GAO United States
General Accounting Office
Washington, D.C. 20548

Office of the Chief Economist

B-262224

August 1, 1995

The Honorable Amo Houghton
House of Representatives

Dear Mr. Houghton:

Enclosed are answers to three questions you raised about the District of Columbia at a meeting on June 19, 1995.

As discussed with your staff we made comparisons between the District of Columbia and other cities adjusting when possible for the fact that the District combines city, school district, county, and state functions in one government.

If you have questions about the information provided, please contact me at (202) 512-6209.

Sincerely yours,

James R. White

James R. White
Acting Chief Economist

Attachment

065338/154969

bcc: ACG, Policy
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COMPARING EXPENDITURES PER CAPITA AMONG CITIES

Question 1: **What would the District of Columbia lose, in dollars and per capita dollars, if it made the same use of its tax capacity as the average across all states (i.e., set tax effort equal to 100, rather than 157, on ACIR's Representative Tax System index)?**

ACIR Values for DC (1991)	Per Capita Dollars	Dollars (millions)
Tax Capacity	$2,566.69	$1,534.9
Tax Revenue (actual effort)	$4,036.83	$2,414.0
Difference	-$1,470.14	-$879.1

The Advisory Commission on Intergovernmental Relations developed its concepts of tax capacity and tax effort to measure the potential and actual relative revenue-raising abilities of state and local governments.

Tax capacity measures the relative per capita amounts of tax revenue states would raise if they used ACIR's "representative tax system (RTS)", i.e., if they applied a standard, representative set of tax base definitions and tax rates in every state. The RTS consists of national average tax rates applied to all commonly used tax or revenue bases, regardless of whether or to what extent the state and its localities actually use the tax. For example, an individual income tax base is estimated for states that have no individual income tax because this tax option is available to them. A standard set of tax rates is calculated by dividing the U.S. total of actual revenues for a tax source by the total estimated RTS base for all states, producing a national average tax rate. To estimate the dollar amount of tax capacity for every state, ACIR multiplies the RTS tax base by the representative tax rate for each revenue source. ACIR indexes tax capacity by dividing a state's tax capacity per capita by the national average capacity per capita and multiplying by 100. The result is a measure of the potential tax wealth of each state and the District of Columbia in relation to the national average of 100. The District's 1991 tax capacity was indexed at 123 by ACIR.

The ACIR measure for tax effort is determined by comparing a government's actual tax revenues collected with its hypothetical representative capacity to collect taxes. A state's tax effort indicates the extent to which a state is using the tax bases available to it relative to the national average. The ACIR index is computed by dividing actual revenue collected per capita by the per capita tax capacity and multiplying by 100. The District's 1991 tax effort was indexed at 157 by ACIR.

Question 2: What would the data show if we performed similar calculations for cost?

Question 3: For the 5 cities identified as well managed, what were their costs per resident and their taxes per resident?

The 1991 ACIR index does not include any comparable data for representative expenditures. However, we can calculate rough per capita values using Census Bureau data from the Government Finances series. Because D.C. is responsible for functions that are typically divided among state, county, city, school district and other local units of government meaningful comparisons of expenditures and taxes per resident cannot be made using city data only. School district, county, and state boundaries often differ from city boundaries complicating attempts to allocate expenditures or revenues of such jurisdictions to city residents. Additional complicating factors include differences in fiscal years, intergovernmental revenue flows, debt financed capital expenditures, and services provided by overlying special districts such as transportation and hospital.

To partially mitigate these factors we compared the District of Columbia to selected other cities that have combined city/county governments and allocated school district and state expenditures and revenues to city residents. One of the cities identified as well managed, Indianapolis, has a combined city/county government and is included in our comparison, The other four well managed cities are omitted - they have overlying county governments which would have required arbitrarily allocating county expenditures and revenues to city residents. We adjusted for large intergovernmental revenue flows to avoid double counting, allocated state spending and revenues to city residents on a per capita basis, and made numerous adjustments to make school expenditures and revenues as comparable as possible. We did not try to adjust for differences in fiscal years. Differences between expenditures and revenues in the table are not an indication of budget surplus or deficit. Capital outlay expenditures, debt issuance or retirement, and combining expenditures and revenues for several levels of government could influence the difference between expenditures and revenues. For the above reasons, the comparisons are rough at best.

City	Total Revenue Per Capita (1990-91)	Own Source Revenue Per Capita (1990-91)	Total Expenditures Per Capita (1990-91)
– Washington, DC	$7,262	$4,842	$7,285
– Indianapolis, IN	3,178	2,658	3,182
– St. Louis, MO	3,122	2,605	3,268
– New York, NY	5,801	4,837	6,671
– Philadelphia, PA	3,564	3,009	3,729
– Richmond, VA	3,986	3,436	4,606
– Boston, MA	4,546	3,788	5,060

Source: Calculations based on the Census Bureau's Government Finances Series: 1990-1991 and County and City Data Book: 1994

Notes: As discussed in the text, the difference between expenditures and revenues is not an indication of budget surplus or deficit.

GAO's calculations do not account for the expenditures and revenues of various special districts that provide services, receive federal, state, and local intergovernmental revenues, and may levy taxes in the above cities. Comparable data for 1990-91 has not been published by the Census Bureau. Some special districts cross city boundaries. The large special districts listed in the 1987 Census of Governments are:

Washington, D.C.	Washington Metropolitan Area Transit Authority
Indianapolis	Indiana Municipal Power Authority
	Indianapolis Housing Authority
	Indianapolis Utilities District
	Indianapolis-Marion County Public Library District
St. Louis	Bi-State Development Agency
	Metropolitan St. Louis Sewer District
	St. Louis City Housing Authority
	St. Louis City Library District
New York	Port Authority of New York and New Jersey
Philadelphia	Philadelphia Hospital and Higher Education Facilities Authority
	Philadelphia Housing Authority
	Philadelphia Industrial Development Authority
	Philadelphia Municipal Authority
	Philadelphia Parking Authority
	Southeastern Pennsylvania Transportation Authority
Richmond	Richmond Eye and Ear Hospital Authority

	Richmond Metropolitan Authority
Boston	Boston Housing Authority
	Boston Metropolitan District
	Massachusetts Bay Transit Authority

Interpreting These Comparisons

Differences in per capita expenditures between the District of Columbia and other cities may be explained by differences in the following factors:

- -- the difficulty of combining expenditures by various levels of government;
- -- efficiency of city government in service delivery;
- -- types of services provided by city government (rather than by other levels of government or not at all);
- -- levels of services provided by city government; and
- -- wages and prices of labor and other inputs used in the provision of services.

When GAO met with officials from the 5 cities that experienced similar financial, managerial, and structural problems to those of the District, they pointed out the importance of identifying which types and levels of services were provided by the city versus those that were the responsibility of states, counties, or the private sector. In fact, city officials in Boston and Chicago told us that not having responsibility for traditional state and county functions, such as prisons, welfare programs, and universities, has been a contributor to their cities' improved financial health.

Because of these differences in the types and levels of services provided by each city, officials from the cities we visited suggested that function by function comparisons would provide more accurate and comparable data on expenditures than evaluations based only on total expenditures or budgets. An example of this type of analysis appeared in the 1994 update of the Rivlin Report.

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