Rose Institute
of State and Local Government
Claremont McKenna College

Fiscal Analysis:

How Do Affluence and Size Affect City Spending?

Timothy Plummer '17
Project Supervisor: Ian Rudge '03

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850 Columbia Avenue,
Kravis Center 436
Claremont, CA 91711-6420
P: (909) 621-8159
E: roseinstitute@cmc.edu

Overview

Last year the California State Controller made available a new database of local government fiscal information. The Rose Institute of State and Local Government analyzed this data to examine the question of how a city's affluence and size affect how it spends money. We found that there is significant variation based on both wealth and size of the city.

The Controller's database contains per capita income data for 439 cities. The Rose Institute defined three wealth categories and assigned each city to a category based on per capita income. Cities with per capita income or $30,000 or less are categorized as Less Affluent. Cities with per capita income between $30,001 and $50,000 are categorized as Moderately Affluent and those with per capita income greater than $50,000 as Affluent.

City Wealth	Per Capita Income	Number of Cities
Affluent	$50,001+	54
Moderately Affluent	$30,001-50,000	113
Less Affluent	$1-30,000	272

Our analysis shows that the greatest amount of variation is between Less Affluent cities and those in the other two categories. This is particularly noticeable with respect to expenditures and revenues, where less affluent cities collect and spend significantly less money, approximately $400 less per resident, than Moderate and Affluent cities. This holds true in most spending categories, except for debt services. Moderate and Less Affluent cities consistently spend more on debt service, which may risk over time crowding out other, discretionary spending. Finally, there are some spending categories which remain immune to any general trend. Among these are cities' capital outlay and spending on animal regulation.

The Rose Institute also analyzed the data for 462 cities based on city size. Using population data from the Controller's database, the research team designated each city as Small, Medium, Large, or Major.

City Designation	Population	Number of Cities
Major	250,001+	14
Large	50,001-250,000	157
Medium	10,001-50,000	177
Small	1-10,000	114

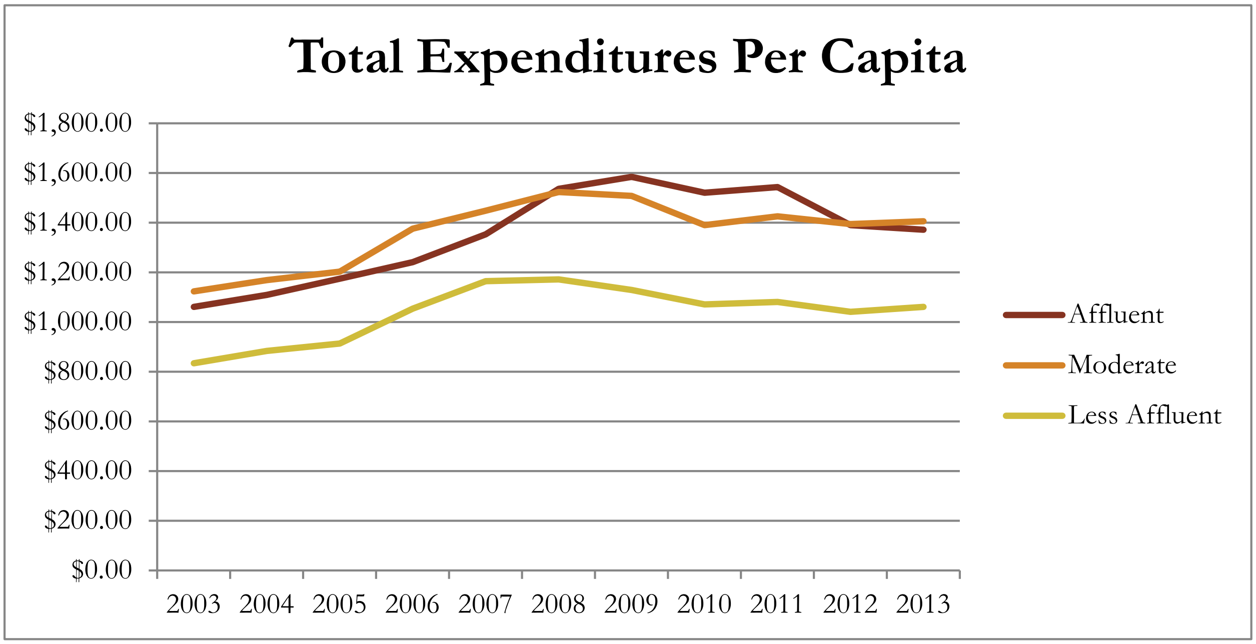
The analysis by size shows large discrepancies in spending between Major cities and all other cities. Consistently, the cities with the largest populations in California spend much more than, sometimes even double, other cities on a per capita basis. In many categories, Small, Medium, and Large cities tend display similar spending trends. Major cities spend more on all categories, indicative of the broader range of services that they provide, such as operating police forces.

In conducting the analyses below, the research team used the median data point for each year and category. Using the median avoids distortion from outlier data points. All of the graphs below use per capita data to control for the variances in populations across cities. Section one of this report analyzes expenditures based on the per capita wealth of each city. Section two classifies the cities by population.

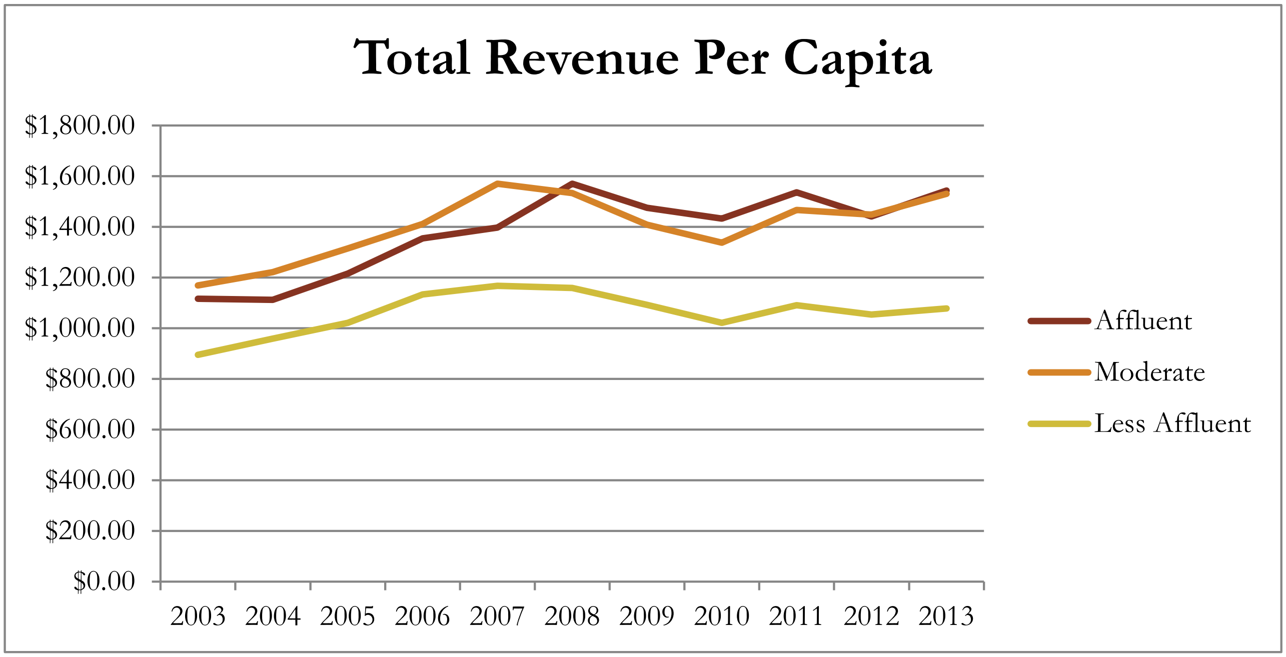
SECTION ONE - CITIES STRATIFIED BY WEALTH

A. Expenditures and Revenue

Affluent and Moderately Affluent cities have similar expenditures per capita, with the median Affluent expenditure at $1,406 and Moderately Affluent expenditure at $1,372 in 2013. In contrast, Less Affluent cities spend approximately $350 less per resident, $1,061. Consider an example of three cities, one from each wealth category, each with a population of 50,000. The Less Affluent city would spend nearly $17.5 million less than either of the other two.

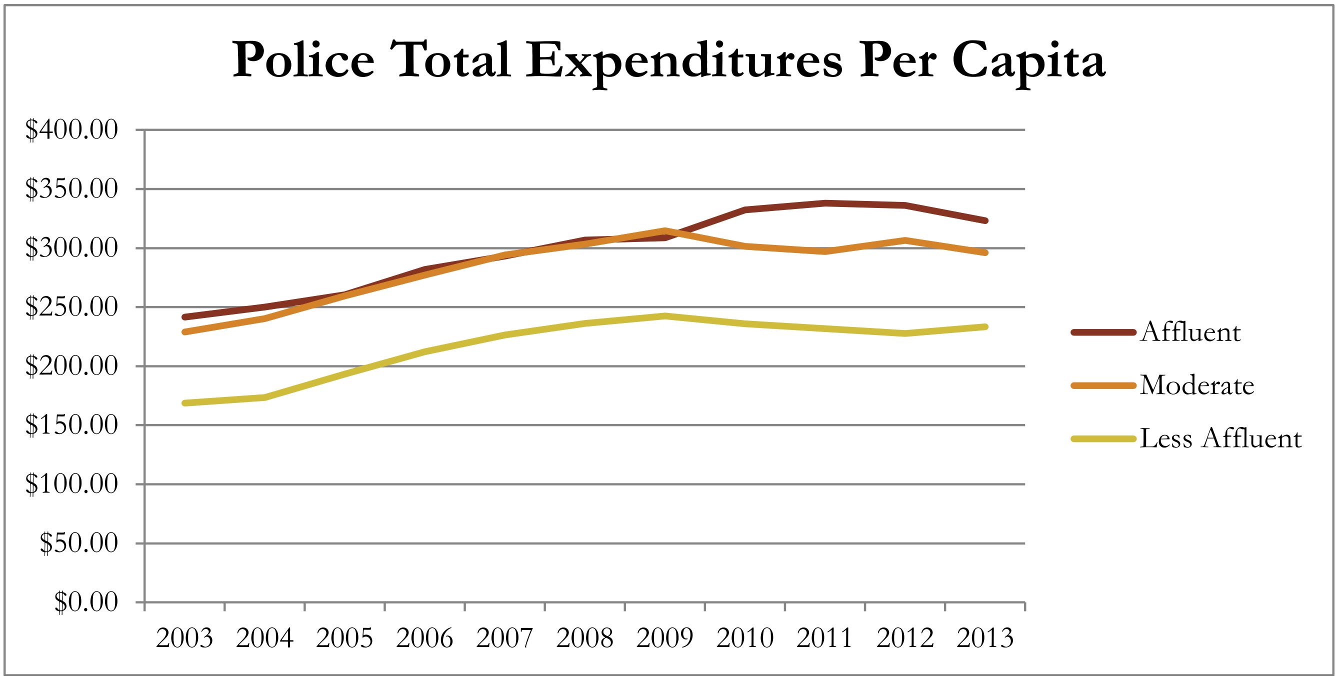


Not surprisingly, revenue per capita has the same structure, but the difference is even more pronounced. Less Affluent cities raise approximately $400 less than Affluent or Moderately Affluent cities. This gap widened significantly since government revenues began declining in 2007 and 2008. While Moderately Affluent and Affluent cities mostly rebounded to the revenue level that existed before the recession, Less Affluent cities still lag behind their previous high. In fact, Less Affluent cities remain near the bottom of government revenues.



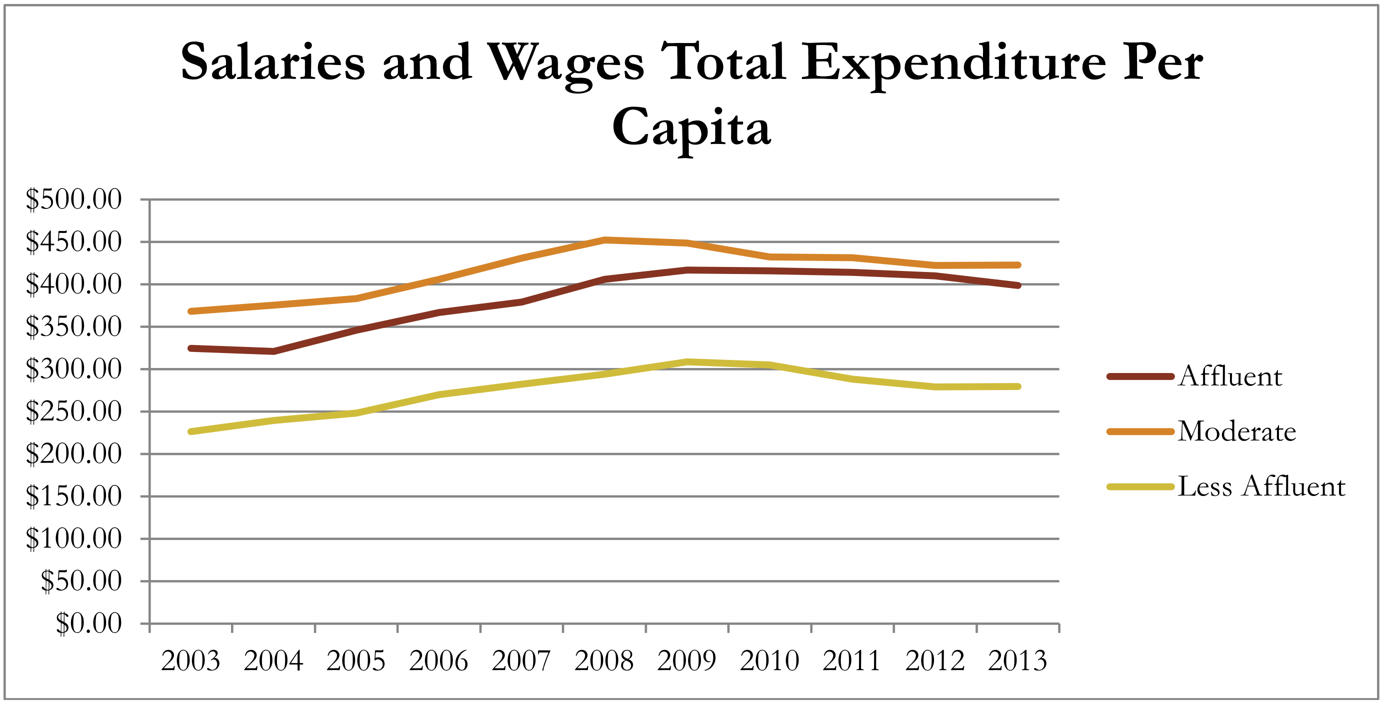
B. Police Spending

Police spending shows clear differences among cities of varying wealth. In 2013 spending ranged from $323 for Affluent cities, $296 for Moderately Affluent cities, to $233 for Less Affluent cities. The spending gap has stayed remarkably consistent over the past decade, particularly between the Moderately Affluent and Less Affluent cities. Moreover, all cities have adhered to a general trend line of increasing police expenditures until the recession hit budgets in 2009. Following that, Affluent cities' police expenditures continued increasing (though have begun a downward turn recently), while Moderately Affluent and Less Affluent cities' police expenditures leveled out. Moderately Affluent and Less Affluent cities' police spending have yet to completely recover to peak levels.



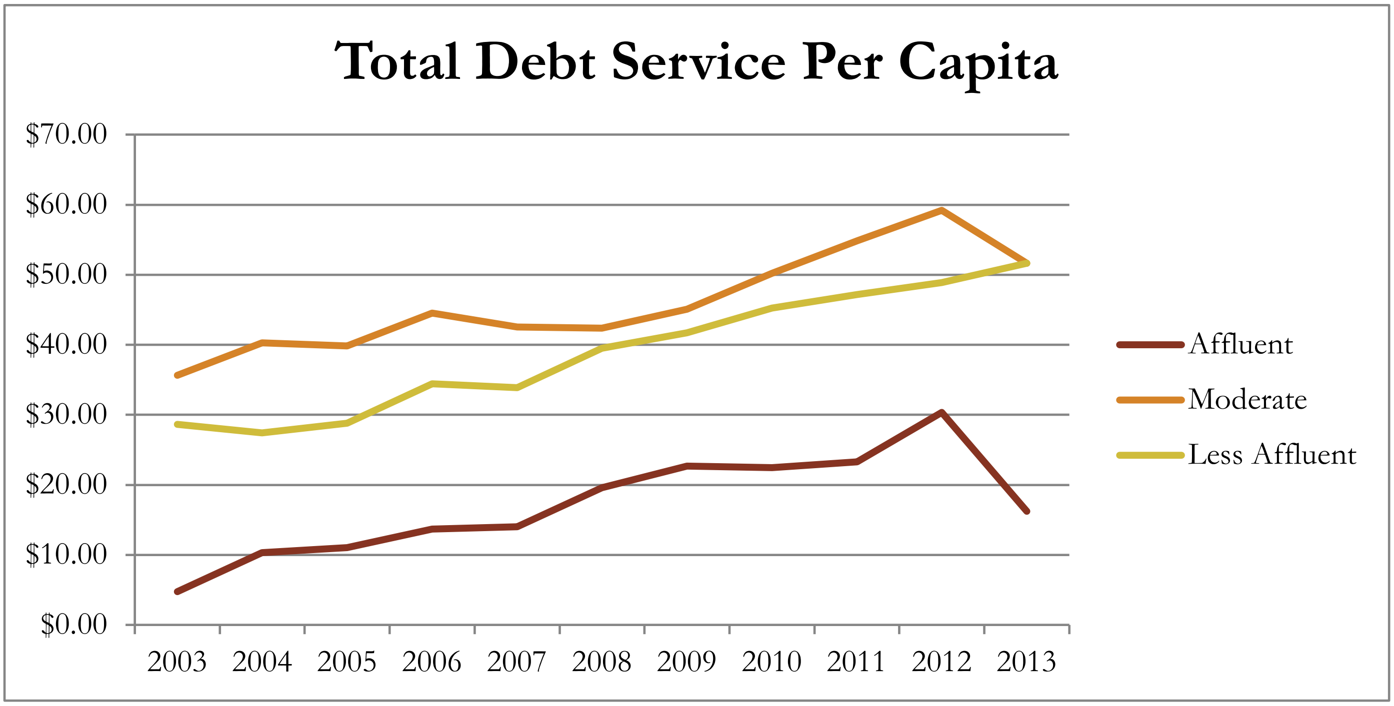
C. Salaries and Wages

Differences in expenditures for salaries and wages of public employees across the wealth categories are consistent with the pattern for total expenditures. Predictably, expenditure for salaries and wages by Less Affluent cities are significantly less than those by other cities. Salaries and wages in all three categories follow the same pattern over the past decade. Expenditures peaked in 2008 and 2009, and then fell as cities cut municipal budgets following the economic recession. Affluent cities, however, still remain near their peak in nominal spending, while Moderately Affluent and Less Affluent cities' spending levels have notably declined.



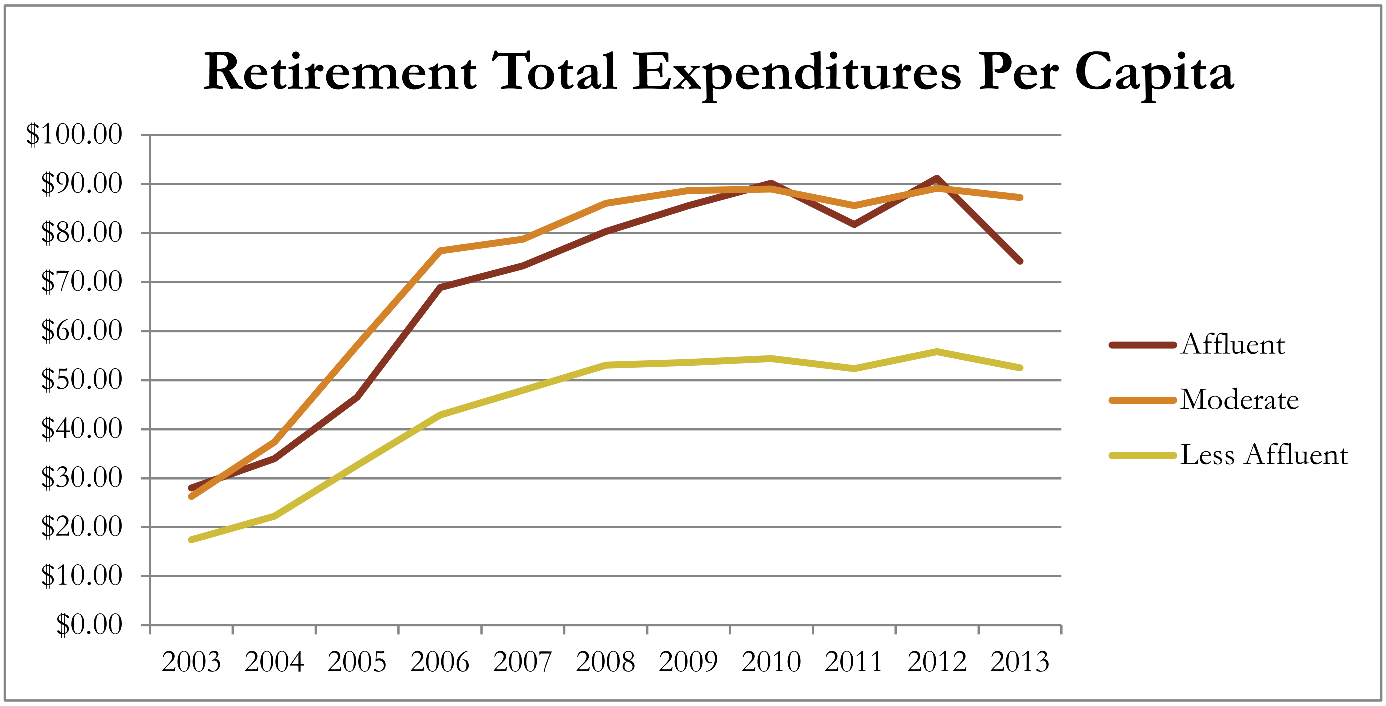
D. Debt Service

Whereas Affluent and Moderately Affluent cities display similar expenditures and revenues, the debt service analysis shows that Affluent cities carry significantly less debt than those in the other two categories. The median per capita expenditure for Affluent cites was $16 in 2013. For Moderately Affluent and Less Affluent cities it was almost $52, more than three times higher. This means that Less Affluent and Moderately Affluent cities are spending much more on servicing their debts, thus leaving less funding available for discretionary spending.



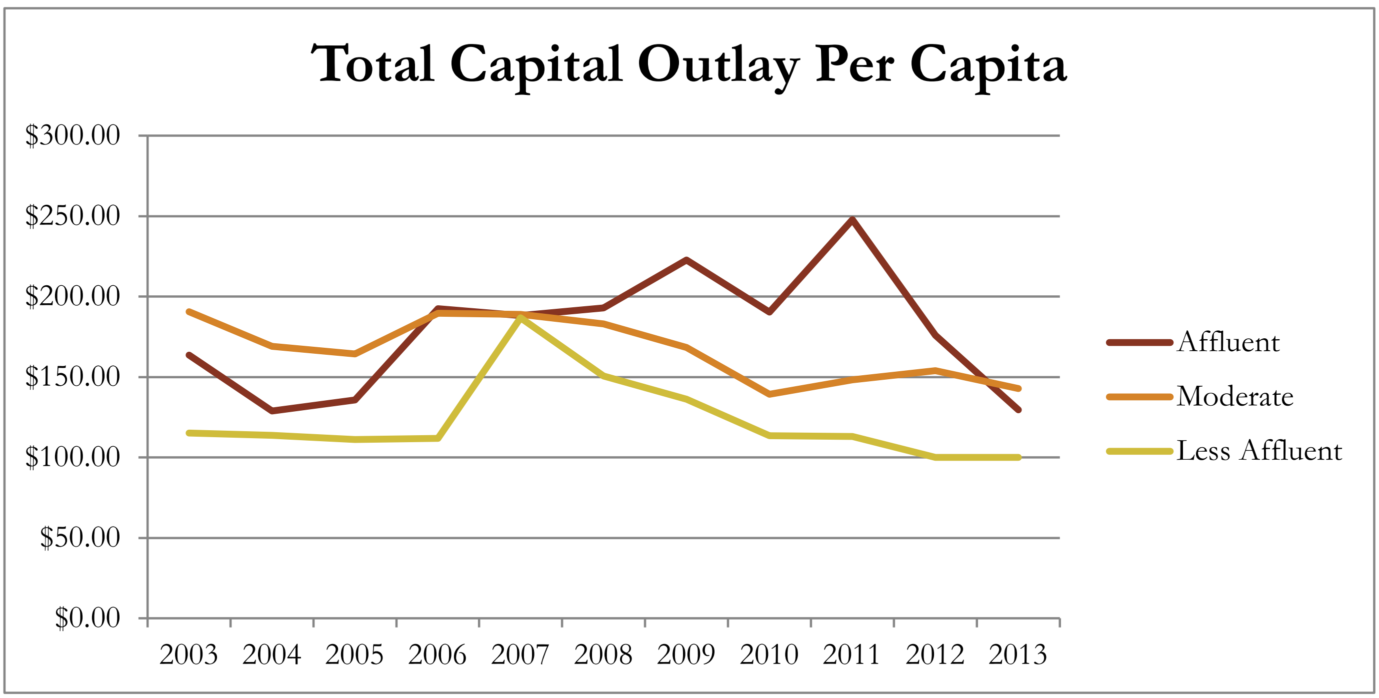
E. Retirement Spending

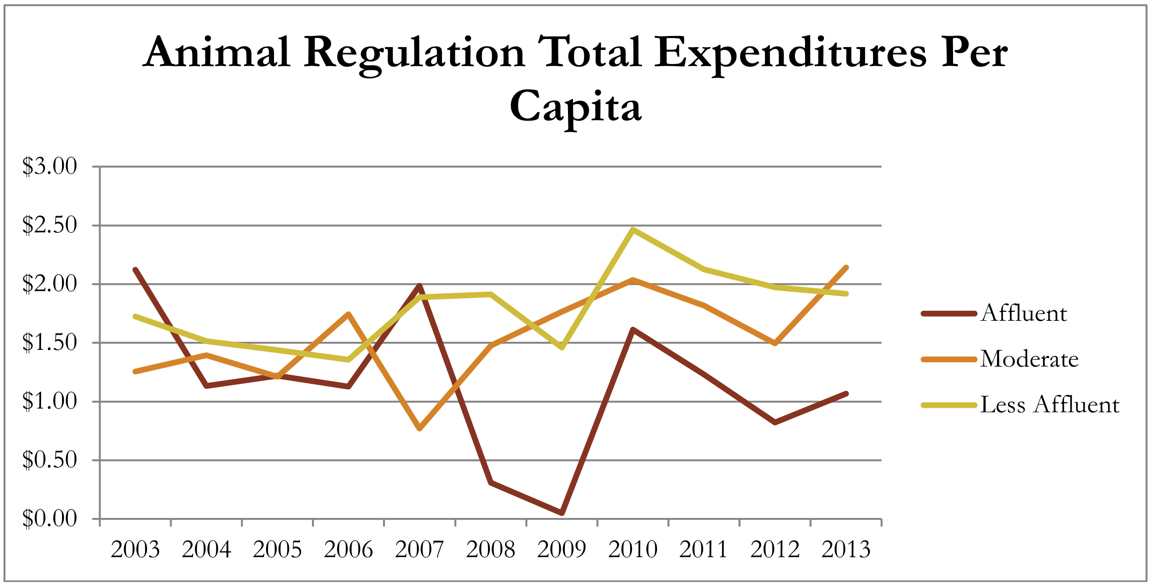
Retirement spending includes all expenditures regarding the retiree obligations, mainly pensions. Here, there is a return to the overall pattern, where Less Affluent cities spend less money than cities in the other two categories. In 2013, the median retirement expenditure was $87.12 for Moderately Affluent cities, $74.30 for Affluent cities, and $52.48 for Less Affluent cities. The gap is almost $35. Following a steep increase from 2003 to 2008, these expenditures have leveled off and even declined recently for Affluent cities. Many cities have enormously large pension obligations, and money paid to these accounts now can save money later. It is possible that lower expenditures now by Less Affluent cities indicate that they are underfunding pensions and may run into problems as these obligations come due. A true assessment of this, however, requires further research.

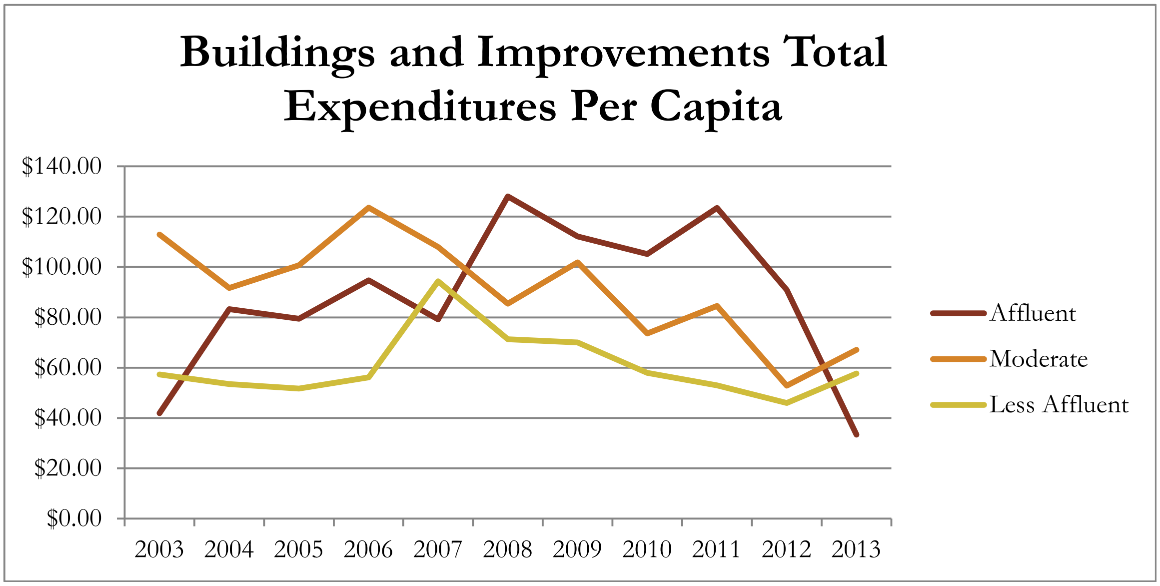


F. Miscellaneous

The last three graphs in this analysis lack a clear trend. Cities of all wealth levels tend to oscillate between spending the most per resident on these categories and then spending the least per resident. For capital outlay, however, it is clear that Less Affluent cities tend to spend less money per resident than other cities. In some years, this difference has grown to be quite large. In 2011, for example, Less Affluent cities spent nearly $150 less than Affluent cities. Animal regulation tells a different story. Here, Less Affluent cities tend to be near the top of the graph, while Affluent cities have spent less per resident, especially more recently. The buildings and improvements graph lacks any consistent trend. Spending by Affluent cities while staying steady during the recession, has collapsed more recently. Less affluent and Moderately Affluent cities spent consistently fewer dollars beginning in 2007, though this has since begun to recover. Nevertheless, spending in this sector remains far below peak levels.



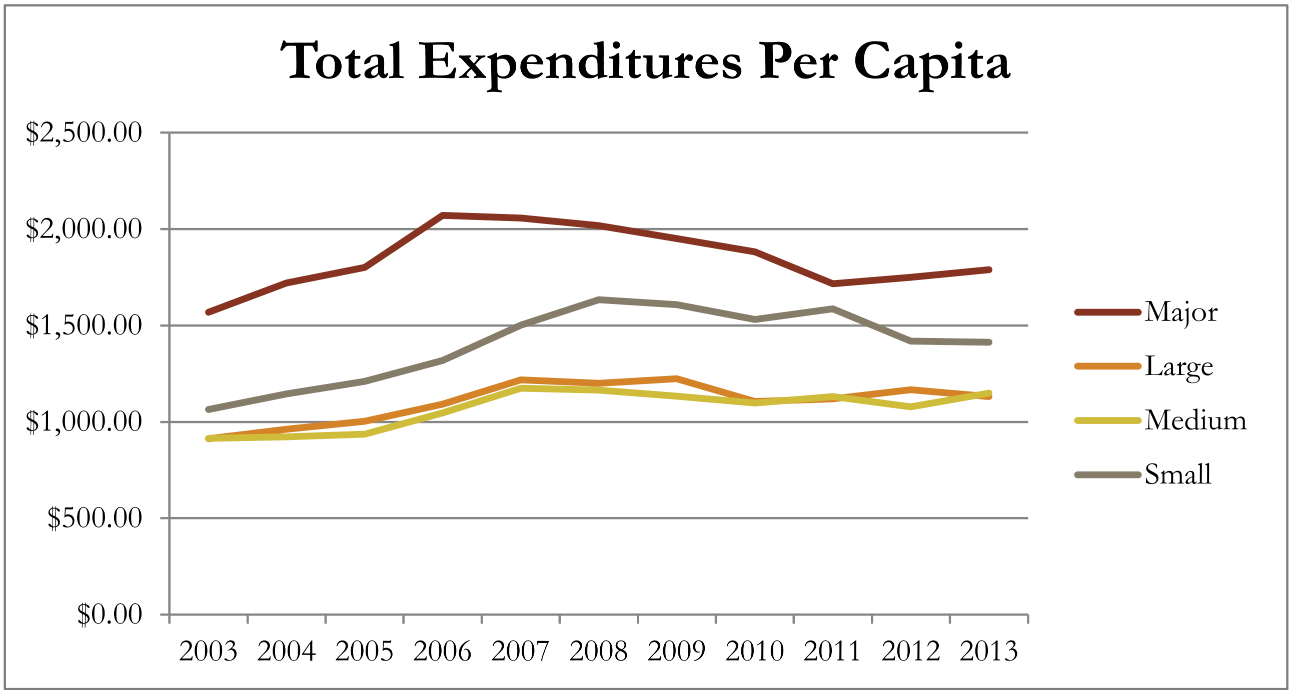

Animal Regulation Total Expenditures Per Capita
$3.00
$2.50
$2.00
$1.50
$1.00
$0.50
$0.00
2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013
Affluent
Moderate
Less Affluent


Buildings and Improvements Total Expenditures Per Capita
$140.00
$120.00
$100.00
$80.00
$60.00
$40.00
$20.00
$0.00
2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013
Affluent
Moderate
Less Affluent

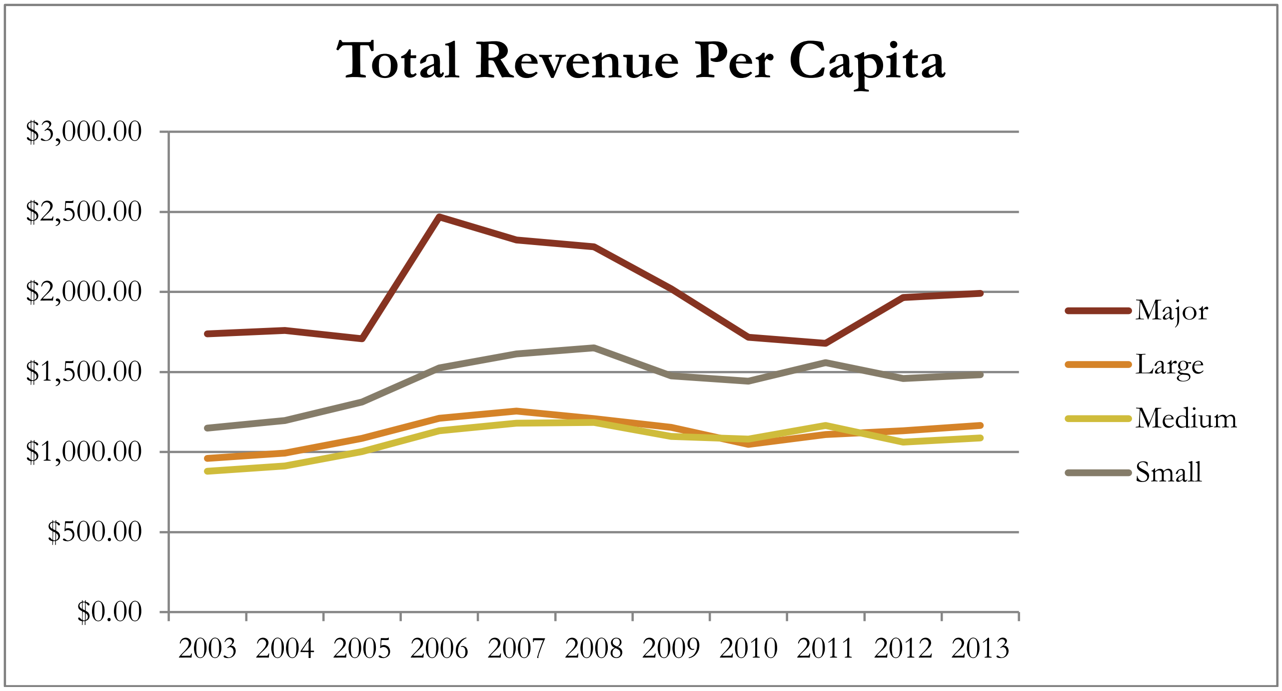
Section Two - Cities Stratified by Size

A. Expenditures and Revenue

On a per capita basis, large cities spend significantly more than most other cities. In the most recent year with data available, 2013, Major cities (defined as those with population greater than 250,000) spent $1,789.33 per capita, $375.89 more than Small cities and approximately $650 more than Large and Medium sized cities. Unlike many other categories of spending, Small cities spend at a higher level than Medium and Large cities. While Major and Small cities have both seen a noticeable drop in spending during this time period, with Major cities peaking in 2006 and Small cities in 2008, Large and Medium cities have maintained relatively constant in spending since 2007. This indicates that these cities did not heavily slash budgets during the recession, unlike Major cities, and to a lesser extent, Small cities.

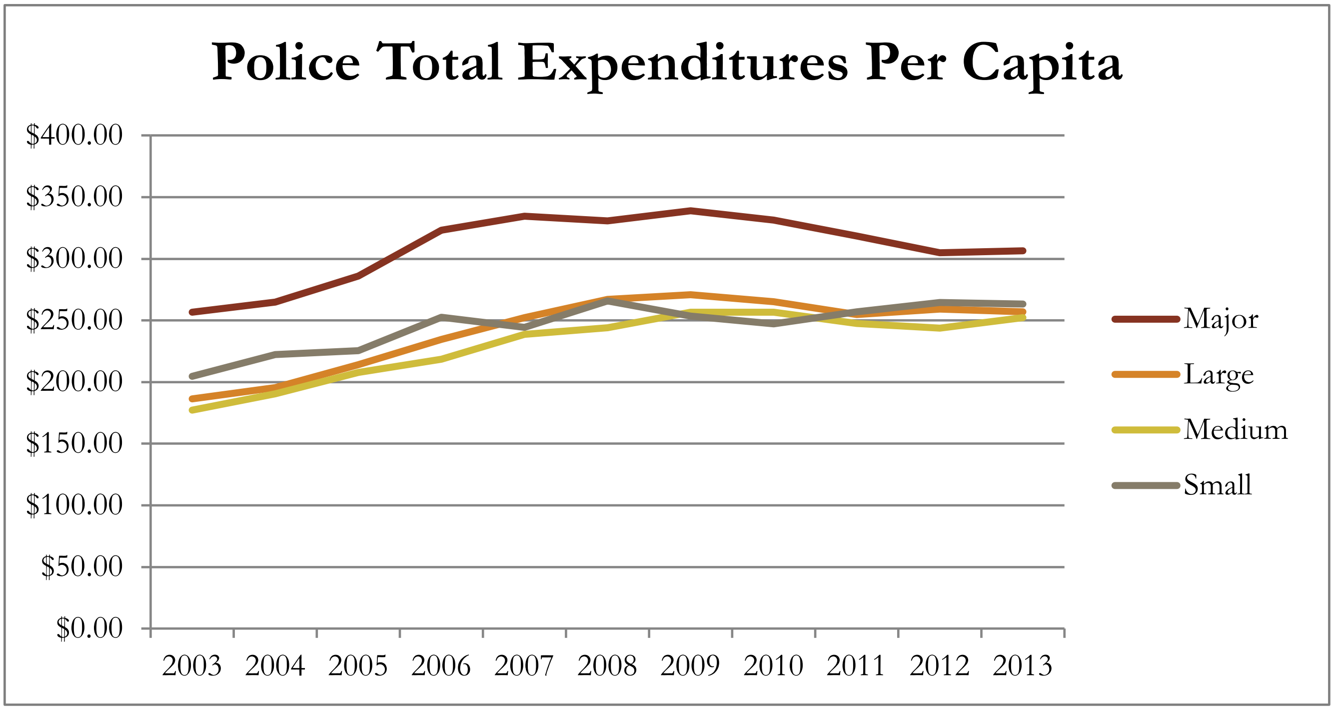


Revenue tells a slightly different story. While the general trends of the Large, Medium, and Small cities remain the same in both instances, the Major cities show much more fluctuation. There is a steep rise between 2005 and 2006, followed by a return to the 2005 level over the next 5 years. Since bottoming out in 2011, revenues for Major cities began increasing much more rapidly than those in other cities. Finally, there is a difference in how much of their revenues cities spend each year. Major cities have spent between 84% to 109% of their revenues, while Medium cities have spent between 92% and 106%. One explanation for this is that it may indicate that the revenue streams of Major cities are much more volatile than those of other cities.



B. Police Spending

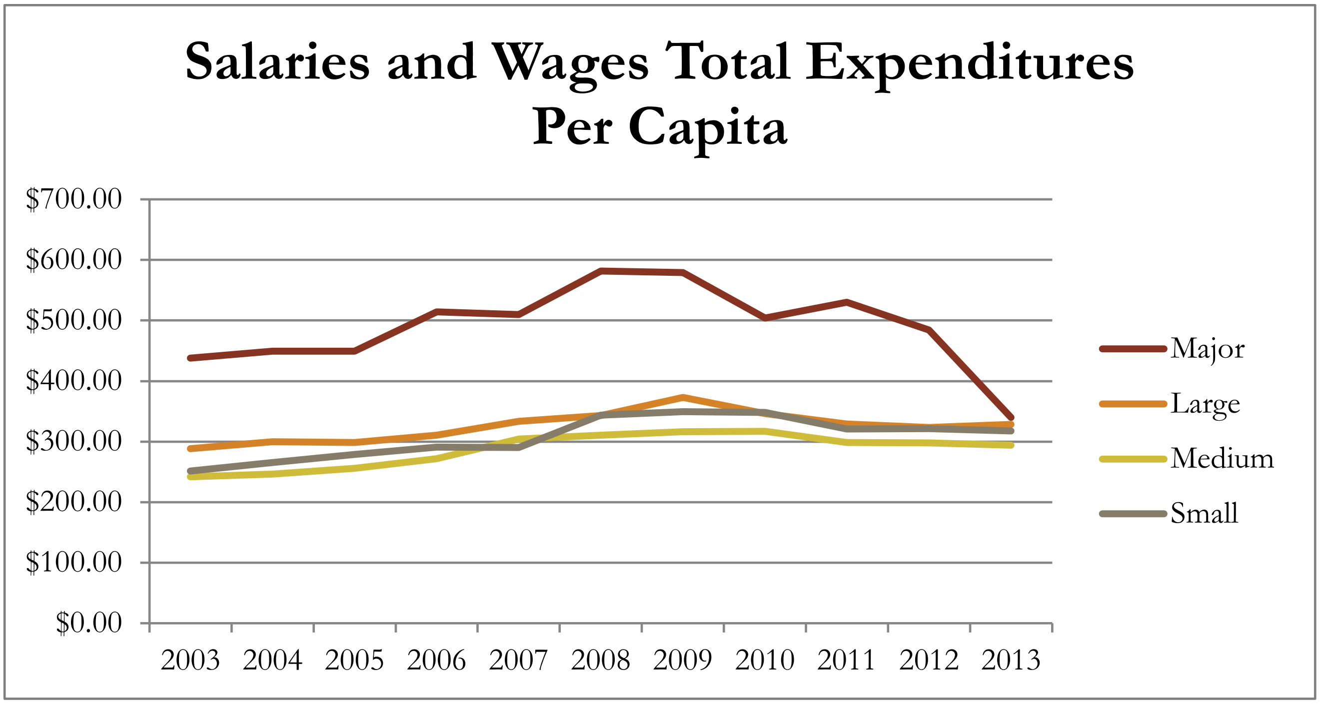
Major cities spend much more on policing than do all other cities. In 2013 per capita spending for Major cities was $306.34. Spending for the other cities ranged from $263.18 for Small cities, $256.86 for Large cities, to $252.23 for Medium cities. This may be partly due to the fact that some cities other than the Major cities contract out policing services to the county or simply have lower intensity needs. For example, LAPD has its own helicopter fleet, which would be unlikely for smaller cities. While police spending since 2008 has stayed level for all but the Major cities, Major city police spending has declined from a peak of $338.93 in 2009 to the 2013 level of $306.34.



C. Salaries and Wages

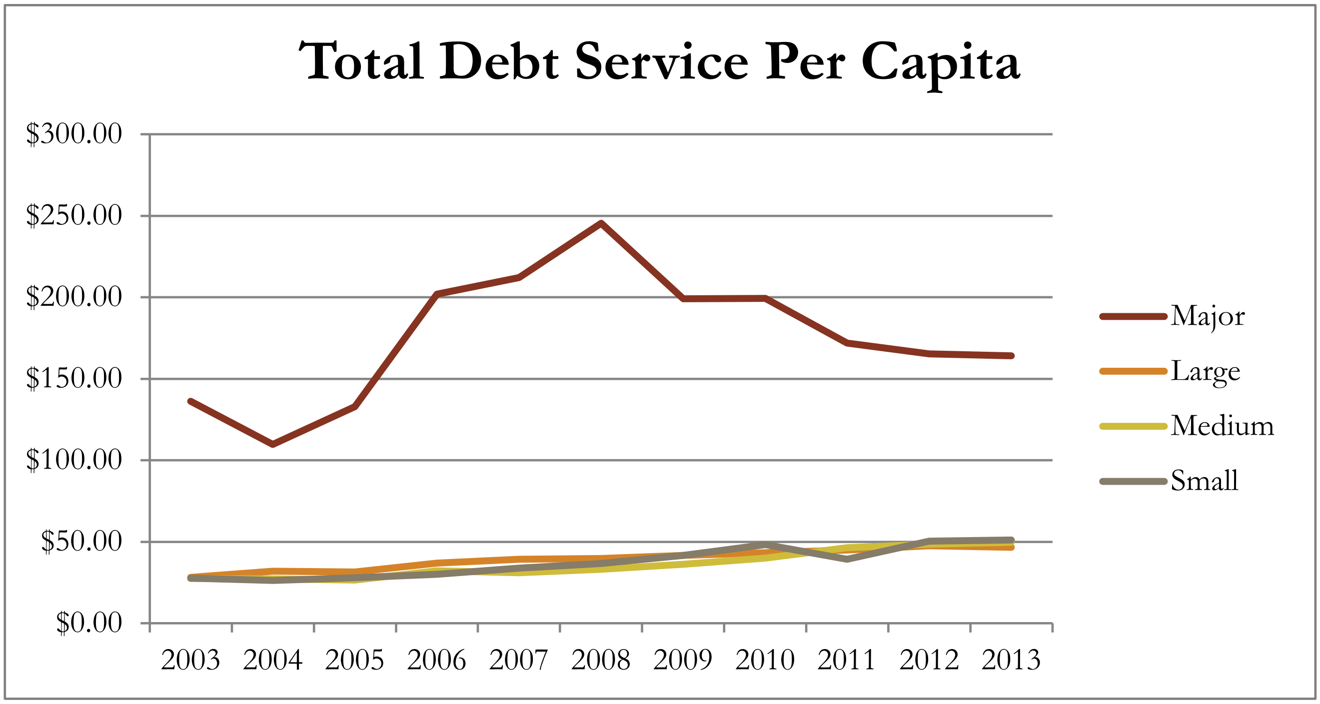
Before 2013, Major cities consistently spent much more on public employee salaries and wages than all other cities. The difference extends from approximately $150 in 2003 to nearly $250 in 2008. During the recession, spending for all cities declined at some point, likely a result of hiring freezes or cuts to the workforce that occurred because of budget constraints.

The substantial drop for Major cities in 2013 is the result of an additional city joining that category in that fiscal year. With such a small number of cities classified as Major, and such wide variability for this expenditure category, the addition led to a significant shift in the median.



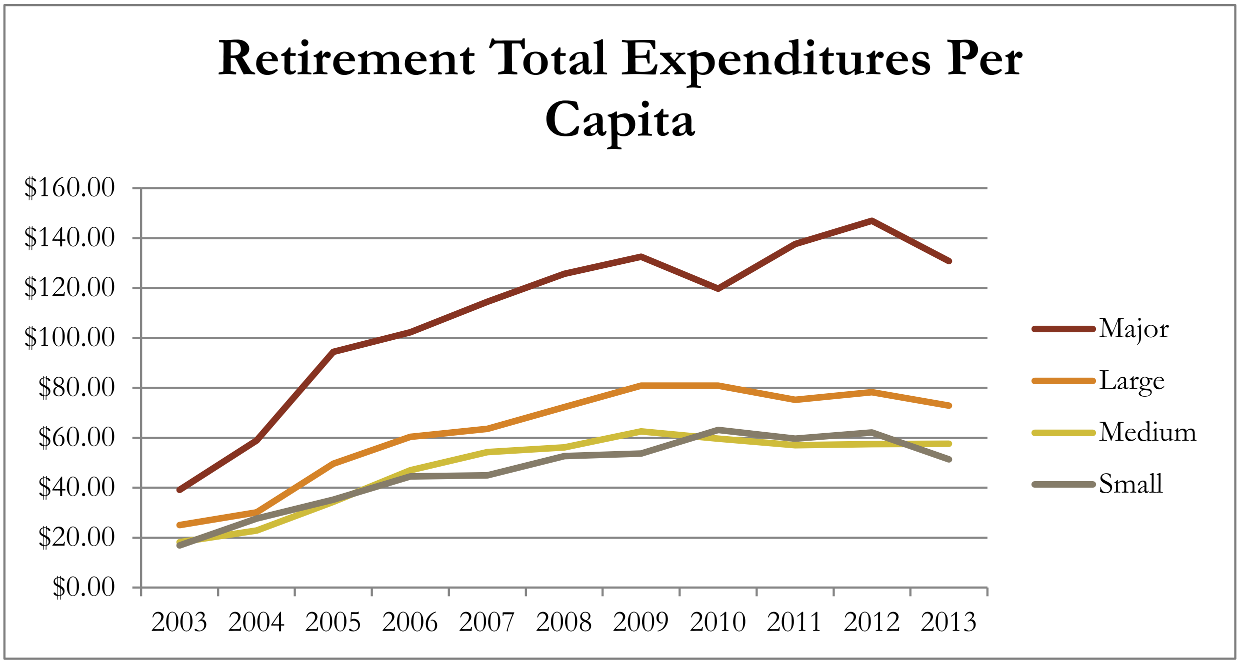
D. Debt Service

A similar trend exists with respect to the amount of money cities spend on debt service. Major cities consistently spend more than all other cities in servicing their debt. At the peak of Major city expenditures in 2008, Major cities spent five or six times more on debt service than smaller cities. By 2013, however, the difference was slightly more than a factor of three. Small, Medium, and Large cities have much more consistent upward-sloping trend lines than Major cities, but this may be a function of the different number of cities in the groups.



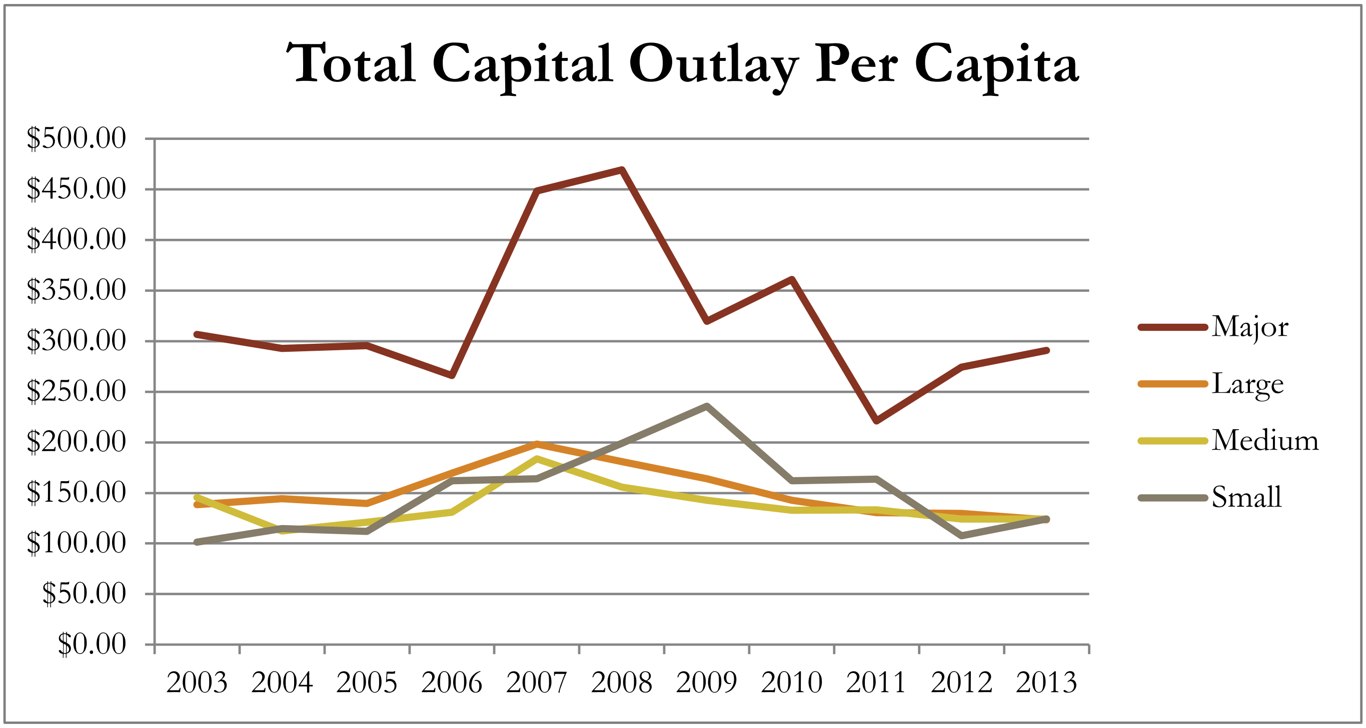
E. Retirement

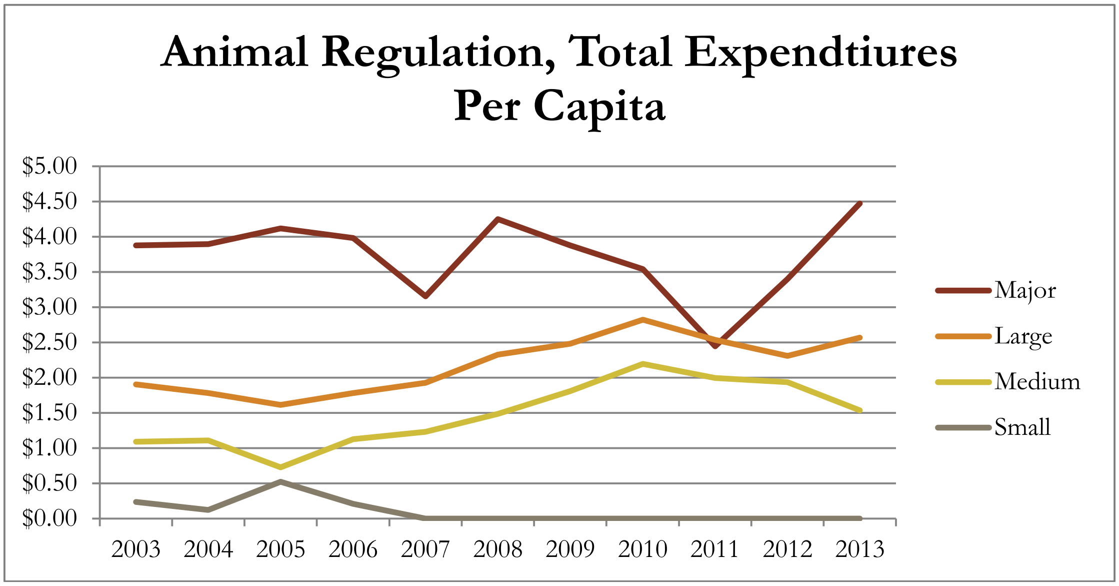
When it comes to retirement spending, Major cities spend much more than other cities. This is likely related, as is the level of spending on wages, to the bargaining power of labor and unions in these cities. Inevitably, this affects the types of contracts the city will give out. Most recently, in 2013, Major cities spent over double the amount Small or Medium cities spent. Large cities, however, do deviate from the general trend of hugging Small and Medium spending here, opting to spend more on retirement costs. For all cities, there has been a drastic increase in how much they spend. Cities now spend triple, if not more, on retirement expenditures than they did in 2003.

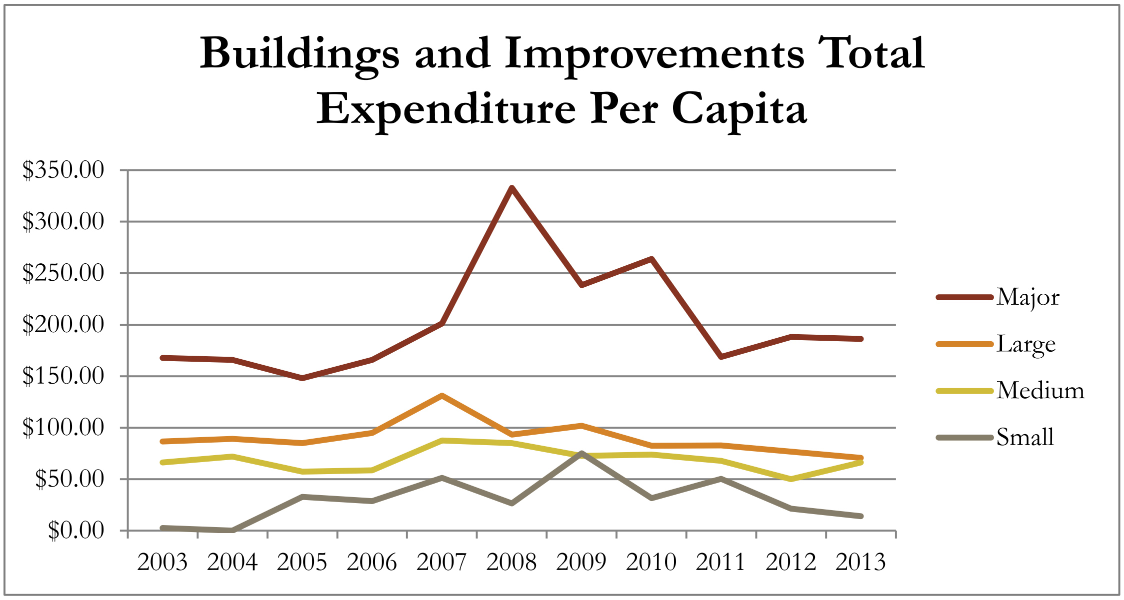


F. Miscellaneous

The one constant in the following graphs is that Major cities spend more per capita than any other sized city. Sometimes all city types follow a general trend, such as with total capital outlay or buildings and improvements, and sometimes the trends conflict, as is the case with animal regulation spending. Large and Medium cities tend to stick to the same trend line, implying that they have more similar spending priorities than Major or Small cities. In the graph for total capital outlay, the recession cuts a scar across the graph. Major city spending falls by half between 2008 and 2011, and Small city spending does the same between 2009 and 2012. Spending on animal regulation varies widely between different sized cities. Major cities spend quite a bit more than Small cities, where the median spending has dropped to $0 over the last several years.




Animal Regulation, Total Expendtiures Per Capita
$5.00
$4.50
$4.00
$3.50
$3.00
$2.50
$2.00
$1.50
$1.00
$0.50
$0.00
2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013
Major
Large
Medium
Small


Buildings and Improvements Total Expenditure Per Capita
$350.00
$300.00
$250.00
$200.00
$150.00
$100.00
$50.00
$0.00
2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013
Major
Large
Medium
Small