

# Urban Fiscal Health: How do New Jersey Cities Compare to Other American Cities?

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All responsibility for the contents of this paper resides with the author.

## URBAN FISCAL HEALTH: HOW DO NEW JERSEY CITIES COMPARE TO OTHER AMERICAN CITIES?

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Municipal financial condition has emerged as a critical issue in sustaining the revitalization of major cities in the United States. Whether the renewal occurs in Baltimore, Cleveland, Newark, or another city, the question arises as to whether these cities have the fiscal capacity to sustain the revival through good times and bad.

What is financial condition, then? Financial condition may be defined as the balance of long term and current financial resources and long term and current financial commitments. This study examines the balance of resources and commitments for New Jersey's two largest cities and other cities in the eastern and Midwestern United States which have experienced similar downturns and revivals.

Any financial condition analysis is bedeviled by the lack of widespread agreement on appropriate measures. For example, is a budget surplus a good measure of financial condition? As a measure of condition, surely, many people would agree that such a surplus acts as a reserve against unexpected events; a healthy surplus indicates good financial condition. However, no two people agree on how large the surplus should be. Moreover, some observers feel that any significant surplus indicates government's unwillingness to expend resources to meet crying needs. Surpluses can also indicate to some taxpayers an excessive tax burden and resources that should be returned to those from whom they were taken. Therefore, not agreeing that surpluses are good or bad, some people would say that the measure is unhelpful.

In the analysis of the financial condition of cities, financial ratios have played a large role. There are "common size," "liquidity," "solvency," and "efficiency" ratios in the literature prescribed by financial analysts (Berne and Schramm, 1986; Brown, 1993; Groves and Valente, 1994; and Petro, 1998). Accounting and economic data provide important information about resources and commitments, they say. Few analysts are absolutely in favor of a given set of ratios or firmly opposed to others. Moreover, no firm ideas exist about the appropriate range of values for these ratios. As with the surplus idea above, no two observers can agree about the appropriate size of a fund balance, an accounting measure of unexpended resources at the end of a fiscal year. Is 2% too little? Is 10% too much?

Many observers suggest that credit rating agencies engaged by investors in the municipal bond market provide financial condition standards with their ratings of AAA to CCC, excellent to poor respectively. However important these credit ratings are to the long-range assessment of "willingness to repay principal with interest in a timely manner," the fact remains that less than 2% of municipalities do not repay in a timely manner, according to studies by credit rating agencies and other observers (Litvack and Rizzo,

1999; Bond Market Association, 2001; Morgan Stanley Dean Witter, 2000; Standard and Poor's J. J. Kenny, 1999). Researchers have not found the credit ratings to have a statistical relationship to any measures of distress (Berne and Schramm, 1986).

While we may not be able to find universal accord among experts on fiscal standards, we can compare various cities' fiscal performance to gain insights on their relative strengths and weaknesses. Such a comparison seeks a range of measures that cities in similar circumstances have determined to be appropriate. The key to the comparison is the choice of appropriate cities for comparison.

Having a comparison sheds light only when cities in similar circumstances are compared. In addition, comparison leads to action only when these cities choose the "best" among them as benchmarks. The exercise is familiar. Within a group of cities of roughly approximate populations, ages, economic experiences, and even location, some will compare favorably and some unfavorably on a broad range of financial ratios. The best or benchmark cities are those cities that the measures or ratios suggest to have successfully managed financially even when suffering the same or similar problems.

The purpose of this study is to provide a comparison and benchmarks for New Jersey's two largest cities. We use a conventional approach to financial condition in which we select financial ratios representing long term and current resources as well as long term and current commitments.

### **Financial Condition**

What is financial condition? A number of concepts exist, but all have similar characteristics whether they appear in the academic literature (Berne and Schramm, 1986) or the practitioner journals (Brown, 1993). With this concept in mind, we identify external resources, such as wealth and taxable resource reserves. These resources then should more than offset pressures for spending, whether these pressures are current – such as salaries and supplies – or long-term – particularly debt.

Given the overall concept of financial condition, we want to know whether the revenue side more than balances the spending side. We explain the components of financial condition that exist on the revenue side and the spending side in the Appendix and list references where more detail and discussion may be found.

### **Methods used in this study**

The financial condition principle is relatively straightforward. If the resources available to a municipality more than compensate for spending commitments, we find the community in good financial condition.

How good is good? No absolute measures of financial condition exist either to suggest "good enough" or looming distress. Therefore, we use a comparison group approach in

which we choose communities sufficiently similar in their characteristics to give a convincing perspective on each community's financial condition. The "best" communities of the group suggest benchmarks that any other community in the comparison group might emulate.

In this study, our focal communities are the two largest New Jersey cities: Newark and Jersey City. To determine the relative condition of New Jersey's major cities, we assembled a larger comparison group. These cities share population, age, economic base, wealth, aspiration, and location characteristics with the two New Jersey cities. The cities were chosen, first, based on their populations. We placed Newark and Jersey in the center of the U. S. Bureau of Census' distribution of all cities' 2000 populations within +/- 60,000 inhabitants. We then looked above and below Newark and Jersey City to find cities that were similar in location, age, and economic base. All of the cities and their actual 2000 enumerated populations are:

<b>City</b>	<b>2000 Population</b>
Yonkers	196,086
Akron	217,074
Rochester	219,773
Jersey City	240,055
Newark	273,546
Buffalo	292,648
Toledo	313,619
Cincinnati	331,285
Pittsburgh	334,563
Cleveland	478,403
Baltimore	651,154

We also wanted to compare Newark and Jersey City with two well-known renaissance cities; therefore we added Cleveland and Baltimore.

The unemployment, poverty, and population change characteristics of these cities are below:

<b>City</b>	<b>Unemployment 2000</b>	<b>Poverty Rate 1995</b>	<b>Population change, 1990 - 2000</b>
Akron	5.6%	19.9%	-2.67%
Baltimore	8.1%	24.0%	-11.53%
Buffalo	8.1%	29.6%	-10.81%
Cincinnati	5.1%	21.9%	-9.00%
Cleveland	8.7%	29.9%	-5.38%
Jersey City	7.1%	21.8%	5.04%
Newark	8.1%	30.5%	-0.61%
Pittsburgh	4.1%	20.2%	-9.55%
Rochester	6.7%	28.3%	-5.12%
Toledo	5.7%	21.1%	-5.80%
Yonkers	4.1%	Not available	4.26%

### **Data Sources**

To compare these cities, we found financial information corresponding to the measures suggested by the financial condition model. These financial data came from similar periods, generally the fiscal years in the cities that ended most recently and for which data in the form of audited financial statements, officials statements for bond sales, or continuing disclosure statements submitted to the credit market were available. The following table provides the date and source of these data.

	<b>Fiscal Year Ending</b>	<b>Date of Report Used</b>
Akron	December 31, 1999	June 1, 2000
Baltimore	June 30, 1999	June 20, 2000
Buffalo	June 30, 1999	December 1, 1999
Cincinnati	December 31, 1998	March 1, 2000
Cleveland	December 31, 1998	August 18, 1999
Jersey City	June 30, 1999	June 27, 2000
Newark	December 31, 1998	January 1, 2000
Pittsburgh	December 31, 1998	November 16, 1999
Rochester	June 30, 1999	October 1, 1999
Toledo	December 31, 1998	May 9, 2000
Yonkers	June 30, 1999	September 27, 2000

In addition, we collected the population data from the U. S. Census (as of April 2, 2001), unemployment data from the U. S. Bureau of Labor Statistics, poverty data from the U. S. Department of Housing and Urban Development (1999), and income data from a private source, Claritas, Inc., and published in the 1999 and 2000 editions of the “Survey of Buying Power and Media Markets” by the journal Sales and Marketing Management.

## **Findings**

We present tables in the following section. In the first section, each table represents one of the measures described by the financial condition model and mentioned in the Appendix. In each table we rank the cities from best value to the worst value on the measure. We compute the median and indicate which cities are above the median and which below. Finally, we also indicate the intervals among the values for each of the cities in an accompanying graph.

### 1. Available External Resources

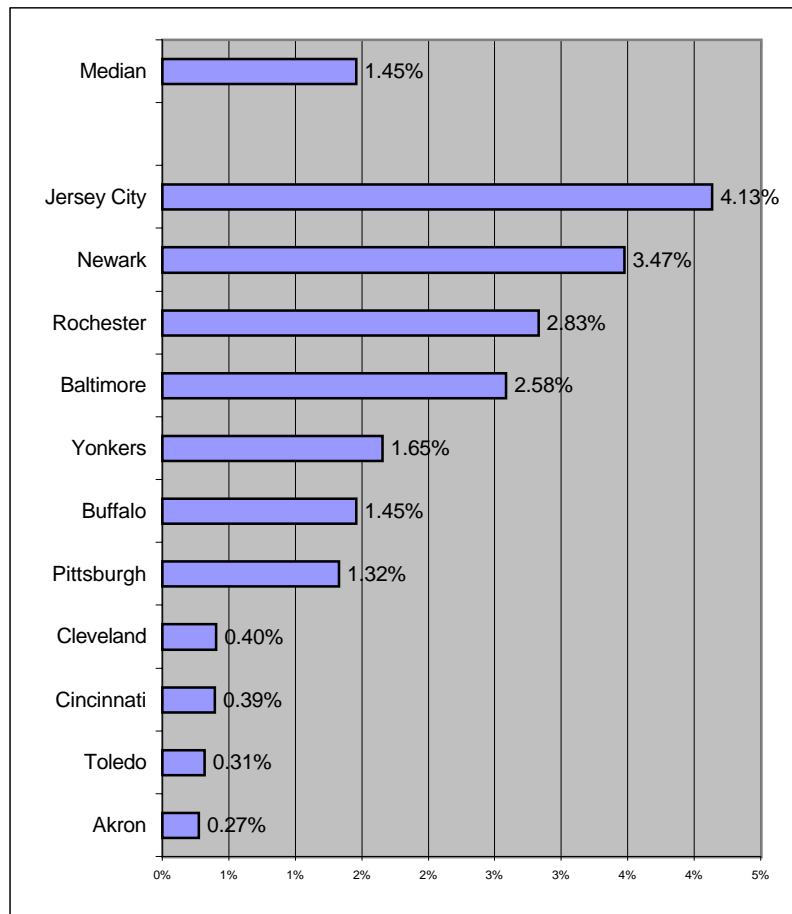
The ratios that describe available external resources portray the amount of reserves used and suggest the amount of resources that remain available to city officials. The conventional measure begins with a ratio comparing revenues actually collected to the total or “market” value of taxable property in a community (may also be termed “true” or “equalized” value of property).

Collected property tax revenue	
<hr/>	
Total value of taxable property	

Figure 1

**Collected property tax revenue**  
**Total value of taxable property**

<b>Most Desirable</b>	Akron	0.27%
	Toledo	0.31%
	Cincinnati	0.39%
	Cleveland	0.40%
	Pittsburgh	1.32%
	Buffalo	1.45%
	Yonkers	1.65%
	Baltimore	2.58%
	Rochester	2.83%
	Newark	3.47%
<b>Least Desirable</b>	Jersey City	4.13%
	Median	1.45%



The lower the ratio the more remaining reserves the city has; therefore the best ratio is a low percentage of total value of taxable property that the city has collected.

Akron, Toledo, Cincinnati and Cleveland use far less of their available property tax resources than the other cities, primarily because of the reliance of these cities on the income tax. In the comparison Akron used only about one-quarter of a percent of its reserves.

The median for all of these cities is about one and one-half percent. Buffalo and Yonkers fall at the median of this measure.

Newark and Jersey City fall at the bottom of the eleven cities. This ranking indicates that the two New Jersey cities are using more of their reserves of property wealth for taxes than the other nine. Newark's percentage of taxable property used is 3.47%. For each \$3.47 in taxes, Newark has \$96.53 remaining in reserves.

While total value of taxable property is based on a state government agency calculated estimated of the full market value of all property in the city, assessed valuation usually lags behind. This is because assessment practices – revaluations of property – do not keep pace with market values, for a variety of reasons. Therefore, we include the measure of collected property tax revenue related to assessed valuation.

Collected property tax revenue  
Assessed valuation

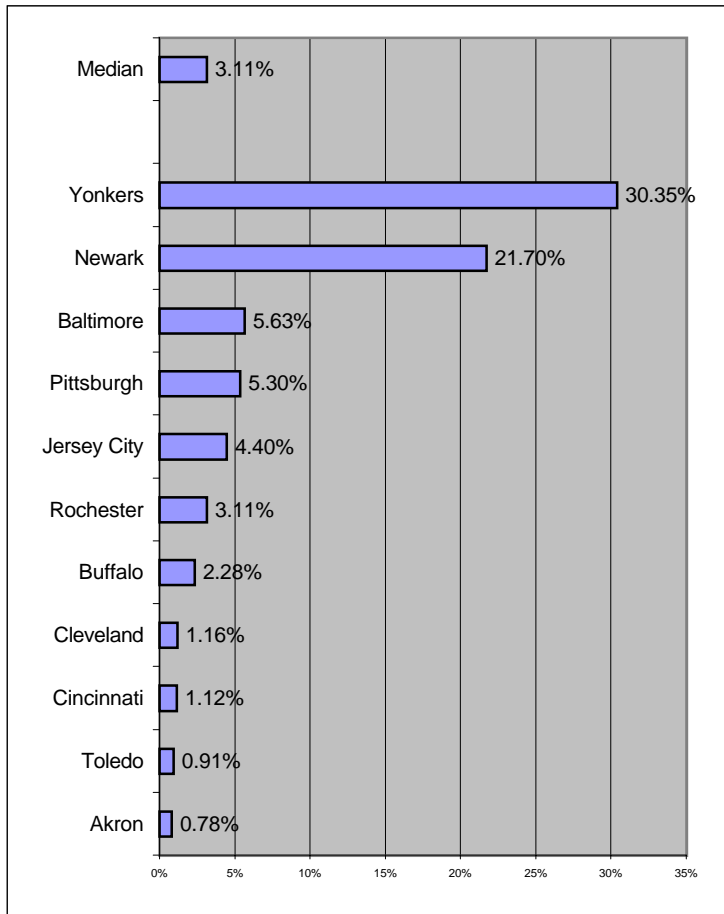
Since the total value of taxable property is an estimate of the market value of property if assessment practices had kept pace with actual property values, the ratio of collected property tax revenue to the actual assessed value suggests that Newark’s assessed practices are forcing the city to use much more of its reserves. In this ratio, Newark is the second worst off of the eleven cities, having used one-fifth of its fiscal capacity. In this case, for every \$21.70 of taxes, Newark has \$78.30 remaining.

Again, Akron uses very little of her assessed value as do Toledo, Cincinnati, and Cleveland.

The median is just above 3% where Rochester falls.

Figure 2  
**Collected property tax revenue**  
**Assessed valuation**

<b>Most Desirable</b>	Akron	0.78%
	Toledo	0.91%
	Cincinnati	1.12%
	Cleveland	1.16%
	Buffalo	2.28%
	Rochester	3.11%
	Jersey City	4.40%
	Pittsburgh	5.30%
	Baltimore	5.63%
	Newark	21.70%
<b>Least Desirable</b>	Yonkers	30.35%
	Median	3.11%



Then we look at the amount of property tax that the government is collecting, the collection rate. The ratio divides the amount actually collected by the amount, which the city policy makers have “levied” or set property tax rates to collect. This ratio reflects the delinquencies in property tax payments.

$$\frac{\text{Collected property tax revenue}}{\text{Net property tax levy}}$$

The collection rates for the property tax also show Newark to be the worst off.

Cleveland, Buffalo, Rochester, and Toledo all collect less than the median collection rate for the cities in the group.

Akron has the highest property tax collection rate,<sup>1</sup> followed by Jersey City.

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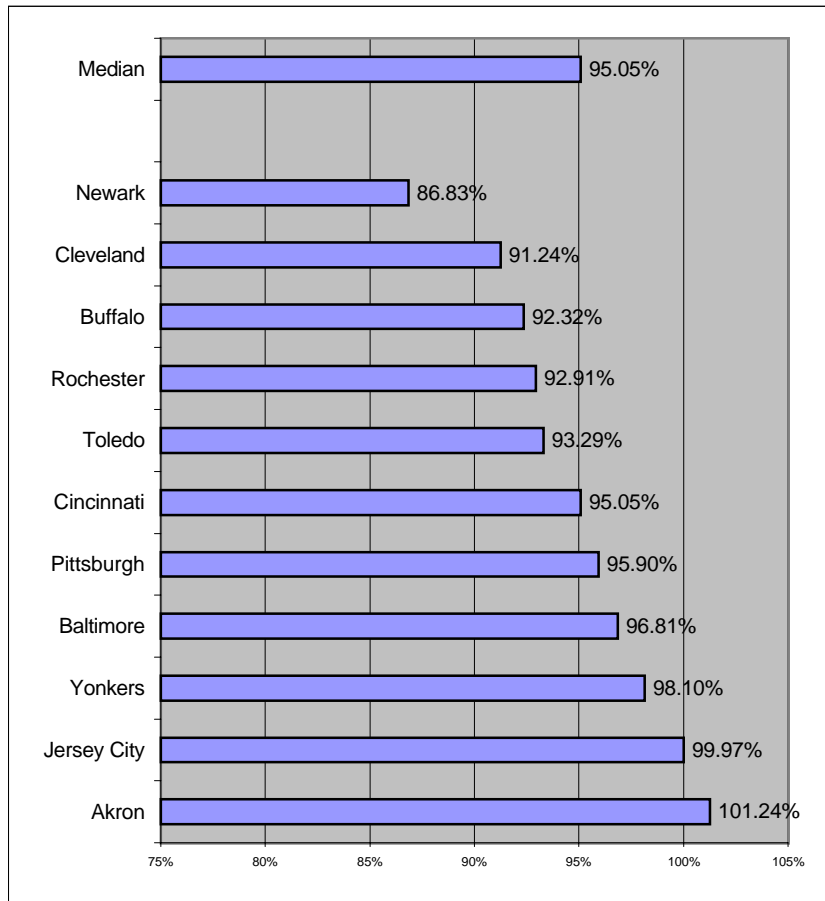
<sup>1</sup> Akron’s tax collection rate of 101.2% derived from a prepayment program instituted for taxpayers. The historic tax collection rate for the previous nine years was about 99%. Information on these rates was received from the Summit County, Ohio Office of Treasurer.

Figure 3

**Collected property tax revenue**

**Net property tax levy**

<b>Most Desirable</b>	Akron	101.24%
	Jersey City	99.97%
	Yonkers	98.10%
	Baltimore	96.81%
	Pittsburgh	95.90%
	Cincinnati	95.05%
	Toledo	93.29%
	Rochester	92.91%
	Buffalo	92.32%
	Cleveland	91.24%
	<b>Least Desirable</b>	Newark
	Median	95.05%



We look at the concentration in the property tax base, measured by the proportion of the property tax paid by the ten largest taxpayers.

Assessed value of 10 largest taxpayers  
Assessed value of all taxpayers

Despite having incomplete information on Baltimore, our concentration ratio reveals that Newark depends far more on its largest taxpayers than do any of the other cities. The magnitude is large in that Newark's tax base is almost 1.4 times more concentrated than the median. The major issue is apparent: Newark is more vulnerable to the loss of a single large taxpayer than other cities.

Joining Newark at the least desirable end of the display, Buffalo, Cincinnati and Cleveland have concentrated tax bases.

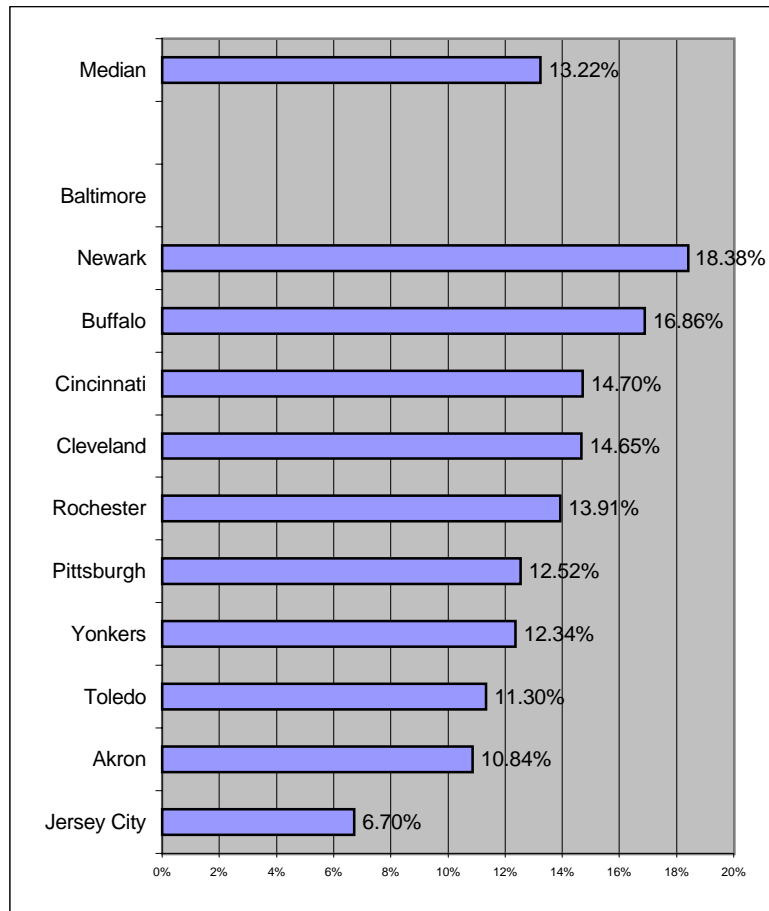
Jersey City, Akron, Toledo, Yonkers, and Pittsburgh depend the least on their largest taxpayers.

Figure 4

**Assessed value of 10 largest taxpayers**

**Assessed value of all taxpayers**

<b>Most Desirable</b>	Jersey City	6.70%
	Akron	10.84%
	Toledo	11.30%
	Yonkers	12.34%
	Pittsburgh	12.52%
	Rochester	13.91%
	Cleveland	14.65%
	Cincinnati	14.70%
	Buffalo	16.86%
	Newark	18.38%
<b>Least Desirable</b>	Baltimore	
	Median	13.22%



Next, we then look at the overall measures of revenue and taxation. The broadest measure of overall resources is the per capita revenue of the city.

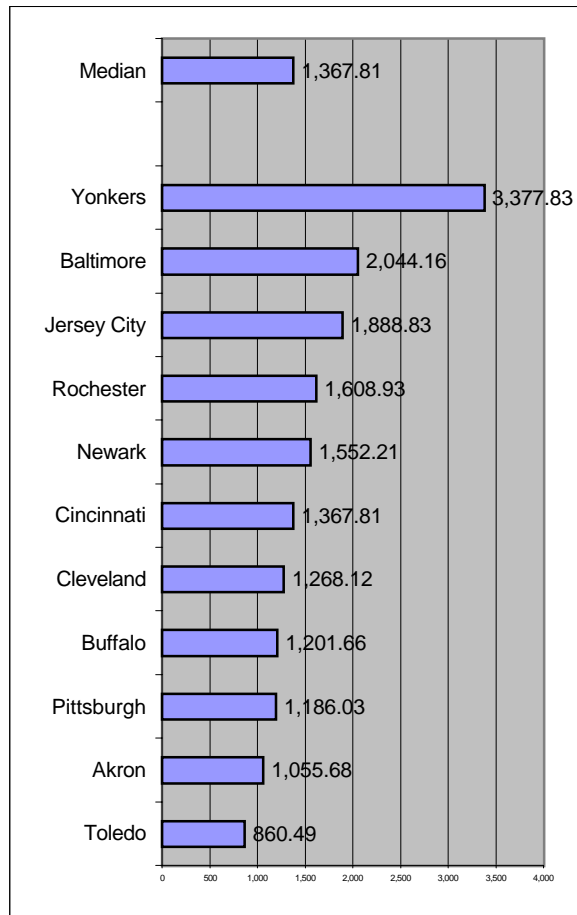
$$\frac{\text{Total revenue}}{\text{Population}}$$

Considering this broad measure, Toledo, Akron, Pittsburgh and Buffalo have the lowest revenue per capita burdens.

Newark has a higher revenue burden just higher than the median, although, by far, Yonkers, as well as Baltimore, Jersey City, and Rochester have higher burdens.

Figure 5  
Total revenue  
Population

<b>Most Desirable</b>	Toledo	860.49
	Akron	1,055.68
	Pittsburgh	1,186.03
	Buffalo	1,201.66
	Cleveland	1,268.12
	Cincinnati	1,367.81
	Newark	1,552.21
	Rochester	1,608.93
	Jersey City	1,888.83
	Baltimore	2,044.16
<b>Least Desirable</b>	Yonkers	3,377.83
	Median	1,367.81



We then look at the per capita total property tax burden, called the overlapping property tax levy. The per capita burden represents the total property taxes paid by taxpayers in the city to all jurisdictions – city, county, school district, and other jurisdictions, as the case may be – which levy a property tax. A high burden is worse than a low burden.

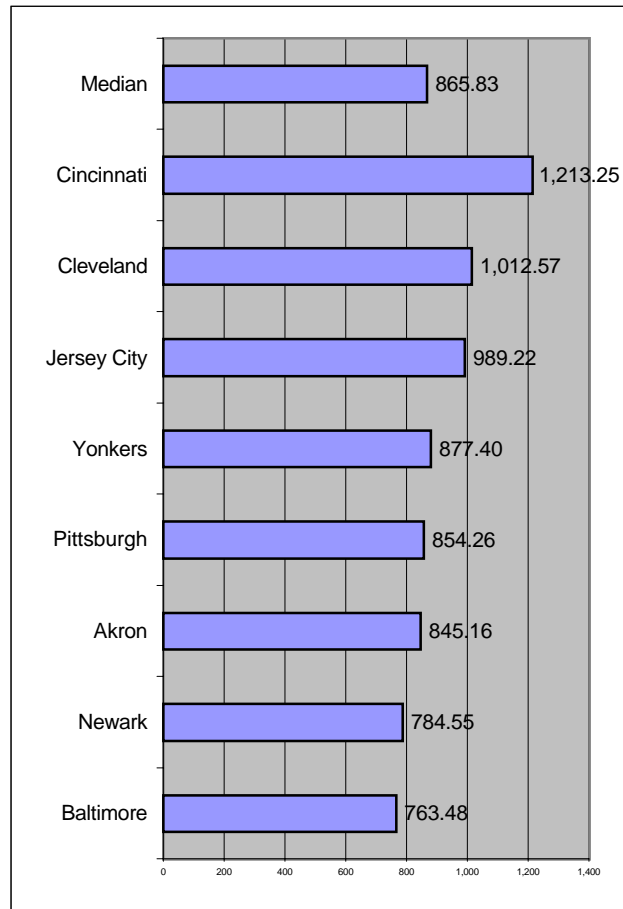
Overlapping tax levy  
Population

With this measure of total per capita tax burden, the total of all jurisdictions' taxes per person, Baltimore has the lowest burden; Newark has the next lowest combined total.

Jersey City's large overlapping burden is 25% larger. Cleveland and Cincinnati have the highest burdens.

Figure 6  
**Overlapping tax levy**  
**Population**

<b>Most Desirable</b>	Baltimore	763.48
	Newark	784.55
	Akron	845.16
	Pittsburgh	854.26
	Yonkers	877.40
	Jersey City	989.22
	Cleveland	1,012.57
	Cincinnati	1,213.25
	Buffalo	Not reported
	Rochester	Not reported
<b>Least Desirable</b>	Toledo	Not reported
	Median	865.83



Another measure of available resources is the amount of revenue that the city receives from other governments, such as state and federal governments versus that the city directly controls, its own-source revenue. Own-source revenues are not controlled by any other government and suggest the amount of independence the city may have. The ratio we use, therefore, is the amount of intergovernmental revenue as a proportion of total revenue. We would find a high percentage if the city has great dependence on intergovernmental revenues.

$$\frac{\text{Intergovernmental revenue}}{\text{Total revenue}}$$

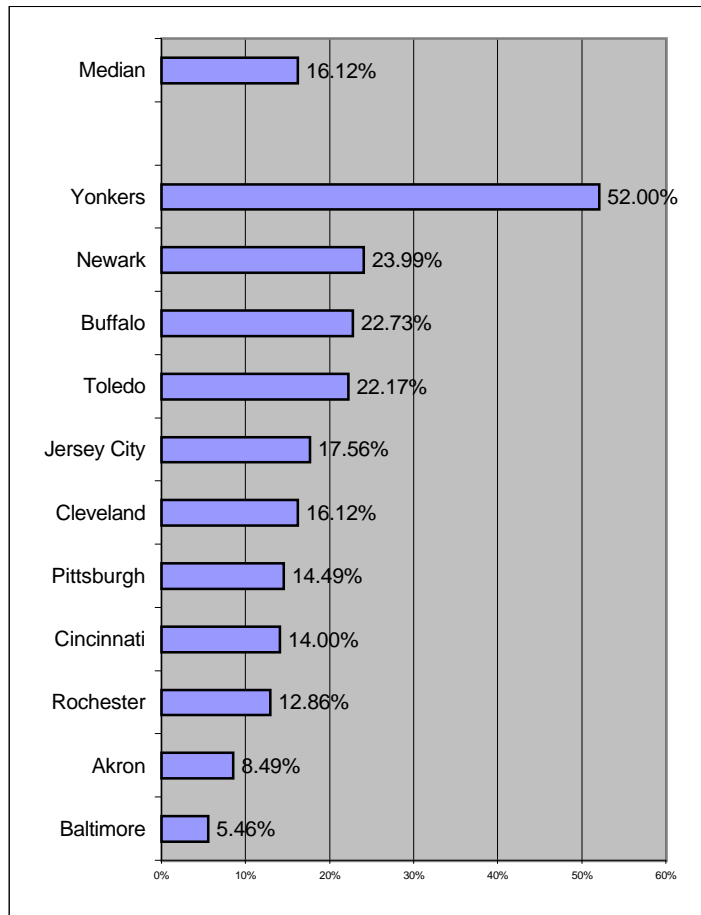
Baltimore is the least reliant on intergovernmental revenues among these cities, followed by Akron.

The median is just over 16% where Pittsburgh, Cleveland, and Jersey City fall.

Newark heavily relies on intergovernmental revenue, although Yonkers has far greater dependence due to Yonkers' history of fiscal problems.

Figure 7  
**Intergovernmental revenue**  
**Total revenue**

<b>Most Desirable</b>	Baltimore	5.46%
	Akron	8.49%
	Rochester	12.86%
	Cincinnati	14.00%
	Pittsburgh	14.49%
	Cleveland	16.12%
	Jersey City	17.56%
	Toledo	22.17%
	Buffalo	22.73%
	Newark	23.99%
<b>Least Desirable</b>	Yonkers	52.00%
	Median	16.12%



Still another measure of available resources is the proportion of a city's total revenue concentrated in one revenue source. This measure is a measure of the diversity of resources and suggests the ability of the city to "weather" economic downturns when a given revenue source's elasticity or susceptibility to economic change may become a factor in revenue collection.

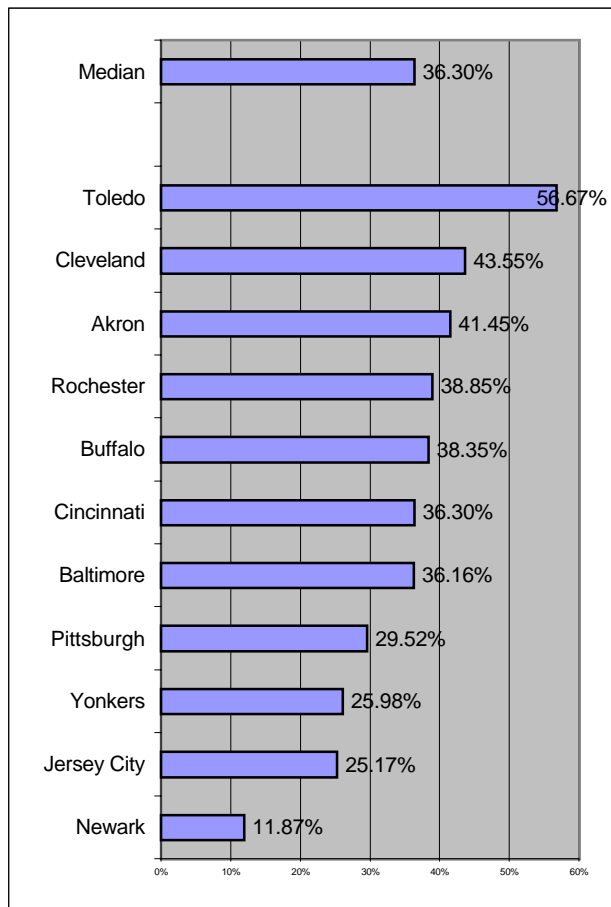
Largest revenue source  
Total revenue

Newark is the least dependent on a single, large revenue source such as the property tax. Jersey City, while twice as dependent as Newark on a single source, is still considerably less dependent than the median that is about 36%.

Akron, Cleveland, and Toledo are far more dependent on a single revenue source, in this case the local income tax.

Figure 8  
**Largest revenue source**  
**Total revenue**

<b>Most Desirable</b>	Newark	11.87%
	Jersey City	25.17%
	Yonkers	25.98%
	Pittsburgh	29.52%
	Baltimore	36.16%
	Cincinnati	36.30%
	Buffalo	38.35%
	Rochester	38.85%
	Akron	41.45%
	Cleveland	43.55%
<b>Least Desirable</b>	Toledo	56.67%
	Median	36.30%



Finally, the broadest measure of reserves is the net per capita personal income of the community after subtracting the taxes paid to all governments. Such a measure is called “disposable income” because it is available to be spent as the taxpayer chooses. The significance of disposable income, as a reserve of revenues for government, is its untapped potential should the government require it.

Disposable income  
Population

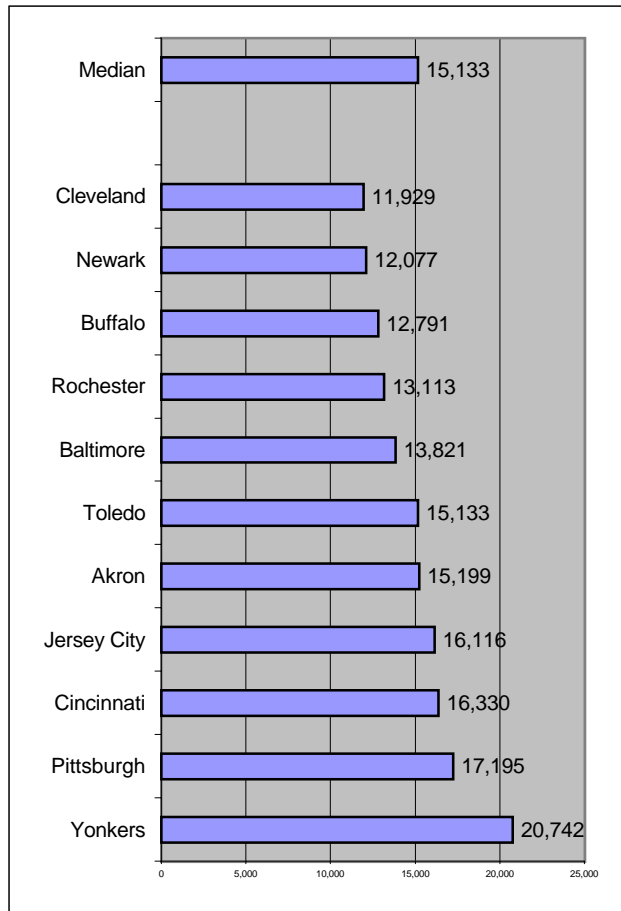
Considering the disposable or after tax income in the eleven cities, we find that the highest per capita disposable income is in Yonkers, followed by Pittsburgh, Cincinnati, and Jersey City. Jersey City, therefore, has greater fiscal capacity, according to this measure, than Newark.

Akron and Toledo fall at the median, about \$15,000.

Newark falls second from the lowest, just ahead of Cleveland and below the median.

Figure 9  
**Disposable income**  
**Population**

<b>Most Desirable</b>	Yonkers	20,742
	Pittsburgh	17,195
	Cincinnati	16,330
	Jersey City	16,116
	Akron	15,199
	Toledo	15,133
	Baltimore	13,821
	Rochester	13,113
	Buffalo	12,791
	Newark	12,077
<b>Least Desirable</b>	Cleveland	11,929
	Median	15,133



In summary, Newark's available external resources fall below, and sometimes well below, the median of the eleven cities. Newark collects in taxes far more of its total property value and its assessed value than the other cities. Newark has a very poor property tax collection rate. The city depends on its largest taxpayers more than any other city except Baltimore. The city also depends on intergovernmental revenue to a larger extent than any other city except Yonkers. Finally, disposable income is far lower than the median among these cities with only Cleveland's disposable income lower. Newark's overlapping tax burden, however, is relatively low, reflecting perhaps the strength of the surrounding suburbs, the relatively low burden of county taxes, and the strength of state aid in holding down school property taxes. Newark also has a relatively diverse tax base, relying the least on any one revenue source of the cities in the comparison group.

Baltimore and Yonkers fall in the middle of the cities. While Baltimore has the next highest per capita tax burden and the highest concentration of its tax based held by its largest taxpayers, Baltimore also has the lowest overlapping tax levy and the lowest reliance on intergovernmental revenue. Yonkers is the most dependent on intergovernmental revenue and has the highest revenue per capital, but Yonkers also has high disposable income, a high property tax collection rate, and a low reliance on any one revenue source.

Among the cities that have the highest desirable ratios, Akron fell almost consistently across the top.

## 2. Available Internal Resources

Available internal resources refer to the financial flexibility of the city. That's is, once the city has collected revenues, does the city use all of those it collects or does the city retain significant amounts of cash and investments, keep a significant budget surplus, or hold on to a large fund balance (or the difference between assets the city has and liabilities with which it must contend). Internal resources can be important in dealing with short-term problems. Having cash on hand can help weather sudden emergencies.

In the cases here, the comparison among the New Jersey cities and those outside New Jersey cannot be made due to the fundamental differences in their accounting systems. All cities outside New Jersey use accounting concepts emanating from the Government Accounting Standards Board and referred to as "generally accepted accounting principles (GAAP)." New Jersey cities use a different system provided by New Jersey state law and regulations regarding revenue estimation,<sup>2</sup> expenditure,<sup>3</sup> within-fiscal year control,<sup>4</sup> and oversight.<sup>5</sup>

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<sup>2</sup> Municipal revenues may not normally be anticipated above the amount collected the previous year for each type of revenue. Prior consent of the state Division of Local Government Services must be obtained to anticipate a new source of revenue or any item of revenue in excess of the previous year's cash collection. In addition, revenues are accounted for as directed by a state mandated system and set of concepts that are unlike those used elsewhere nationally and referred to as "GAAP."

<sup>3</sup> The state Division of Local Government Services enforces state law capping municipal expenditures unless exceeded with the approval of eligible municipal voters in a referendum. The cap for expenditures is 5% or the implicit price deflator for state and local government – 4% presently -- (New Jersey Statutes Annotated 40A: 4-45.1 et. seq. and <http://www.state.nj.us/dca/lgs/lfns/01lfns/cfo-2001-04a.pdf> ) over the previous year's final appropriations. Very generally stated, the exceptions to the cap involve emergency spending and debt. In addition, expenditures are accounted for as directed by a state mandated system and set of concepts that are unlike those used elsewhere nationally and referred to as "GAAP."

<sup>4</sup> Municipalities must employ an encumbrance accounting system in which the municipality reserves funds prior to the issuance of purchase orders for spending.

<sup>5</sup> Detailed enforcement of the law on revenue estimation, the expenditure cap, the observance of budget preparation and reporting deadlines, and budgetary accounting systems is pursued by the Division of Local Government Services in the State of New Jersey Department of Community Affairs as well as the Division of Taxation in the Department of Treasury. The law is NJSA 40A; a substantial explanation of many of the fundamentals of budgeting and accounting are included in Benecke (1998).

### 3. Current Spending Pressures

The first set of fiscal measures addressed each city's revenues only. This set of measures examines expenditures in relationship to revenues and debt commitments. Current spending pressures include a measure of requirements for operations. This measure is the amount required for many everyday operations – from salaries of employees to supplies – but it does not include the spending for the repayment of debt.

Operating expenditure

Total revenue

Newark and Jersey City have the highest levels of operating spending.

Most of the cities are close to a median of 85%.

Only Rochester has a relatively low level of operating expenditure.



If a municipality's operating expenditures are low in comparison to other cities, however, the city's debt repayment requirements (debt service) may be high; therefore another measure captures the amount of spending each year devoted to the repayment of debt.

Debt service  
Total expenditures

The debt service in Newark is relatively small next only to that in Baltimore the lowest debt service.

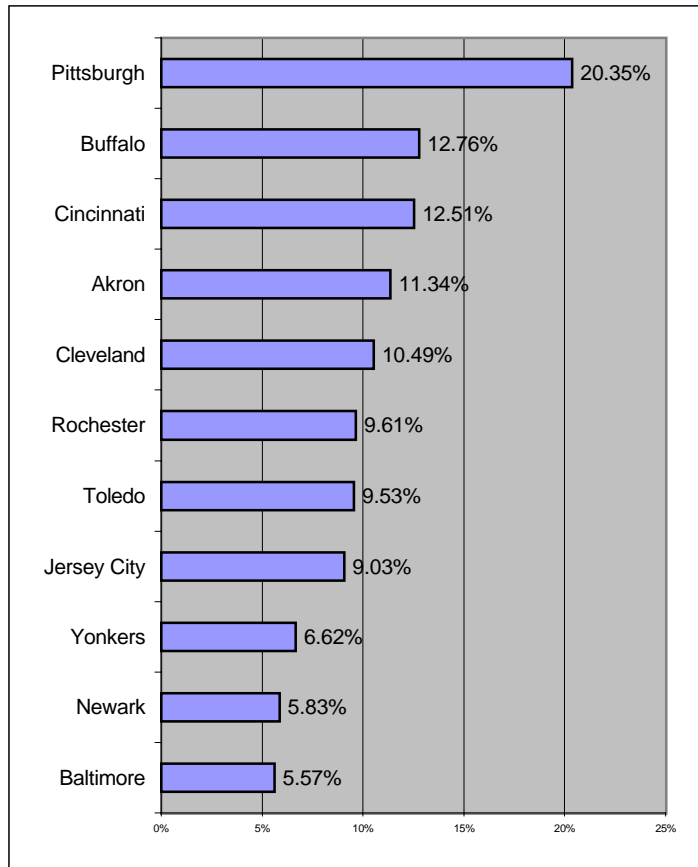
Jersey City's debt service is close to the median along with Toledo and Rochester.

Pittsburgh, remarkably, devotes over one-fifth of its budget to debt repayment. For every \$100 dollars Pittsburgh spends, \$20.35 is devoted to meeting past commitments.

Figure 11  
**Debt service**  
**Total expenditures**

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<b>Most Desirable</b>	Baltimore	5.57%
	Newark	5.83%
	Yonkers	6.62%
	Jersey City	9.03%
	Toledo	9.53%
	Rochester	9.61%
	Cleveland	10.49%
	Akron	11.34%
	Cincinnati	12.51%
	Buffalo	12.76%
<b>Least Desirable</b>	Pittsburgh	20.35%
	Median	9.61%



Finally, recall the measures we used to choose cities for the comparison group. We included the unemployment rate, the poverty rate, and the change in population growth. All of these measures also indicate conditions that might threaten to unbalance a city's budget because of the inability of taxpayers to pay their taxes or the increasing needs of the community due to the rise in demand for services. These are secondary sources of immediate spending pressure.

Unemployment measures those in the labor force who do not currently have a job but are searching for one. In the case of the unemployment rate in the year 2000, we find few cities in this group that approach the national unemployment rate in 2000, 4%.

Unemployment rates have fallen through the 1990s, however, especially since the height of the last economic recession in 1992. While the nation's unemployment rate has fallen from 7.5% to 4% (by about 47%), the median change among the eleven industrial cities was a decrease of about one-third.

Newark had the greatest decrease in unemployment during this period, followed by Yonkers and Jersey City.

The median fall in unemployment was about one-third. In this group we find Cleveland, Cincinnati, and Buffalo.

Rochester had the least change in unemployment, although that change was almost one-fourth.

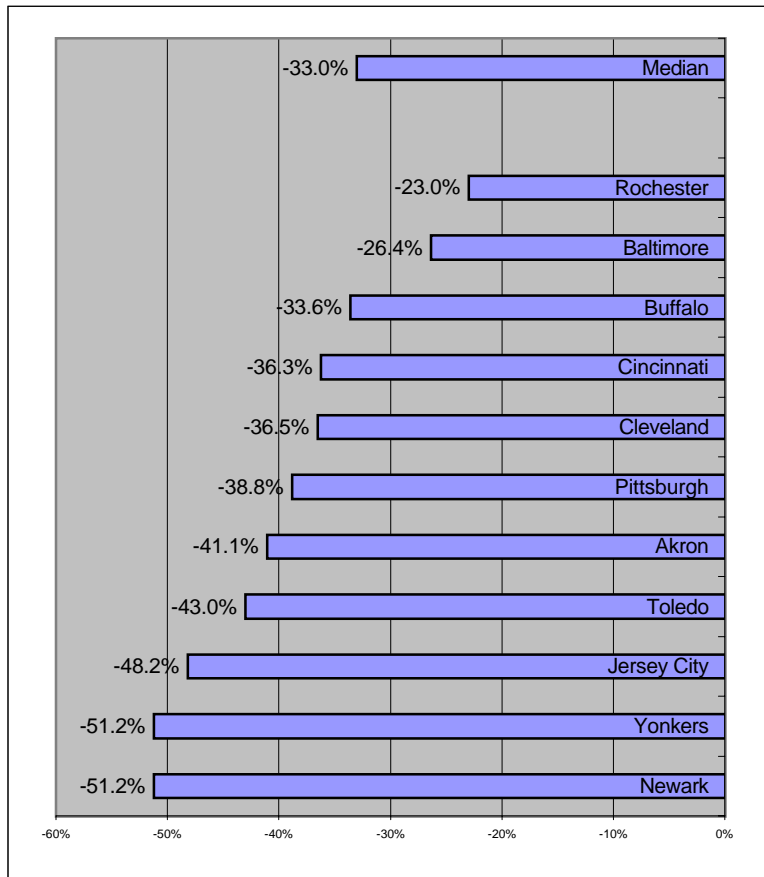
Unemployment rate  

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And Change 1992-2000

Figure 12  
**Unemployment rate  
and Change 1992-2000**

		1992	2000	Change
<b>Most Desirable</b>	Newark	16.6%	8.1%	-51.2%
	Yonkers	8.4%	4.1%	-51.2%
	Jersey City	13.7%	7.1%	-48.2%
	Toledo	10.0%	5.7%	-43.0%
	Akron	9.5%	5.6%	-41.1%
	Pittsburgh	6.7%	4.1%	-38.8%
	Cleveland	13.7%	8.7%	-36.5%
	Cincinnati	8.0%	5.1%	-36.3%
	Buffalo	12.2%	8.1%	-33.6%
	Baltimore	11.0%	8.1%	-26.4%
<b>Least Desirable</b>	Rochester	8.7%	6.7%	-23.0%
	Median	10.0%	6.7%	-33.0%



Poverty rates are substantial indicators of current spending pressure due to the reliance families in poverty have on government services. This reliance is very limited in the case of local governments when compared to state and federal governments. Indirectly, the poverty rate also suggests the inability of cities to produce necessary revenue.<sup>6</sup>

The poverty rate measures the proportion of city residents below an income level defined by the U. S. Bureau of the Census.<sup>7</sup> The most recent measures of poverty available at the time of our study were for the year 1995, as calculated and reported by the U. S. Department of Housing and Urban Development. In addition, we show the change in the poverty rate between 1989 and 1995. Rates for Yonkers were not available.

Among the eleven cities, Newark has the highest poverty rate in 1995 with 30.5%. The United States as a whole had a poverty rate of 13.8% in 1995 and U. S. central cities a rate of 20.6%. Newark's poverty rate was about one and one-third that of the median of the eleven cities and over one and one-half times that of Akron, the least impoverished city in the group.

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## Poverty rate

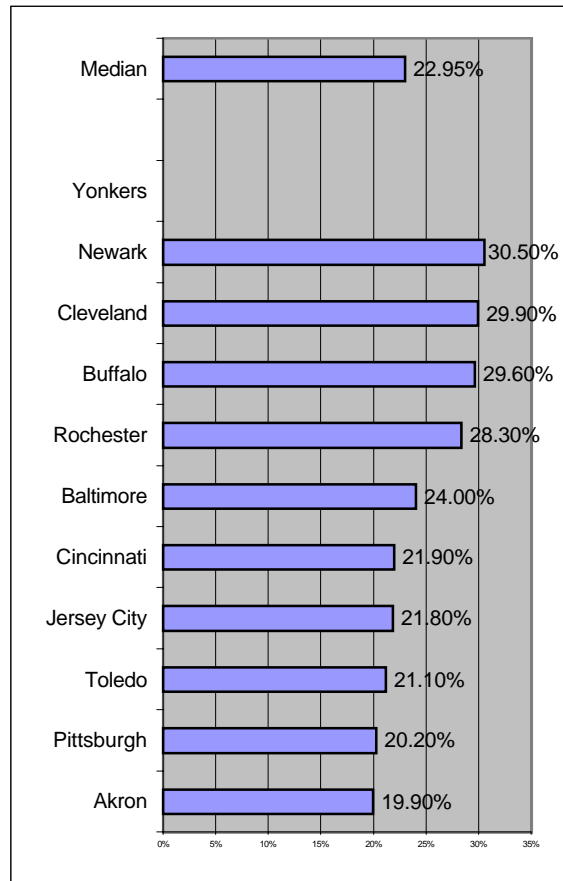
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<sup>6</sup> The United States Department of Housing and Urban Development characterizes poverty's effect on a city's fortunes as follows (1999, p. 23): ". . . extraordinarily high poverty rates tend to reflect structural barriers to participation in the changing economy – barriers such as a large 'skills gap' in the workforce (or among workers in particular neighborhoods or racial/ethnic groups), rapidly disinvested and blighted parts of a city that have trouble attracting investment even where significant market potential exists, and high rates of crime that are both symptom and cause of chronic economic disadvantage. High poverty rates are thus not only a sign of past distress but an indicator of hurdles that a community must overcome if its regional economy is to ride the prosperity trend enjoyed by the Nation as a whole over any period of recovery and expansion."

<sup>7</sup> Following the U. S. Office of Management and Budget's (OMB) Statistical Policy Directive 14, U. S. Census Bureau uses a set of money income thresholds that vary by family size and composition to determine who is poor. If a family's total income is less than that family's threshold, then that family, and every individual in it, is considered poor. The poverty thresholds do not vary geographically, but they are updated annually for inflation using the Consumer Price Index (CPI-U). The official poverty definition counts money income before taxes and does not include capital gains and noncash benefits (such as public housing, Medicaid, and food stamps). Poverty is not defined for people in military barracks, institutional group quarters, or for unrelated individuals under age 15 (such as foster children). They are excluded from the poverty universe--that is, they are considered neither as "poor" nor as "nonpoor." The source for the definition of poverty is Joseph Dalaker and Bernadette D. Proctor, U.S. Census Bureau, Current Population Reports, Series P60-210, Poverty in the United States, U. S. Government Printing Office, Washington, DC, 2000. The poverty income threshold for a four-person family (on which the poverty rate is computed) in 1989 was \$12,100 and in 1995 was \$15,150. The poverty income threshold for the first person (and each additional person) was \$5,980 (\$2,040) in 1989 and \$7,470 (\$2,560) in 1995. See also Mateo (2000).

Figure 13  
**Poverty rate 1995**

<b>Most Desirable</b>	Akron	19.90%
	Pittsburgh	20.20%
	Toledo	21.10%
	Jersey City	21.80%
	Cincinnati	21.90%
	Baltimore	24.00%
	Rochester	28.30%
	Buffalo	29.60%
	Cleveland	29.90%
	Newark	30.50%
<b>Least Desirable</b>	Yonkers	
	Median	22.95%



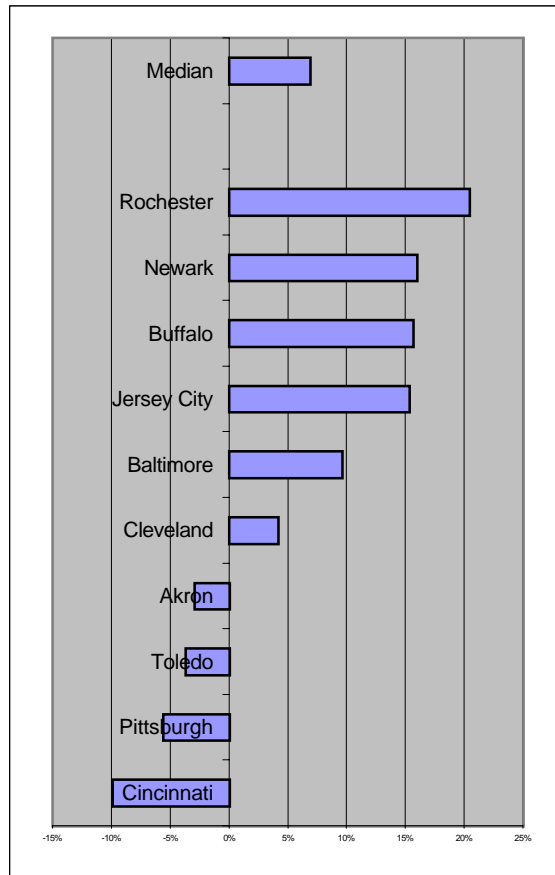
In the following table, we show the change in the poverty rate between 1989 and 1995. Six of the ten cities for which data exist had increasing poverty rates. Only Cincinnati, Pittsburgh, Toledo, and Akron had lower poverty rates in 1995.

Since more recent data were not available, we can only guess at the effect the decrease in the unemployment rate has had, but, clearly, the lower unemployment rates signal the possibility of a further reduction in poverty.

Change in poverty rate

Figure 14  
**Change in poverty  
rate 1989-1995**

<b>Most Desirable</b>	Yonkers	
	Cincinnati	-9.88%
	Pittsburgh	-5.61%
	Toledo	-3.66%
	Akron	-2.93%
	Cleveland	4.18%
	Baltimore	9.59%
	Jersey City	15.34%
	Buffalo	15.63%
	Newark	15.97%
<b>Least Desirable</b>	Rochester	20.43%
	Median	6.89%



Finally, we include population change as a financial condition indicator. Population losses are most often thought of as an indicator of poor financial health. When citizens leave the community, their departure may reflect a loss of confidence in the economy – they have lost jobs and have little prospect of others – or dissatisfaction with taxing and spending levels. On the other hand, population losses have advantages. The loss of population provides opportunities, which the reduced congestion and, perhaps, the reduced spending pressure afford. The reduced congestion may increase the capacity of housing and business property that will allow future growth to take place as the city rebuilds its neighborhoods and business districts.

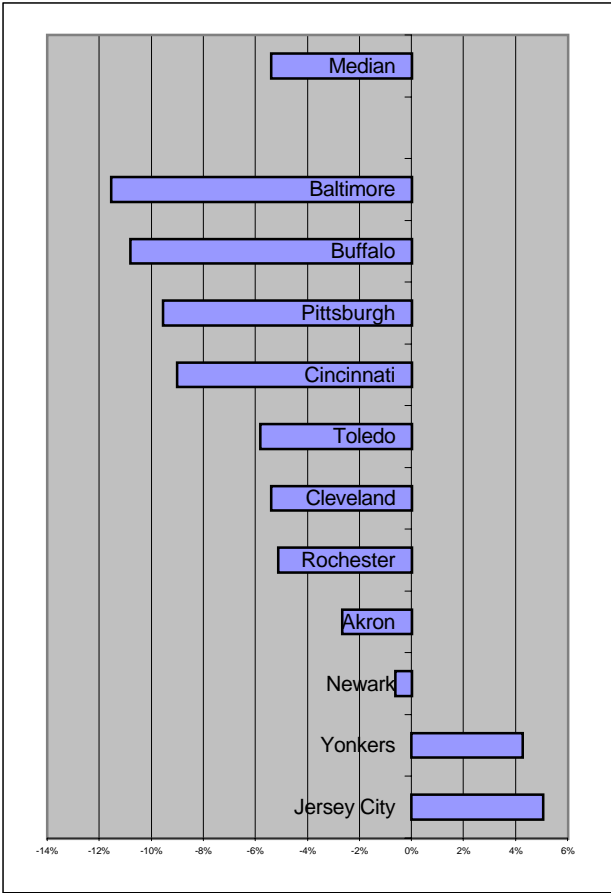
Population increases can also boost spending pressure, as the new residents require or demand more services or more action from the municipality to deal with problems such as traffic congestion which accompany growth. One asks whether the new residents will be able or willing to provide the taxes necessary to finance increased spending.

The population changes among the eleven cities reveal the rises only in Jersey City and Yonkers. Newark's population is relatively stable, and all other cities continued to lose population by a median rate of just over 5%.

#### Population change

Figure 15  
**Population change**  
**1990 - 2000**

<b>Most Desirable</b>	Jersey City	5.04%
	Yonkers	4.26%
	Newark	-0.61%
	Akron	-2.67%
	Rochester	-5.12%
	Cleveland	-5.38%
	Toledo	-5.80%
	Cincinnati	-9.00%
	Pittsburgh	-9.55%
	Buffalo	-10.81%
<b>Least Desirable</b>	Baltimore	-11.53%
	Median	-5.38%



In summary, Newark has high operating expenditure and low debt service levels. As a result, Newark falls in the middle among the cities in the group.

Buffalo falls at the bottom on most measures in this category. Its debt service per capita is large and the economic measures of spending pressure are high.

Among the cities with the highest desirable ratios are Toledo, Yonkers, and Jersey City.

The spending pressure on each of New Jersey's major cities is exacerbated by unemployment. Each of the cities had unemployment rates greater than the nation as a whole and greater than the median in the eleven-city group; in Newark's case the magnitude was over two times the nation's unemployment rate.

Poverty has added to fiscal pressure. While the poverty rate data are not current, and will not be so until the U. S. Bureau of Census reports them from the 2000 census, our data do reflect the magnitude of the problem.

The problem posed by unemployment and poverty for fiscal health is one of additional spending pressure as well as less revenues than could be collected without poverty. Poverty is also a continuing problem for cities attempting to rebuild their economies. As the U. S. Department of Housing and Urban Development stated (1999, p. 23), "High poverty rates are . . . not only a sign of . . . distress but an indicator of hurdles that a community must overcome if its . . . economy is to ride the prosperity trend enjoyed by the Nation as a whole over any period of recovery and expansion."

#### 4. Past Spending Commitments

Past spending commitments refer to the long term commitments the city has made in the primary form of debt and in the long term commitments made through agreements with employees over pensions and over allowances for paid vacation and leave.

The first measures, then, deal with debt. The first ratio is a conventional measure that compares the debt levels of cities in terms of their populations.

Debt

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Population

The conventional measure of the dollar amount of municipal debt per resident (or per capita debt) shows Newark with one of the smallest debt commitments, only higher than Cincinnati and Toledo.

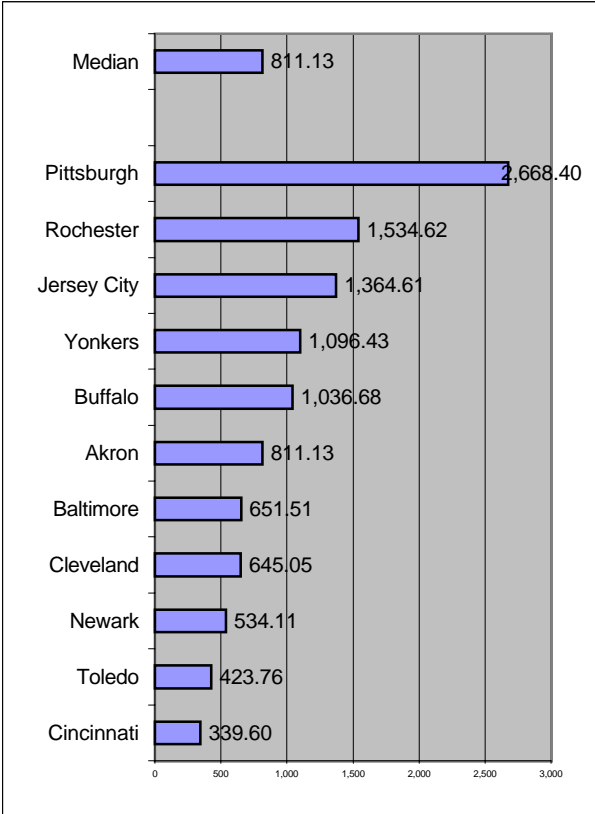
Akron fell at the median.

Figure 16

**Debt**  
**Population**

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<b>Most Desirable</b>	Cincinnati	339.60
	Toledo	423.76
	Newark	534.11
	Cleveland	645.05
	Baltimore	651.51
	Akron	811.13
	Buffalo	1,036.68
	Yonkers	1,096.43
	Jersey City	1,364.61
	Rochester	1,534.62
<b>Least Desirable</b>	Pittsburgh	2,668.40
	Median	811.13



Jersey City had one of the largest debt per capita burdens exceeded by Rochester and Pittsburgh.

Another conventional measure is municipal debt as a proportion of the total value of taxable property in a city.<sup>8</sup> This measure produces results consistent with per capita debt. Newark's debt is \$2.72 for every \$100 of property value. Newark and Cincinnati had a very low ratio of debt to total property value, about half that of Jersey City, the median. Yonkers and Pittsburgh have about fifteen times as much debt.

Debt

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Total value of taxable property

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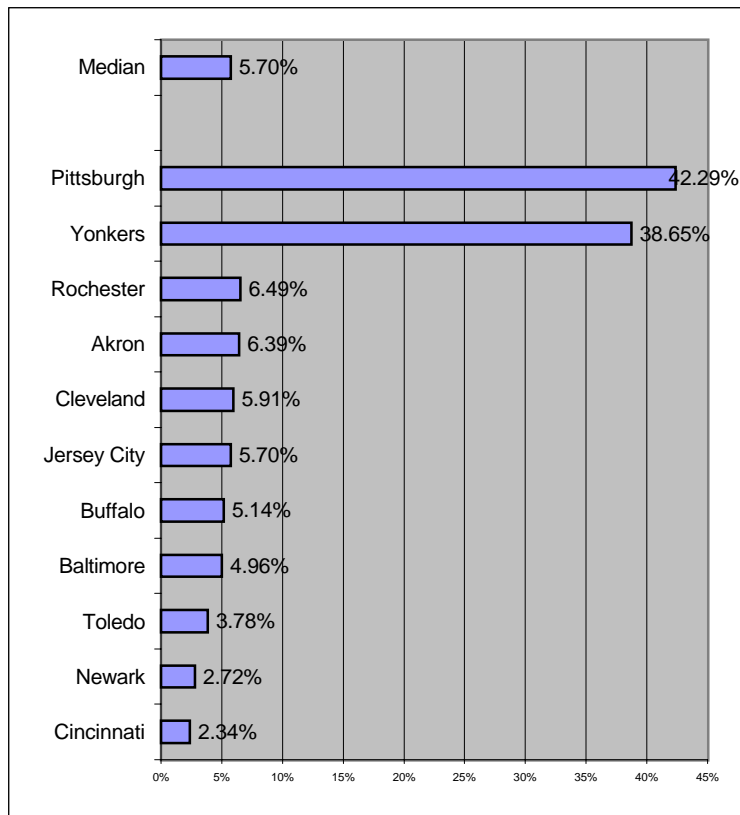
<sup>8</sup> In this case, as before in our measuring the amount of collected property taxes, the legal terms for "total value of taxable property" are equalized assessed, true, or market value.

Figure 17

**Debt**

**Total value of taxable property**

<b>Most Desirable</b>	Cincinnati	2.34%
	Newark	2.72%
	Toledo	3.78%
	Baltimore	4.96%
	Buffalo	5.14%
	Jersey City	5.70%
	Cleveland	5.91%
	Akron	6.39%
	Rochester	6.49%
	Yonkers	38.65%
<b>Least Desirable</b>	Pittsburgh	42.29%
	Median	5.70%



State law limits municipalities almost everywhere in the United States, except Baltimore, in the amount of debt they can incur at any one time. Only exceptional circumstances lead state overseers, under law, to allow cities to exceed these limits.<sup>9</sup> In any case, the closer debt levels are to legally mandated thresholds, or certainly the more debt levels exceed those provided by law, the worse the financial condition of the city.

The third ratio – legal allowance for debt – is consistent with the two preceding ratios. Information for Baltimore was not available. However, Cleveland has used the least amount of its legally permitted debt, followed by Rochester.

Cincinnati falls at the median of about 42%.

Newark currently has used only about three-fourths of its debt capacity, while Jersey City has exceeded its by more than half. In the case of remaining debt capacity, Newark is far above the median of these cities as is Jersey City.

Debt

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Legal debt limit

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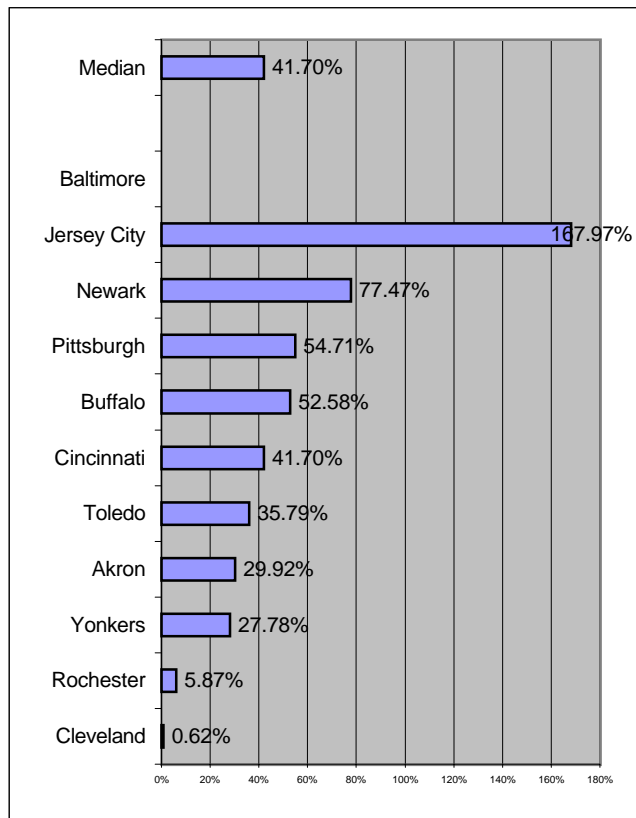
<sup>9</sup> NJSA 40A: 2-7 provides for exceptions to the debt limitations. The overseers – the Local Finance Board, Division of Local Government Services, Department of Community Affairs – have ultimate decision making authority in such exceptional circumstances.

Figure 18

**Debt**

**Legal debt limit**

<b>Most Desirable</b>	Cleveland	0.62%
	Rochester	5.87%
	Yonkers	27.78%
	Akron	29.92%
	Toledo	35.79%
	Cincinnati	41.70%
	Buffalo	52.58%
	Pittsburgh	54.71%
	Newark	77.47%
	Jersey City	167.97%
<b>Least Desirable</b>	Baltimore	
	Median	41.70%



The final debt ratio captures the total debt of all overlapping jurisdictions. These overlapping jurisdictions, at the very least, include the city, the county, and the parts of various school districts located within the boundaries of the city. In this case, we compare overlapping debt – debt held by the city, county, school district, and other taxing districts – to the total value of taxable property<sup>10</sup> as well as to the population.

In both cases, Jersey City has among the highest amounts of debt, along with Pittsburgh and Yonkers.

Newark fell at or below the median. Thus, for example, Newark residents have \$6.14 in overlapping debt for each \$100 in taxable property. Newark has \$1,188.45 in overlapping debt per capita, while Jersey City has almost three times as much as Newark.

Remarkably, again, Pittsburgh has the highest amount of debt by any of our measures.

Overlapping debt  
Total value of taxable property

Overlapping debt  
Population

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<sup>10</sup> Again, the legal terms are equalized assessed, true or market value.

Figure 19

**Overlapping debt**  
**Total value of taxable property**

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<b>Most Desirable</b>	Cincinnati	4.77%
	Baltimore	4.96%
	Toledo	5.50%
	Buffalo	6.00%
	Newark	6.14%
	Rochester	8.33%
	Cleveland	8.58%
	Akron	8.63%
	Jersey City	12.12%
	Yonkers	48.60%
	<b>Least Desirable</b>	Pittsburgh
	Median	8.33%

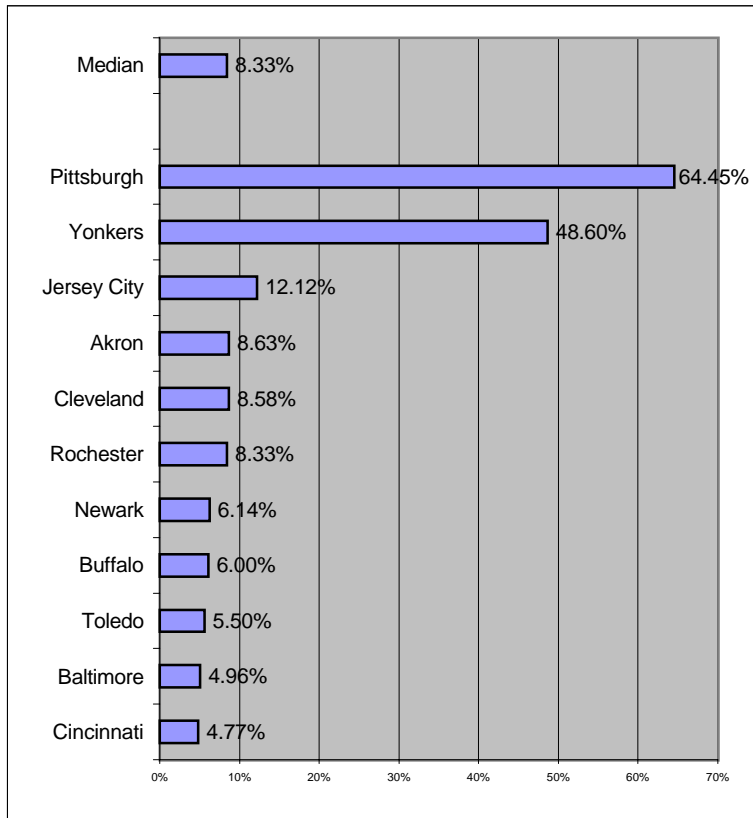
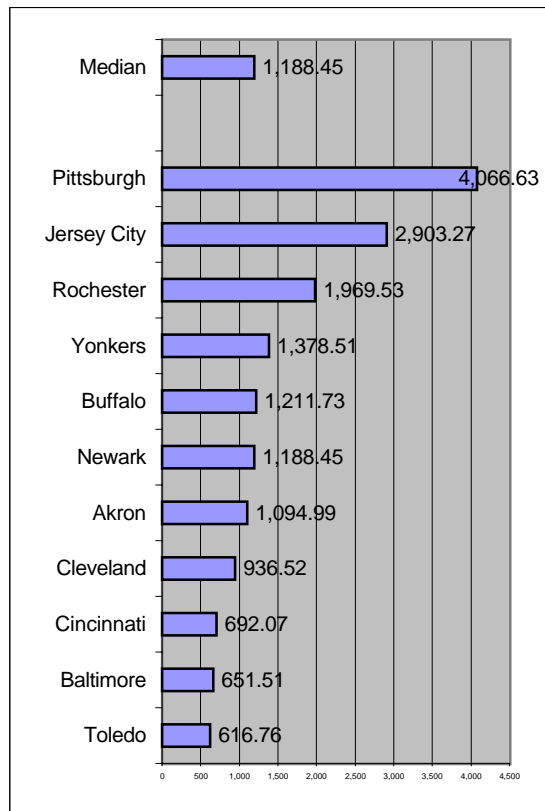


Figure 20  
**Overlapping debt**  
**Population**

<b>Most Desirable</b>	Toledo	616.76
	Baltimore	651.51
	Cincinnati	692.07
	Cleveland	936.52
	Akron	1,094.99
	Newark	1,188.45
	Buffalo	1,211.73
	Yonkers	1,378.51
	Rochester	1,969.53
	Jersey City	2,903.27
	<b>Least Desirable</b>	Pittsburgh
	Median	1,188.45



In summary, the long-term commitments of New Jersey's two major cities reveal two very different pictures and, we presume, two very different approaches to making long-term commitments. Newark has relatively low commitments, although they near the median when the overlapping jurisdictions are taken into account and are relatively high when compared to the legal debt limit. Jersey City has large commitments, especially in comparison to the other ten cities, whether that comparison is one of per capita debt, proportion of the debt limit used, or proportion of available property value.

Among cities with the highest desirable ratios are Cincinnati and Toledo. Each has relatively low debt in whatever way measured.

## **Summary**

To summarize the financial condition of the two largest New Jersey cities, a familiar pattern emerges. Newark's resource base leaves much room for improvement. In almost every case, Newark ranked at the bottom of the eleven cities in the strength of its resource base. Newark's tax base is concentrated in a few taxpayers and its collection rate is relatively low, both indicators of poor financial condition. The city is using far more of its total and assessed property tax value than all other cities except Yonkers. Finally, as a city with a per capita disposable income next only to the poorest city, Cleveland, Newark depends far more than other cities on intergovernmental revenue.

The financial condition of Newark suggests advantages, however. Despite facing the need for and consequences of a revaluation of property, the city has a relatively moderate overall tax burden, an indicator of relatively good financial condition. In addition, the tax base has diversity and, with that, the ability to weather economic change better than any other city in the comparison group.

The pressures Newark faces for greater current spending would be lower but for the problems of unemployment and poverty and, under certain conditions, population loss. Nevertheless, the lack of large, long term debt commitments – especially commitments like those of Pittsburgh -- yields flexibility in the short and long run periods to overcome the immediate pressure presented by these problems.

Jersey City is less resource starved, and, in the context of our eleven cities, actually appears to be relatively wealthy. The city's disposable income per capita is the fourth highest, and the city has a high collection rate for its property tax. The city has a moderate direct and overlapping tax burden and does not rely as much as most other cities on intergovernmental revenue.

Jersey City's commitments, however, require that the city be relatively wealthy. Immediate commitments are high as are both direct and overlapping debt. In all, Jersey

City must continue to find resources to prevent its immediate and long-term commitments from becoming overwhelming.

Among the other cities in the comparison group, fewer stark conclusions emerge. In Toledo's case, the city has relatively large resources, appearing above the median in all but overlapping tax levy per capital, the amount of intergovernmental revenue, and the reliance on a single revenue source. Toledo's current commitments are relatively small, although the city is losing population and falls below the median on this measure. Toledo's debt, however, is relatively small.

Akron falls in just about the same position as Toledo. Akron's resources placed it among the most desirable on most ratios. Its current spending pressures, as measured in levels of operating expenditure and debt service are relatively high. Finally, Akron's long-term commitments fall below the median, suggesting Akron's position near the least desirable end of the spectrum.

Cincinnati has both desirable levels of resources and a low debt commitment relative to the other cities. However, its short-term commitments fall at the median, neither the most desirable nor the least desirable of the measures.

Pittsburgh has high levels of debt, falling at the bottom or least desirable of the cities in the comparison group. Yet, the city has high levels of resources and moderate current commitments.

Baltimore presents a mixed picture. The city's resources place it in the middle of the city comparison with relatively high property tax collection rates and low reliance on intergovernmental revenue. Its current commitments are moderate as well with only the looming spending pressure from unemployment and population loss with which to contend. Baltimore debt, or long-term commitments, is relatively small.

Cleveland also presents a mixed picture. The resources available are neither large nor small; however, its collection rate for property taxes, its reliance on the income tax as its largest revenue source and the low level of disposable income suggest problems. Cleveland's current commitments are moderate; the city falls at the median on most measures of these short-term commitments and spending pressures. Finally, the city's debt is relatively modest with all measures falling below the median; only its overlapping debt per capita falls at the median.

Buffalo, like Newark, has fewer resources than the other cities. The city falls near the bottom among cities on the measures of available resources. The city's current spending pressures are relatively large with the city falling at the bottom among cities. Buffalo's debt is relatively moderate; one measures of long-term commitments, Buffalo falls at the median.

The financial picture in Yonkers is a very complicated one. The city's disposable income is the largest of all the cities; however, it collects the largest proportion of assessed

valuation of any of the cities, collects the highest revenue per capita, and is the city most dependent on intergovernmental aid. The city's current commitments are not large as the city has low debt service, low unemployment, and a relatively large increase in population. The city's long-term commitments – debt – are relatively large.

Rochester presents a bleaker picture than Yonkers. Rochester's available resources, in comparison to the other ten cities, are small. Spending pressures are large relatively as are the long term, debt commitments of the city.



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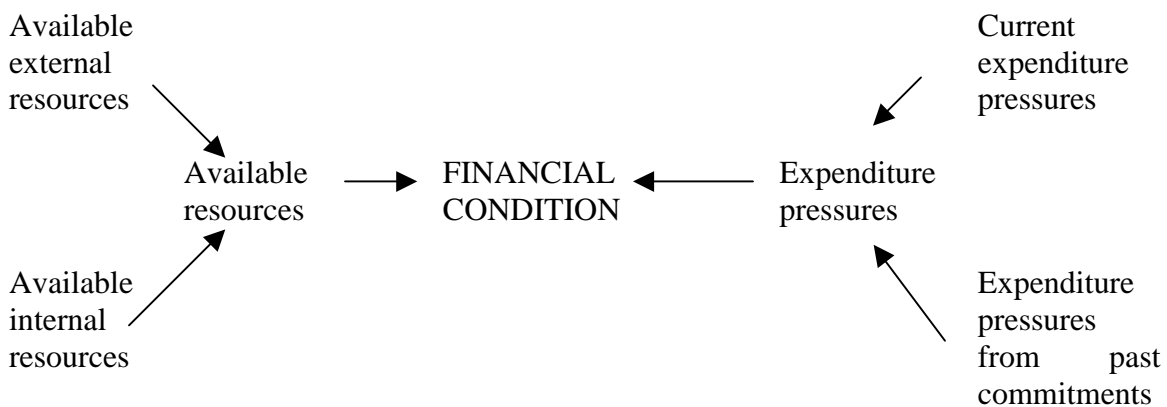
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## Appendix: Financial Condition

What is financial condition? A number of concepts exist, but all have similar characteristics whether they appear in the academic literature (Groves and Valente, 1994; Ladd and Yinger, 1991; Berne and Schramm, 1986) or the practitioner journals (Mead, 2000; Petro, 1998; Brown, 1993; Stallings, 1978). The concept fundamentally combines external resources, such as wealth and resource reserves, with internal resources, such as unused cash and investments and balances them with pressures for spending, whether these pressures are current or based on past commitments.



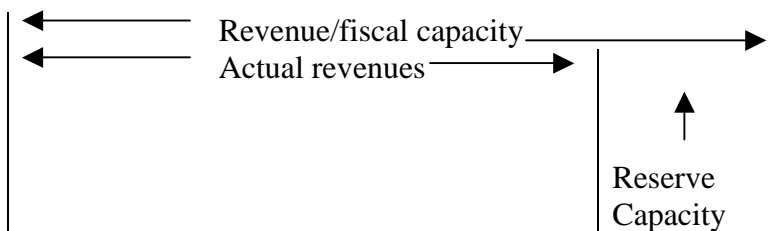
In this case, we define financial condition as the probability that a government will meet its financial obligations. Conceptually, this probability depends on the level of expenditure demands on the government (expenditure pressures) relative to the total resources available to meet those demands (available resources). Measures of operating and capital expenditure levels and debt obligations can be included in the expenditure pressures on a government; measures of external and internal resources are included in available resources.

In this context, the gap between expenditure pressures and available resources becomes a measure of financial condition. A government that faces little pressure for additional expenditures and has substantial capacity to raise additional revenues is in good financial condition. A government with considerable pressures to increase its budget, but very little unused revenue capacity, is in poor financial condition.

### Available External Resources

Fiscal capacity is a shortened version of the idea of available external resources, the upper left hand corner of the above diagram (Johnson and Roswick, 1991; Galambos and Schreiber, 1978). This idea rests on the notion that if the government were to tap the revenue base to the maximum possible extent (set tax rates current charges, and fees at the level that would generate the maximum revenue), it would generate a level of annual revenues that equals its revenue or fiscal capacity.

So, what measure would help us determine whether a government has tapped the revenue base to the maximum possible extent? Given the fact that law allows cities certain revenues as well as sets the limits to which a city can extract those revenues, we have a measure of fiscal capacity.



However, law, economics, and politics constrain the relationship between fiscal capacity and actual revenues. In other words, there are limits to the revenue raising power of the organization, the capacity or ability of a government to tap this revenue potential and

revenue base. The legal maximum is clear although laws can change. The effective or economic maximum is murkier; what is the rate at which the revenue base contracts by encouraging firms to move to other jurisdictions? The political constraints are numerous but an important one relates to what will provoke taxpayers either to voice their displeasure or move away from their city?

There is one major way of understanding fiscal capacity and that is the reference group approach in which one government is compared to another. The estimation of revenue capacity using a reference group basis assumes in essence that the revenue capacity of a government can only be judged relative to those other entities with which it is most similar and with which it may be in long-run competition for resources.

In this sense, the concept “capacity” takes on an average character, but it still provides a standard for comparison. The empirical finding that governments with above-average tax rates are more likely to be subjected to economic losses or politically inspired tax and spending limits provides some justification for the reference group approach.

There are single factor measures of fiscal capacity. The most common measures are those in which several jurisdictions are compared on the basis of their revenues divided by their populations, thus revenue per capita.

The measure of fiscal capacity relates to the revenue reserves at the disposal of the government. Revenue reserves are the untapped resources legally available to the community. The reserves represent a theoretically possible source of funds should it ever be needed.

However theoretically possible, these reserves hardly suggest reality. In many cases, a community would have a tax rate equal to 100% of the market value of property to be able to tap all of the reserves. The comparison group approach serves as an indicator of a real limit. The median – the number that splits the distribution in half, given actual legal limits, might be the ceiling of the reserves of the comparison group.

Knowing the connections just outlined, it is possible now to make the final jump to financial condition. Financial condition on the revenue side would be the degree to which the government has or has not exceeded its capacity. The possible measures relate to the existence of reserves and whether the government has control of them, including the ratio of revenues to population, the total amount of these revenues which came from the government’s own sources (as opposed to other governments), and the relationship of taxes levied to legal maximums permitted. We would also want to know the total commitment by taxpayers to all governments taxing the same taxpayers, the overlapping taxes paid divided by the population. In the case of property taxes, the most common revenue source in cities, we would also want to know something about the relationship of taxes collected to both assessment practices and the true or market value of property. We would also want to know something about the reserve wealth of the community given taxes, especially their present after-tax or disposable income. We would want to know something about the diversity of revenues or whether the community was dependent on a

single revenue source. Likewise, we would want to know whether the community was dependent on a few or many different taxpayers for its revenues. Finally, we would want to know whether the community was able to collect the taxes it levied.

### **Available Internal Resources**

Available internal resources really refer to the “operating position” of the organization. The operating position of a government, in turn, refers to whether the organization balances its budget on a current basis; maintains reserves for emergencies; and has sufficient liquidity to pay its bills on time.

In this case, we want to know the ability of the organization to mobilize current resources to meet spending pressures. The measures cover budget balancing or the ratio of revenues to expenditures, the reserve or fund balance carried over from one fiscal year to the next, and the amount of cash on hand to be able to deal with amounts to be paid within the fiscal year.

### **Current Expenditure Pressures**

Now we switch to the other side of the model to look at spending. Here we investigate the degree to which revenue capacity is under pressure from current commitments or commitments that exist in a given fiscal year. In other words, current expenditure pressure is the amount of financial flexibility a government has in the face of spending pressure.

Current commitments include payment for debt and current operations such as salaries and supplies. More important, current pressure comes from unemployment and poverty as well as population change.

### **Expenditure Pressures from Past Commitments**

Finally, we look at relatively permanent commitments. These are difficult ratios to find data to satisfy. The ratios refer to expenditures to which the government is legally committed, such as debt, pension benefits, and contractual agreements, as well as spending imposed by higher levels of government, such as capital facilities. The rule of thumb definition for past commitments is “all spending that officials cannot cut by at least 10 percent in one year.”

These commitments, such as debt, pensions, and promises to pay for unused vacation and sick leave if an employee retires, represent commitments that will fall due sooner or later or, more important, continually over the immediate future. Some of the time, money may be set aside for the contingency that exists, as in sinking funds or reserves dedicated to a particular commitment. Most of the time, we simply want to know the amount and want to count it as a liability to set off against assets, allowing an accurate measure of the surplus of assets over liabilities. Therefore, the past commitment pressures represent the

degree to which a government can discharge commitments or reduce pressures that are permanent.

The measures for permanent commitments also place them in the context of resources. The major measures not only include debt divided by the population but also debt measured in terms of the resources pledged to repay it, usually assessed property valuation. We want to know about the debt of other governments representing the same set of taxpayers or overlapping debt. Permissible debt and whether we have come close to exceeding it is important. Finally, we want to know about contingencies, such as pensions and other employee compensation that might become due.

In summary, our measures of financial condition balance revenue with expenditure. Condition measures cover reserves that could be used with revenues actually available within a given fiscal year. On the other side of the condition model, we measure spending pressures. These pressures include both those normal within each fiscal year spending items as well as those for which the community has committed itself for a period of years.