the number of unemployed in areas of substantial unemployment, and 25 percent based on the number of unemployed in excess of 4.5 percent of the labor force.

The distribution of public service employment (PSE) funds under Titles II and VI was studied as part of an analysis by the Treasury Department in the Fiscal Impact of the Economic Stimulus Package on 48 Large Urban Governments. The PSE program was found to be less effective than either antirecession fiscal assistance or local public works at targeting funds on cities with high fiscal strain. While high-strain cities receive somewhat larger per capita allocations than other cities, the grant is equal to a smaller proportion of their own-source revenues and supports a smaller percentage of the local government work force (see Table 22).

TABLE 22. ALLOCATIONS UNDER CETA TITLES II AND VI TO 48 LARGE CITIES, GROUPED ON THE BASIS OF FISCAL CONDITION

	High-Strain Cities	Moderate-Strain Cities	Low-Strain Cities	All 48 Cities
Total CETA Allocations (in millions of dollars)	684.3	597.5	192.0	1,473.8
Percent of Total	46.0	41.0	13.0	100.0
Per Capita Total CETA Allocations (in dollars)	42.74	37.96	30.74	38.69
Estimated 1978 CETA Allocations as Equivalent Increase to Property Tax (dollars per each $100 of full-market value)	.28	.21	4.15	.22
Estimated 1978 CETA Allocations as Percent of Adjusted Own Source Revenues	4.7	7.2	8.0	5.8
CETA Jobs as Percent of the City Government Workforce	11.0	15.0	18.0	16.0

SOURCE: U.S. Department of the Treasury, Fiscal Impact of the Economic Stimulus Package on 48 Large Urban Governments.

For the 45-city sample analyzed in this paper, Title I is more effective than Titles II and VI at targeting funds on needy cities. The Title I block grant formula is most responsive to differences among cities with respect to social need. It does best at identifying the very high-need cities, providing grants that on average were 50 percent higher than those received by other cities (see Table 23). At the lower end of the need range, however, differences among cities were less clearly translated into the size of their grants. Cities with moderate social need received an average grant per capita of $8.85, little more than the average grant received by low-need cities ($8.30).

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TABLE 23. DISTRIBUTION OF COMPREHENSIVE EMPLOYMENT AND TRAINING GRANTS RELATIVE TO SOCIAL, ECONOMIC, AND FISCAL NEED: IN DOLLARS PER CAPITA

	Number of Cities	CETA Title I (Block Grant)	CETA Title II (Public Service Employment)	CETA Title VI (Public Service Employment)
Social Need				
All Cities	39	9.74	1.99	8.28
High Need	10	12.86	2.34	10.06
Medium Need	19	8.85	1.94 a/	7.74 a/
Low Need	10	8.30	1.74	7.53
Economic Need				
All Cities	45	9.75	2.02	8.18
High Need	10	11.63	2.15	9.45
Medium Need	25	10.18	2.18	8.64
Low Need	10	6.81	1.47	5.75
Fiscal Need				
All Cities	38	10.07	2.09	8.41
High Need	10	11.70	2.05	8.75
Medium Need	18	10.38 a/	2.19 a/	8.43 a/
Low Need	10	7.87	1.96	8.00

SOURCE: CBO calculation based on fiscal year 1977 funding allocations as reported in the Employment and Training Reporter, December 8, 1976 and May 11, 1977. For the 22 cities that are members of consortia, each city's share of the consortia allocation was assumed to be proportional to its share of total unemployed in the consortia's jurisdiction in January 1976.

a/ The differences among these averages are insignificant at the .05 level. This means that one can have little confidence that the distribution of grants is in fact related to differences in need.

Title I employment grants also vary to some extent in response to differences in the economic and fiscal need of cities. In both cases, however, grants to high-need cities were little larger than grants to cities with moderate need. These two sets of cities, however, received grants that were substantially larger than those received by low-need cities.

With respect to each dimension of need, both Titles II and VI, which provide support for public service employment, are less well-targeted on needy cities. Both distribute funds using formulas that count unemployment in various ways. Neither formula is at all effective in distinguishing differences among cities in fiscal need: any differences in the size of the average grant awards for the cities grouped according to fiscal position are statistically insignificant. The distributions under both programs correlated somewhat better with social and economic need. Cities with the worst social problems received $2.34 per capita under Title II and $10.06 under Title VI, while low-need cities were granted $1.74 and $7.53 respectively. The pattern is similar with respect to economic need. The combined grant for public service employment to high-need cities was $10.20 per capita; low-need cities received $7.22.

Local Public Works Program

The Local Public Works (LPW) program was authorized by the Public Works Employment Act of 1976 and reauthorized in 1977 as part of the federal effort to stimulate the national economy. Altogether $6 billion was appropriated--$2 billion in 1976 (Round 1) and $4 billion in 1977 (Round 2)--for use by state and local governments for small scale, quickly completed public works projects.

Local area allocations were set using a two-stage process. 13/ First, state area allocations were determined using a

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13/ While the process described here was not developed by the Economic Development Administration until Round 2, it nevertheless determined each area's share of total LPW funds. The full $6 billion appropriation was used as the base for calculating each area's allocation; Round 1 awards were then subtracted out to yield the amount available for projects in Round 2.

formula that distributed 65 percent of the funds based on the number of unemployed persons and 35 percent based on unemployment in excess of 6.5 percent. Individual state allocations were constrained by law to a minimum of $30 million and a maximum of $500 million. After setting aside amounts for the state governments and pockets of poverty in ineligible areas, the remainder was apportioned among local areas having unemployment rates above 6.5 percent or above the state average unemployment rate if it was lower than 6.5 percent. 14/ Eligible local areas include primary cities, the portion of counties remaining after excluding primary cities, and counties with no primary cities. Local area apportionments were made using the same 65/35 formula used at the state level.

Cities larger than 50,000 were allocated $2.65 billion, or 44 percent of the $6 billion appropriated for the program. Local areas with unemployment above the national average received 69 percent of the available funds. 15/

In an analysis of all of the economic stimulus programs, the Treasury Department found that large cities under high fiscal strain received larger per capita LPW grants than other cities (see Table 24). On the other hand, relative to own-source revenues the local public works grant appears smaller in high-strain cities.

When grants to 45 large cities are considered in the context of the need measures described earlier, the local public works program is found to be relatively well-targeted. The distribution is particularly responsive to differences in economic and fiscal need. Cities with high need on each dimension receive substantially larger grants than cities with less need. When cities are grouped based on the severity of their social problems, those with high need are favored but the differences between groups in the size of the average grant award are relatively small (see Table 25).

14/ Primary cities have populations greater than 50,000.

15/ U.S. Department of Commerce, Local Public Works Program: Status Report (January 1978).

TABLE 24. LOCAL PUBLIC WORKS GRANTS TO 48 LARGE CITIES, GROUPED ON THE BASIS OF FISCAL CONDITION

	High-Strain Cities	Moderate-Strain Cities	Low-Strain Cities	All 48 Cities
Total LPW Allocation (in millions of dollars)	556.5	374.6	82.2	1,013.3
Percent of Total	55.0	37.0	8.0	100.0
Per Capita Total LPW Allocations	34.76	23.80	13.16	26.60
Estimated 1978 LPW Allocations as Equivalent Increase in Property Tax (in dollars per $100 of full-market value)	.22	.14	.07	.16
Estimated 1978 LPW Allocations as a Percent of Adjusted Own-Source Revenue	3.7	5.0	4.0	4.1

SOURCE: U.S. Department of Treasury, Fiscal Impact of the Economic Stimulus Package on 48 Large Urban Governments.

TABLE 25. DISTRIBUTION OF LOCAL PUBLIC WORKS GRANTS RELATIVE TO SOCIAL, ECONOMIC, AND FISCAL NEED: IN DOLLARS PER CAPITA

	Number of Cities	Grants Per Capita
Social Need		
All Cities	39	28.71
High Need	10	35.45) a/
Medium Need	19	28.01) a/
Low Need	10	23.28) a/
Economic Need		
All Cities	45	29.99
High Need	10	40.56
Medium Need	25	31.54
Low Need	10	15.56
Fiscal Need		
All Cities	38	32.43
High Need	10	42.03
Medium Need	18	31.25
Low Need	10	24.96

SOURCE: CBO calculations based on Round 1 and Round 2 planning targets as reported in Department of Commerce, Planning Targets for Applicants and Areas Under the Public Works Employment Act of 1977, PL 95-28 (July 14, 1977).

a/ Differences in average grant size among the need groupings of cities are too small to be statistically significant at .05 level.

CONCLUSION

The distribution of funds resulting from each of the five programs studied--general revenue sharing, antirecession fiscal assistance, community development block grants, comprehensive employment and training, and local public works--is responsive to one or more dimensions of urban need. For some programs and some dimensions of need, however, no relationship is apparent between the size of a city's grant and its level of need. But in no instance did a program regularly provide larger grants to cities with lesser need.

Of the programs studied, antirecession fiscal assistance and local public works are the most effectively targeted. Their distributions are simultaneously responsive to differences among the sample cities in social, economic, and fiscal need (see Table 26 for summary measures of responsiveness). The community development block grant program is likely to be equally well-targeted once the new dual formula approach legislated in 1976 is fully implemented.

Further analysis is required to understand fully why these programs' formulas are effective in directing resources to needy cities. The ARFA and LPW distributions are both based in part on the unemployment rate above a threshold level (4.5 percent for ARFA and 6.5 percent for LPW). Counting unemployment in this way skews the distribution in favor of the neediest places. The community development block grant formulas include indicators of both social need and economic decline. Since fiscal need often stems from one or both of these sets of circumstances, the formulas successfully produce a distribution pattern that is also responsive to differences in fiscal need.

Other programs studied are also relatively responsive to one or more dimensions of urban need. CETA Titles I and II have distribution patterns that approximate the distribution of social need among cities. The general revenue sharing and the 1977 community development block grant program distributions were both favorable to cities with high fiscal need.

TABLE 26. CORRELATION BETWEEN GRANTS DISTRIBUTION AND SOCIAL, ECONOMIC, AND FISCAL NEED

Program	Social Need	Economic Need	Fiscal Need
General Revenue Sharing			
To city governments only	.378	.401	.769
To city and overlying governments	.528	.354	.516
Community Development Block Grant			
1977 actual distribution	.328	.361	.609
1974 formula only	.698	.222 a/	.586
New dual formula	.548	.786	.517
Antirecession Financial Assistance			
To city governments only	.714	.620	.656
To city and overlying governments	.731	.524	.481
Local Public Works	.546	.608	.546
Comprehensive Employment and Training			
Title I	616	.428	.417
Title II	509	.399	.028 a/
Title VI	446	.372	.168 a/

SOURCE: CBO calculations.

NOTE: The summary measure used is a Pearson correlation coefficient; if a program receives a score of 1.000 it means that in every instance cities with higher need received a larger per capita grant than cities with lesser need. A perfect correlation also implies that the relationship is consistent and linear, that the size of a city's grant could be predicted precisely based on its need score. A low score indicates that the grant distribution bears little or no relation to differences among cities in the severity of their problems.

a/ These correlation coefficients are insignificant at .05 level. It is possible in these instances that there is no relationship between grant size and level of city need.

Caveats in Assessing the Responsiveness of Current Programs to Urban Need 16/

These assessments of the target effectiveness of federal grant programs are predicated on the ability to differentiate among cities with respect to need. Informed observers disagree over which problems or conditions ought to be included in calculations of urban need. To some extent this is inevitable since many of the choices must ultimately be based on value judgments. Better knowledge of urban dynamics--of cause-effect relationships within cities--would facilitate the development of consensus on those aspects of urban need that should be considered.

The selection of problems to be focused on is crucial because not all problems are distributed in a similar fashion. 17/ Whereas economic decline may be the major problem in New York, low levels of income and education may be the difficulty in Tampa. If only one set of problems is measured in a grant program formula, then the residents of one city or another may well feel that their legitimate needs are being ignored.

Even if there were agreement on the dimensions of urban need, existing data and measurement methods have a number of limitations that restrict the identification of differences among cities. Some problems don't lend themselves to quantitative measurement at all (for example, strength of community institutions) while others can be measured in several different ways. All too often measurement instruments are not capable of distinguishing differences in levels of need with the degree of precision that is desirable when the distribution of federal resources are at stake.

Assessments of program responsiveness to need are also limited by the accuracy and timeliness of data. Full censuses are the primary source of data but they are costly and relatively infrequent. Data quality is generally good but still subject to some error (for example, population undercounts). Efforts to develop techniques for making inter-censal estimates of key measures for state and local areas using administrative records

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16/ These caveats are discussed more fully in Chapter II.

17/ For a fuller discussion of patterns of urban need among cities, see Chapter IV.

are proceeding but much work remains to be done. Data for small jurisdictions is often nonexistent or unreliable. More and better data exist for larger jurisdictions but, as the recent controversy over the change in Bureau of Labor Statistics methodology for computing unemployment rates in large cities shows, data are still far from perfect.

Given these circumstances, conclusions regarding patterns of urban need and the responsiveness of grant distribution to these patterns must be drawn cautiously. This study considered a wide range of measures generally included in urban policy discussions; the patterns of need identified are almost certainly correct in a general way although the specific rank-ordering of cities is equally certainly subject to error. Conclusions regarding the target-effectiveness of grant programs are also limited by the sample of cities used in that part of the study. The 45 cities included are all relatively large (over 110,000), whereas eligibility for most of the programs extends to fairly small jurisdictions. Patterns of responsiveness shown to exist for the sample of large cities may or may not hold for smaller ones.

APPENDIX

APPENDIX. METHODOLOGY FOR CREATING THE COMPOSITE INDEXES OF SOCIAL, ECONOMIC, AND FISCAL NEED

The composite indexes of social, economic, and fiscal need were created by combining individual measures (detailed in the text) using a method designed to assign equal importance to each component. First, the individual measures were standardized by assigning a value of 100 to the range of variation among cities using the following formula:

$$x = \frac{y - y_a}{y_b - y_a}$$

where,

x = standardized score to be created for each city.

y = value on a specific measure of urban need for each city.

y_a = value of y indicating least need.

y_b = value of y indicating greatest need.

Thus for each measure, the city with the greatest need (that is, the lowest per capita income, the highest unemployment rate, etc.) was assigned a score of 100 and the city with the least need a score of 0. Second, the composite measure of need for each city was determined by calculating the average score received on the standardized component measures.

The methodology used is similar to that developed at the Brookings Institution for the indexes of intercity hardship and intrametropolitan disparities.