

BY CURTIS WOOD

MUNICIPAL DISCRETION DURING THE GREAT RECESSION

A 2010 study, which aimed to establish whether there has been a difference in fiscal outcomes between empowered and less empowered municipalities during the Great Recession, found that officials in more empowered municipalities have acted in a fiscally responsible manner by not using their expanded authority and discretion to impose unwarranted taxes and spending. In addition, empowered municipalities with populations of more than 20,000 in this study have higher bond ratings than do less empowered municipalities of the same size, and public officials in municipalities with populations of more than 2,500 use more deficit-reducing strategies than public officials in less empowered municipalities.

LOOKING AT MUNICIPAL DISCRETION

The most desirable degree to which the state government should or does decentralize power to local government has been a source of major controversy since the end of the Revolutionary War.¹ Municipal discretion, or “independence,” as Alexis de Tocqueville called it — and home rule, as many scholars and practitioners call it (Berman, 2003)² — emerged during the Progressive Era (a period of social activism and reform that flourished from the 1890s to the 1920s) as “proposals to amend state constitutions or pass state laws that would increase the power of local governments and decrease the power of state legislators over local governments.”³ Local government officials and reformers who support a broad grant of discretionary authority by the state to local governments advance seven major arguments for doing so:

- Citizens’ interests will be promoted.
- Civic education will be advanced because local officials and citizens will need to study issues before decisions are made.
- The most expeditious solutions to problems will be found because local officials and citizens have the most familiarity with and knowledge of local problems.
- Local government experimentation will be encouraged.

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- In a period of resource scarcity, the most effective and efficient allocation of funds to higher priority needs will be ensured.
 - Political alienation of local officials and citizens will be reduced.
 - State officials will have more time to focus on state-wide issues.⁴ In addition, empowered local officials can more easily be held democratically accountable.⁵
- Opponents of a broad grant of discretionary authority by the state to local governments argue that in empowered municipalities:
- Local officials will act in an arbitrary and capricious manner by favoring political friends and disfavoring political enemies when making policy and budgetary decisions.

- Units of government will lack uniformity with regard to services, structures, and actions, causing inequities.
- Citizens who appeal local decisions to the state will unwittingly cause the state legislature to spend an inordinate time on local issues.
- Income inequalities among empowered local jurisdictions will leave some local governments unable to solve their own problems, thus undercutting the revenue base of state government.

- Decentralized control will make it more difficult for state government to address regional problems, and local governments will be deprived of the economies of scale that centralized control makes possible through the superior expertise and technical resources of the state government.⁶

The belief that municipal officials cannot be trusted to serve the public interest has its roots in the era of municipal corruption in the last decade of the nineteenth century, chronicled by Lincoln Steffens in his 1904 classic, *The Shame of the Cities*. Despite the progressive reform movement, which eradicated most municipal corruption, par-

Exhibit I: Descriptive Statistics

Variables	(N)	Mean	Minimum	Maximum
Bond Rating (1-7)	170	4.5	0	7
Fiscal 2010 per Capita Property Tax Levy	208	\$557	\$0	\$3,911
Total Fiscal 2009 Revenues per Capita	173	\$2,544	\$484	\$12,222
Change in per Capita General Fund Revenue	191	\$8.70	-\$515	\$497
Total Fiscal 2009 Expenditures per Capita	174	\$849	\$35	\$7,189
Total FTE Municipal Employees in Fiscal 2009 per 1,000 in Population	257	9.3	.4	78.2
General Fund Deficit? (1=Yes; 0=No)	244	.57	0	1
Number of Deficit-Reducing Strategies Used (1-4)	138	2.41	0	4
Total Municipal Discretion Score (0-125)	269	47.84	9.7	87.3
Legal Discretion (0-25)	269	12.1	0	25
Structural Discretion (0-25)	269	7.5	0	19.2
Functional Discretion (0-25)	269	9.1	0	16.3
Fiscal Discretion (0-25)	269	10.8	1	24.3
Municipal Success with State Officials (0-25)	257	8.9	0	22.5

ticularly in council-manager cities, popular support persists for constraining municipal government powers through a strict constructionist judicial standard, statutory limits on taxing powers, and tax caps.⁷

THE RESULTS OF THE STUDY

Exhibit I shows the minimum, maximum, and mean municipal discretion and fiscal outcome scores for the municipalities participating in this study (see sidebar for details). Of the 20 municipalities with the highest total municipal discretion scores, six are from Illinois, four are from Colorado, and two are from Texas. The respondent municipalities from Colorado, Tennessee, Kansas, Maryland, and Connecticut averaged the highest total municipal discretion scores (see Exhibit 2).

Thirty of the 170 municipalities have earned the highest bond rating from Moody's or Standard and Poor's, while only two municipalities have received a rating of B or lower. Sixty-three of the 170 municipalities (37 percent) were rated only

by Standard and Poor's; 63 (37 percent) were rated only by Moody's; 23 municipalities (13.5 percent) used both rating firms and received the same categorical rating from both firms; 18 municipalities (10.5 percent) were rated by both firms, but the Standard and Poor's rating was higher; and three municipalities (2 percent) were rated by both firms, but the Moody's rating was higher.

Of the 244 municipalities, 138 (57 percent) reported a general fund deficit in fiscal 2009 and/or fiscal 2010, while 106 of the municipalities (43 percent) did not report a deficit in either of the two fiscal years. Of the 138 municipalities reporting a deficit, 115 (83 percent) reported expenditure cutbacks, 106 (77 percent) reduced general fund cash balance, 76 (55 percent) increased general fund taxes or fees, and 27 (20 percent) issued debt to reduce or eliminate the general fund deficit.

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Exhibit 2: Average Total Municipal Discretion Score by State (Municipal-Level)

State	Rank	Avg. Total Municipal Discretion Score	Number of Municipalities
Colorado	1	73.4	7
Tennessee	2	67.5	1
Kansas	3	65.6	5
Maryland	4	65.5	3
Connecticut	5	62.6	1
Texas	6	61.5	10
North Dakota	7	60.6	2
Ohio	8	60.5	10
Montana	9	57.8	1
Arizona	10	56.9	5
Utah	11	56.3	2
Kentucky	12	55.7	1
Oregon	13	55.3	8
Georgia	14	55.2	3
South Dakota	15	54	2
South Carolina	16	52.9	3
Oklahoma	17	51.8	6
Iowa	18	51.2	12
Missouri	19	51.1	12
Maine	20	48.7	6
Washington	21	48.5	4
California	22	48.3	13
Minnesota	23	48	11
Florida	24	47.9	7
Illinois	25	47.8	35
New York	26	46.9	7
Massachusetts	27	44.1	13
Michigan	28	44	15
Wisconsin	29	42.5	6
Nebraska	30	39.3	4
North Carolina	31	38.4	8
Vermont	32	38.3	4
Rhode Island	33	36.2	2
Alabama	34	34.2	1
Virginia	35	34.1	4
New Jersey	36	33.1	6
Pennsylvania	36	33.1	15
Indiana	37	31.3	2
Idaho	38	29.6	2
Wyoming	39	28.4	2
New Hampshire	40	28	6
West Virginia	41	26.3	1
Nevada	42	22.8	1

part by the Great Recession, total municipal discretion is not correlated with property taxes per capita, changes in general fund revenues, total revenue per capita, total expenditures per capita, total full-time equivalent (FTE) employees per capita, or whether a municipality experienced a general fund deficit. However, empowered municipalities with populations of more than 20,000 do have higher bond ratings than do less empowered municipalities of the same size, and public officials in municipalities with populations of more than 2,500 use more deficit-reducing strategies — such as increasing or diversifying taxes and fees, and issuing bonds — than public officials in less empowered municipalities.⁸

A case can be made that the results of this study demonstrate that, contrary to the popular belief, officials in more empowered municipalities have acted in a fiscally responsible manner during the Great Recession by not using their expanded authority to impose unwarranted taxes and spending.

JOLIET: A CASE STUDY

The City of Joliet, Illinois — which is included in the study — is a good example of an empowered city whose public officials have demonstrated fiscal responsibility while



maintaining program and service performance in the midst of a fiscal crisis. The city earned a total municipal discretion score of 77 points, the sixth highest score of the 269 municipalities that responded to the survey. Joliet is a council-manager city and the fourth largest city in Illinois. In 1971, the Illinois Constitution was changed by vote of the citizens to automatically grant home rule status to municipalities with populations of more than 25,000. Thus, Joliet has been a home rule city since 1971.

Joliet's estimated 2008 population is 152,812; it grew about 44 percent from 2000 to 2008. According to American Community Survey data, the city's 2008 estimated per capita income is \$22,830; the estimated 2008 poverty rate is 10.8 percent; 27.4 percent of the residents have a college degree or higher; and 31.1 percent of the population is classified as minority.

Municipal officials who want to increase the probability of avoiding a deficit and to diversify or increase their general fund revenues should focus on improving their level of success and influence with state legislators, the governor, and state bureaucrats with regard to the preservation or enhancement of municipal discretion.

Joliet has received a AA rating from Standard and Poor's. The city's 2010 property tax levy per capita is about \$253, or \$304 below the sample mean. Total fiscal 2009 revenues per capita were about \$1,032, about \$1,512 per capita less than the sample mean. Total fiscal 2009 expenditures were about \$1,040 per capita, about \$191 per capita more than the sample mean. The reduction in general fund per capita revenues between fiscal 2008 and fiscal 2009 was about \$35, compared to a mean gain of about \$9 in the study sample. In fiscal 2009, Joliet employed 5.5 people per 1,000 in population,

or 3.5 FTE employees per 1,000 in population less than the sample mean. The city reported reducing its workforce by about 85 FTE employees and 10 part-time employees in 2009. City officials reported in the survey that Joliet experienced a fiscal 2009 deficit in its general fund,⁹ and that the city increased general fund taxes and fees, cut expenditures, and used cash balances to eliminate the deficit. City officials also reported in the survey response that program and service effectiveness, productivity, output, or efficiency was not reduced as a result of the general fund expenditure cuts.

In 2002, the Joliet Park District issued \$2 million in bonds to finance a water park, and the City of Joliet contributed \$8 million in cash, which came from riverboat gaming revenues.¹⁰ The city also agreed to cover the park district's debt service payment if the park district did not have sufficient funds in the future, and in fact the city has made the payment every year since 2002, paying \$200,000 in debt service on the bonds. Although the city of Joliet is expecting a fiscal 2010 deficit of \$30 million, the city is complying with the agreement. The park district's Water Park Committee plans to look at cutting expenses at the park, but there are no plans to close the attraction, which is used by about 65,000 people a year and the only outdoor municipal pool in Joliet. Although the water park is expen-

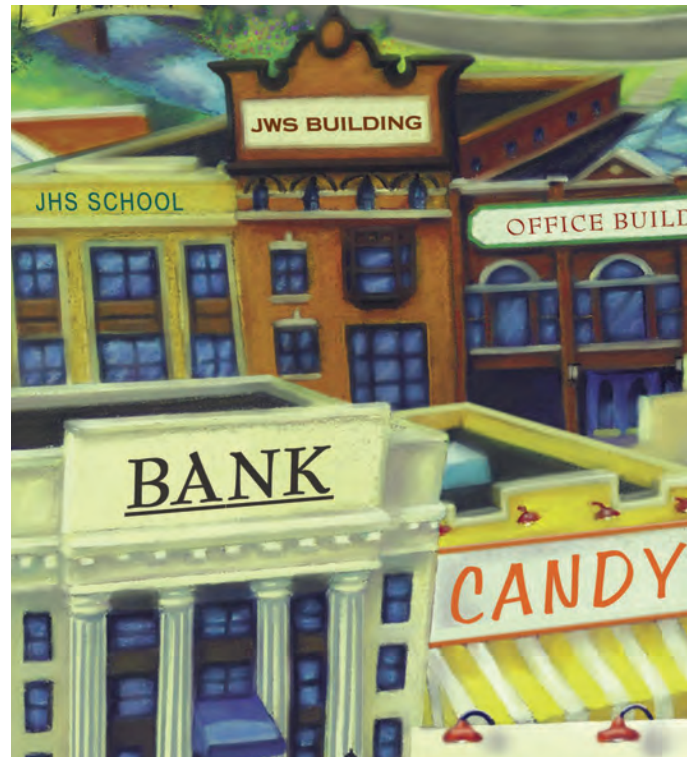


sive to operate (\$750,000 per year), the park department supports the water park because it improves the quality of life in Joliet.

The Joliet, Illinois, case illustrates how a city that is facing a fiscal 2010 deficit in its general fund still upholds its fiduciary and legal responsibility by continuing to support payment of the park district debt service to avoid a default on the water park bonds. The City Council attempts to balance the needs of the public and the water park financial exigencies by keeping the park open, while acknowledging that cuts need to be made. At the same time, the park district director is deeply committed to ensuring that the quality of life and public safety are not sacrificed by expenditure cuts.

OTHER FINDINGS

Legal, structural, functional, and fiscal discretion, and/or municipal success with state officials positively influence six of the eight fiscal outcome variables. Municipal officials



The Study

During summer 2010 the author, with the assistance of Evelina Moulder, ICMA Survey Research Director, conducted an online survey of city managers in municipalities with populations of more than 2,500. Out of the 3,014 city managers (administrators) ICMA contacted, 269 municipalities from 43 U.S. states completed the online survey, for a response rate of 9 percent.

To answer the question whether the scope of municipal discretion made a difference with regard to municipal fiscal performance during the Great Recession, eight statistical models were tested. These models predict whether the scope of municipal discretion is statistically related to: the municipality's bond rating; total fiscal 2010 property tax levy (in dollars) per capita; total fiscal 2009 revenues per capita from the general, special revenue, and capital projects funds; the per capita change in total general fund revenues from fiscal 2008 to fiscal 2009; total fiscal 2009 expenditures per capita from the general, special revenue, and capital projects funds;

total full-time equivalent (FTE) employees in fiscal 2009 per 1,000 in population; whether the municipality had a deficit in fiscal 2009 or fiscal 2010; and the number of deficit-reducing strategies used. Form of government, region, and socio-economic indicators were used as the control variables.

An index (see the Appendix) was developed that makes it possible to measure municipal discretion. The municipal discretion typology includes 22 indicators across five categories (legal, structural, functional, fiscal, and the success local officials have with state officials in preserving or enhancing municipal discretion). A municipality can earn up to 25 points for each indicator. The scores for the indicators in each category are averaged, and the scores for the five categories are added to come up with a total discretion score (maximum 125) for each municipality. The higher the municipal discretion score, the more municipal discretion that is permitted by the state and used by the municipality.



in this study who want more options for reducing deficits can focus on expanding their formal fiscal and legal discretion; officials who wish to improve their bond ratings can focus on augmenting their formal fiscal discretion or their formal structural discretion; officials who want to reduce their property tax levy can enhance their formal structural discretion and/or take advantage of the structural discretion they already have; and officials who want to reduce their total expenditures per capita can reduce their functional responsibilities or use alternative service delivery methods.

In addition, municipal officials who want to increase the probability of avoiding a deficit and to diversify or increase their general fund revenues should focus on improving their level of success and influence with state legislators, the governor, and state bureaucrats with regard to the preservation or enhancement of municipal discretion. Municipal officials can contact state officials, strengthen existing relationships with state officials, and/or work more closely with other municipalities through professional associations such as the Government Finance Officers Association, International City and County Management Association, National League of Cities, National Association of Budget Officers, League of Municipalities in each state, and other professional associations. ■

Notes

1. Joseph F. Zimmerman, *State-Local Relations: A Partnership Approach*, second edition (New York: Praeger, 1995).
2. David R. Berman, *Local Government and the States: Autonomy, Politics, and Policy* (Armonk, New York: M.E. Sharpe, 2003). Berman associates

home rule with local autonomy. Local autonomy is a function of self-determination, self-government, and self-sufficiency.

3. Dale Krane, Platon N. Rigos, and Melvin B. Hill Jr., *Home Rule in America: A Fifty-State Handbook* (Washington D.C.: Congressional Quarterly Inc., 2001).
4. Zimmerman
5. David L. Martin, *Running City Hall: Municipal Administration in America*, second edition (Tuscaloosa, Alabama: University of Alabama Press, 1990).
6. Martin
7. James Banovetz, "Illinois Home Rule: A Case Study in Fiscal Responsibility," *The Journal of Regional Analysis and Policy*, Volume 32:1, 2002.
8. The results of this study cannot be generalized to all U.S. municipalities with populations of more than 2,500 because the survey response rate was low and municipalities with populations of more than 5,000 are overrepresented, and municipalities with populations of less than 5,000 are underrepresented.
9. The gap between fiscal 2009 operational revenues and general fund expenditures was about \$6.3 million, according to Joliet's 2009 CAFR.
10. Mary Owen, "Water Park Drains Budget," *The Chicago Tribune*. September 29, 2010.

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Appendix: Municipal Discretion Index Categories, Indicators, and Points

- I. Category 1: Legal Definition (Maximum of 25 points for the legal definition category)
 - a. Scope of legal home rule authority
 - i. City Charter (25 points)
 - ii. State Constitution (20 points)
 - iii. State law and local charter (15 points)
 - iv. State law (10 points)
 - v. No authorized home rule legal status (0 points)
 - b. Authority to exempt itself from a state statute?
 - i. Yes (25 points)
 - ii. No (0 points)
 - c. Has the municipality exempted itself from a state statute?
 - i. Yes (25 points)
 - ii. No (0 points)
 - d. How often has the state enacted special legislation that constrains municipal discretion?
 - i. Never (25 points)
 - ii. Occasionally (15 points)
 - iii. Frequently (0 points)
 - e. How often has the state enacted special legislation that expands municipal discretion?
 - i. Frequently (25 points)
 - ii. Occasionally (15 points)
 - iii. Never (0 points)
 - f. Difficulty of annexation
 - i. Only city ordinance is required for annexation (25 points)
- II. Category 2: Structural (Six indicators that can average a maximum of 25 points for the structural category)
 - a. Number of state mandates
 - i. None (25 points)
 - ii. Few (15 points)
 - iii. Many (0 points)
 - b. Authority to exempt itself from a state statute?
 - i. Yes (25 points)
 - ii. No (0 points)
 - c. Has the municipality exempted itself from a state statute?
 - i. Yes (25 points)
 - ii. No (0 points)
 - d. How often has the state enacted special legislation that constrains municipal discretion?
 - i. Never (25 points)
 - ii. Occasionally (15 points)
 - iii. Frequently (0 points)
 - e. How often has the state enacted special legislation that expands municipal discretion?
 - i. Frequently (25 points)
 - ii. Occasionally (15 points)
 - iii. Never (0 points)
 - f. Difficulty of annexation
 - i. Only city ordinance is required for annexation (25 points)
- III. Category 3: Functional (Four indicators that can average a maximum of 25 points for the functional category)
 - a. The number of programs/initiatives used by the municipality (13 programs/initiatives were identified in the survey)
 - i. 13 programs/initiatives used (25 points)
 - ii. 12 programs/initiatives used (23 points)
 - iii. 11 programs/initiatives used (21 points)
 - iv. 10 programs/initiatives used (19 points)
 - v. 9 programs/initiatives used (17 points)
 - vi. 8 programs/initiatives used (15 points)
 - vii. 7 programs/initiatives used (13 points)
 - viii. 6 programs/initiatives used (11 points)
 - ix. 5 programs/initiatives used (9 points)
 - x. 4 programs/initiatives used (7 points)
 - xi. 3 programs/initiatives used (5 points)
 - xii. 2 programs/initiatives used (3 points)
 - xiii. 1 program/initiative used (1 point)
 - xiv. None (0 points)
 - b. Number of functional responsibilities permitted and used by municipalities (26 functions/services were identified in the survey plus an option to list other functions performed by the municipality)
 - i. One point for each function, not to exceed 25 points
 - ii. No functions (0 points)
 - c. Number of approaches to intergovernmental cooperation/coordination used by a municipality. (22 methods were identified in the survey plus an option to specify other approaches used)
 - i. One point for each intergovernmental approach used. 20 or more intergovernmental approaches is equivalent to 25 points
 - ii. No intergovernmental approaches (0 points)
 - d. Types of economic development initiatives used by the municipality. 15 types of economic development initiatives were identified in the survey.
 - i. 17 or more economic development initiatives used (25 points)
 - ii. 16 economic development initiatives used (22 points)
 - iii. 15 economic development initiatives used (20 points)

- iv. 14 economic development initiatives used (18 points)
 - v. 13 economic development initiatives used (16 points)
 - vi. 12 economic development initiatives used (14 points)
 - vii. 11 economic development initiatives used (12 points)
 - viii. 10 economic development initiatives used (10 points)
 - ix. 9 economic development initiatives used (9 points)
 - x. 8 economic development initiatives used (8 points)
 - xi. 7 economic development initiatives used (7 points)
 - xii. 6 economic development initiatives used (6 points)
 - xiii. 5 economic development initiatives used (5 points)
 - xiv. 4 economic development initiatives used (4 points)
 - xv. 3 economic development initiatives used (3 points)
 - xvi. 2 economic development initiatives used (2 points)
 - xvii. 1 economic development initiative used (1 point)
 - xviii. None (0 points)
4. Category 4: Fiscal (Seven indicators that can average a maximum of 25 points for the fiscal category)
- a. Is your municipality subject to a state mandated property tax lid?
 - i. No (25 points)
 - ii. Yes (0 points)
 - b. Is your municipality subject to a state mandated expenditure lid?
 - i. No (25 points)
 - ii. Yes (0 points)
 - c. Does the municipality have authority to issue bonds for working capital?
 - i. Yes (25 points)
 - ii. No (0 points)
 - d. Does the state government require the municipality to approve a balanced budget?
 - i. No (25 points)
 - ii. Yes (0 points)
 - e. What is the municipality's general obligation debt limit according to state law?
 - i. No debt limit (25 points)
 - ii. Over 100 percent of assessed value (AV) (22 points)
 - iii. 30%-100 percent of AV (19 points)
 - iv. 20-29.99 percent of AV (14 points)
 - v. 10-19.99 percent of AV (9 points)
 - vi. 1-9.99 percent of AV (4 points)
 - vii. 0 percent of AV (0 points)
 - f. What percent of the statutory general obligation debt limit is the municipality's current outstanding debt?
 - i. 100 percent (25 points)
 - ii. 80-99.99 percent (20 points)
 - iii. 60-79.99 percent (15 points)
 - iv. 40-59.99 percent (10 points)
 - v. 20-39.99 percent (5 points)
 - vi. 10-19.99 percent (3 points)
 - vii. .001-9.99 percent (2 points)
 - viii. 0 percent (0 points)
 - g. The number of revenue sources used by the municipality (32 revenue sources were identified in the survey, and respondents could also identify other revenue sources used by the municipality).
 - i. 25 or more revenue sources (25 points)
 - ii. One point for each revenue source used through 24 revenue sources.
5. Category 5: Municipal Officials' Influence with State Officials (Four indicators that can earn a maximum average of 25 points)
- a. Rate the level of success that municipal officials have with state legislators regarding preservation/enhancement of municipal discretion
 - i. High (25 points)
 - ii. Moderate (15 points)
 - iii. Low (5 points)
 - iv. None (0 points)
 - b. Rate the level of success that municipal officials have with the governor regarding preservation/enhancement of municipal discretion
 - i. High (25 points)
 - ii. Moderate (15 points)
 - iii. Low (5 points)
 - iv. None (0 points)
 - c. Rate the level of success that municipal officials have with state bureaucrats regarding preservation/enhancement of municipal discretion
 - i. High (25 points)
 - ii. Moderate (15 points)
 - iii. Low (5 points)
 - iv. None (0 points)
 - d. Rate how influential professional organizations are with state officials regarding preserving/enhancing municipal discretion
 - i. High level of influence (25 points)
 - ii. Moderate level of influence (15 points)
 - iii. Low level of influence (5 points)
 - iv. Not influential at all (0 points)