

# Striking a Balance

Matching the Services Offered by Local Governments  
with the Revenue Realities

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## A POLICY ISSUE WHITE PAPER

Prepared on behalf of the ICMA  
Governmental Affairs and Policy  
Committee



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**ICMA**

*Leaders at the Core of Better Communities*

*Striking a Balance—Matching the Services Offered by Local Governments with the Revenue Realities*

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# Striking a Balance

## Matching the Services Offered by Local Governments with the Revenue Realities

A white paper prepared on behalf of the ICMA Governmental Affairs and Policy Committee

### by Dr. Victoria Gordon

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## Executive Summary

This paper presents 1) a summary of current financial trends that cities are facing; 2) an exploration of how city managers are coping with those financial realities and the strategies they have adopted—particularly in the areas identified by Stenberg<sup>1</sup> of personnel, core services and programs, service partnerships, and restructuring; 3) examples of successful citizen participation efforts, barriers to meaningful participation, and methods and mechanisms used to overcome those barriers; and 4) a proposed framework for essential and nonessential service prioritization that incorporates citizen collaboration and empowerment into the process.

This study was conducted in part to understand how managers will continue to provide necessary and essential services to their citizens, and how they might gather and then incorporate citizens' stated desires about service prioritization into the decisions they make and policies they recommend for adoption. Central to this qualitative approach of gathering data

on municipal finances is the consideration that cities are operating in an uncertain financial environment in which traditional local government service provision is strained, and that the difficult job of prioritizing services must be addressed.

Garnering citizen input remains the greatest challenge for service prioritization. Specifically, the suggested framework for incorporating citizen involvement into the service prioritization process follows the spectrum of public participation<sup>2</sup>—to inform, consult, involve, collaborate, and empower citizens. The twelve steps recommended for development of a service prioritization process appropriate for a community are:

1. start early
2. commit political will, time, and resources
3. gather data
4. involve internal and external stakeholders
5. educate the public
6. establish objectives, goals, and a timeline
7. establish parameters for the process
8. select and prioritize core/elective services
9. honor the process
10. implement the recommendations
11. provide for two-way feedback
12. evaluate the outcomes and the process.<sup>3</sup>

This proposed framework might lead a city in new directions for service provision, and for allocating resources within the budget process. The process adopted by each city will need to be as unique as the city adopting it. This is not meant to be a one-size-fits-all approach to defining or prioritizing essential and non-essential services, rather, the political, financial, and environmental factors unique to each city must be given thoughtful consideration.

## Introduction

The current catch phrase used to describe the reality of municipal finance is “the new normal.” What is this new normal? As one manager stated, “There has been a revolution created in which we have had to recreate our organization to reflect the reality of our nation’s financial situation. We used to have more money than needed to meet our basic obligations. Now, we are redefining ourselves. Our new normal is that we know essentially to the dollar how much it costs us to run this city, to operate as is.”<sup>4</sup> There is no question that the rules of managing a municipality have changed, and each municipality is struggling to address challenges unique to its particular economy and community. As noted in a report by the National League of Cities (NLC), “...fiscal realities include managing concerns about real estate markets... slow growth... consumer spending, unemployment...cuts in aid and transfers...costs for health care and pensions...” The NLC also notes that “...city fiscal conditions are tight, but the overwhelming majority of cities are balancing their budgets and meeting debt obligations.”<sup>5</sup>

In extreme cases, we read headlines of municipal bankruptcy,<sup>6</sup> consideration of the possibility of eliminating a police department<sup>7</sup> and contracting out public safety functions, or the proposed cutbacks of municipal salaries to minimum-wage levels.<sup>8</sup> For most managers, budgetary changes over the past five years have been recurring, but more subtle—decreases in size of workforce, delays in filling vacant positions, temporary furloughs, limits on overtime, across-the-board budgetary cuts, increased contributions from employees to pension plans and health insurance premiums, reallocating responsibilities, delaying capital improvement projects, and/or restructuring of departments. For some managers,<sup>9</sup> the new normal is simply a leaner, more efficient organization, which is something they point to with pride rather than regret or hand-wringing. Sadly, for some managers<sup>10</sup> these subtle changes mean that expectations for employee productivity have been lowered in light of not having any money, and in some ways that makes preparing a budget easier in this new state of “normal,” but it does not make it easier to motivate employees to continue to do more with fewer resources.

Further, this “new normal” has unfortunately not resulted in citizens being more willing to participate in the budget process nor in the process for determining how services are prioritized. Bob Bland eloquently summarized the process of balancing municipal

budgets: “...leaders in local government have had to reassess what is worth doing, what can be delayed, what should be scaled back, and what should no longer be done. In that process, citizens have had an opportunity to engage in those deliberations.”<sup>11</sup> This paper analyzes current trends in an effort to describe the future role of citizens in the budget process, and to aid in understanding why participation is so difficult to garner when citizens are still expecting the same services to be provided at the same levels.

### Financial trends

In 2009, the Alliance for Innovation prepared recommendations for municipal managers to consider as they coped with the economic downturn of 2008. In their report, “Navigating the Fiscal Crisis: Tested Strategies for Local Leaders,”<sup>12</sup> they suggested that there were lessons to be learned from past downturns in the economy. Specifically, the actions recommended to stimulate the economy were:

- “Increase revenues or draw down reserves
- Expand or accelerate local capital projects
- Lead inclusively and encourage creativity and engagement<sup>13</sup>
- Be strategic about budget cuts and take targeted actions
- Educate the public about necessary reductions and fiscal stress
- Refrain from moving money around as a short term fix
- Refrain from deferring maintenance.”<sup>14</sup>

Further, the Alliance for Innovation report reminded local officials that “Increasing a tax has a greater impact in speeding economic recovery than cutting expenditures; across-the-board cuts do not distinguish essential from less important activities; hiring freezes may weaken organizational performance more so than targeted layoffs; and pay freezes may be perceived as more fair by employees than pay reductions.”<sup>15</sup> Finally, the report suggested that leaders need to think about long-term adaptation tactics such as: 1) avoiding excessive commitments to fixed expenses; 2) trying to diversify revenue sources so they are stable; 3) engaging in long-term financial planning; and 4) maintaining reserves.”<sup>16</sup>

Many cities followed these recommendations, but three years later the economy has not recovered. In his semi-annual report to Congress, Federal Reserve Chairman Ben Bernanke reported on July 18, 2012, that recovery of the economy is fragile due to high unemployment, slow job growth and manufacturing rates,

and a weak housing market. He called the growth rate indicators, “disappointing.”<sup>17</sup> The Congressional Budget Office cites the following reasons that cities continue to experience fiscal stress. Weak economic conditions may: 1) lead to reduced tax revenues, 2) lessen the state aid received, 3) increase the demand for services, and 4) trigger investment losses.<sup>18</sup> For city managers this information is not new; it is what they faced as they prepared their budgets for fiscal year 2013.

All municipalities are affected by cuts in intergovernmental revenues from the federal and state government. Federal grants-in-aid, a large part of state and local revenues,<sup>19</sup> have decreased. For example, reduced CDBG funding has caused many cities to face program cuts or outright elimination.<sup>20</sup> In 2008, state governments provided about 30 percent of revenues for local governments, but in recent years the primary sources of state revenues—income and sales taxes—have plummeted. This has affected the amount of money transferred to local governments.

The biggest cuts have occurred at the time when local governments need assistance most.<sup>21</sup> The NLC City Fiscal Conditions report for 2012 shows that cities have experienced several cuts in state aid since 2010, including the city share of state collected revenues, general aid, reimbursements or transfers, and funding for services cities deliver on behalf of the state. Further, some states have transferred program responsibility to the cities for programs they previously operated.<sup>22</sup>

Other factors that further complicate the fiscal health of municipalities are pension costs, health insurance costs, unemployment compensation, fuel costs, labor union relations, debt service, and declining ending fund balances. As one manager said, “...since the first sign of recession, we knew we had to recreate our services to reflect the reality of our financial situation. We are facing a rock in the road....The big difference between those who are in panic mode now and those who are not, a lot of it has to do with how seriously they took the first signs of the recession back in 2008. We took immediate steps, others waited.”<sup>23</sup> For some the “new normal” is all about managing the decline—in light of little or no growth.

Some municipalities have tried to address financial concerns by restructuring. In November 2002, 153 cities in Illinois were home rule. By February 2011, 206 Illinois cities had either adopted home rule by referendum or reached the population threshold to achieve home rule status automatically.<sup>24</sup>

One of the advantages of home rule is the ability to adopt additional taxes such as the real estate transfer tax or a hotel/motel tax, if approved by the citizens. A city can then collect additional taxes and diversify its revenue sources.<sup>25</sup> Other home rule powers could include the authority to incur new debt, impose regulations, enter into intergovernmental agreements, change government structure, and control or initiate development. Some of these approaches can shift the tax burden away from residents to non-residents.

But in Prospect Heights, Illinois, when the question of home rule was put to the citizens in the spring of 2012, it was defeated. The voters who participated in this particular referendum seemed to uphold what has been found in previous research findings: that often home rule is viewed as a way for elected officials to abuse their powers and will lead to greater increases in property taxes. This lack of trust may be unwarranted, but it is a reality that elected officials strive to overcome as they seek to diversify their revenue sources.<sup>26</sup>

Another tool used to address financial concerns through restructuring is the creation of special districts, but much of the growth in special districts occurred prior to the economic downturn. As of 2007 there were 37,381 special districts<sup>27</sup> and a recent report shows the number of special districts in 2012 at 37,203.<sup>28</sup> Despite the slight decline, these numbers grew from a reported 35,052 in 2002.<sup>29</sup>

Special districts are created for a variety of reasons:

- to focus on one particular function of government, including fire, ambulance, parks, transit, and housing
- to allow for greater administrative discretion and financing options, as some have revenue raising and taxing authority
- to meet demands for services not provided by a particular municipality
- to expand service provision beyond jurisdictional lines.

Of course, special districts have limitations as well. Hendrick and Jimenez point out that it is more efficient and effective to agree to cooperate or collaborate to improve service delivery than it is to create more governmental units.<sup>30</sup>

Some cities and counties have re-opened discussions of mergers or consolidation of two or more governmental units as a restructuring tool. For example, six Kentucky cities, including Elizabethtown, and Hardin County, Kentucky, are considering forming a

committee to explore the adoption of a unified city/county government. If they move ahead, they would become the third largest unit of government in terms of population in the state.<sup>31</sup>

Other managers describe utilizing more joint partnerships or intergovernmental agreements. For example, in Illinois, eight municipalities recently formed an electric consortium to reduce electricity rates for their residents.<sup>32</sup>

Municipalities in each state face unique challenges, in part due to the differences in the revenue sources they rely upon and the elasticity of each particular source. If a city is reliant primarily on sales tax, it is vulnerable to decreases in elective purchases by consumers. Although sales tax revenues are considered less stable and more volatile, they may provide an advantage as they can bounce back more quickly as the economy recovers. Cities that are reliant financially on some form of individual or occupational tax are negatively affected if new jobs are not created, wages do not increase, or layoffs or unemployment rates are high.

If the reliance is primarily on property tax,<sup>33</sup> which is considered to be a more stable revenue source, the value of real property is at issue. If new growth declines, this, too, may prove to be problematic. Further, some states such as Michigan impose a limit on the annual growth in property taxes assessed by each taxing unit of local government, tied to the annual rate of inflation. These complex limitations can cause significant revenue restrictions for municipalities. "By themselves, assessment limits need not reduce overall property tax revenue if jurisdictions can increase the tax rate to make up for the lost base. This is not possible, however, if tax rates are also limited, as is the case in 15 of the 20 states with assessment limits."<sup>34</sup>

The National League of Cities (NLC) has surveyed municipalities annually for more than 25 years regarding their fiscal conditions and perceived abilities to meet their fiscal needs. In 2011, the NLC report on city fiscal conditions showed that cities were a little more optimistic about being able to meet their financial needs than they were in 2010. Survey respondents in cities more reliant on property tax reported less confidence in being able to meet financial needs in 2011 than the survey respondents in cities that are more reliant on sales tax or income taxes.<sup>35</sup>

In the 2012 report on city fiscal conditions, the NLC reports that cities indicated they are better able to meet financial needs in 2012 than in 2011.<sup>36</sup> The Congressional Budget Office suggests that "despite the decline in property values...some combination of tax rate increases, lagged updates of the assessed values

to which local property tax rates are applied, and expansion of the tax base through new construction has led to increased property tax collections."<sup>37</sup>

If a municipality wants to raise taxes or fees to meet budgetary shortfalls, it may be restricted by the state as to the type or extent of the increase. These caps or restrictions are common for increases to property tax rates, but in some states may apply also to sales taxes, assessments, and fees.<sup>38</sup> Without the ability or authority to raise taxes or fees, municipalities will be left with no choice but to cut expenditures or reduce service levels.

The state, of course, could expand the types of taxes that can be increased or imposed by the localities, either by creating a new tax for adoption by the locality or by increasing the maximum levels on the tax rates. One seemingly inconsequential example is the 2010 Massachusetts allowance of a tax to be imposed by localities on restaurant meals.<sup>39</sup> Lawmakers approved the tax to address concerns by municipalities about lower levels of property taxes being collected and reductions in direct aid from the state. Two years after approval by the state, 42 percent of Massachusetts municipalities have adopted the local option tax on meals.<sup>40</sup>

All of these different tax structures also have an influence on land use decisions, ranging from property-intensive uses in New England to points of sale potential in the West. Wassmer and Edwards suggest that:

Greater statewide reliance on a form of local revenue that rises and falls with differences in land use choices can result in forms of land use decisions in an urban area that generate greater sprawl. The theoretical connection between sales tax reliance by local governments in a state and greater urban decentralization centers on the ability of local government officials to influence the location of retail activity in an urban area. The amount of overall retail activity in an urban area is determined by factors such as population, income, age distribution, etc., in the region and is unlikely to change due to local government influences. But local land use decisions can shape the distribution of overall retail development in an urban area. Local governments with vacant land are more likely to zone this land for retail activity if local sales taxation is present because of the fiscal surplus that greater retail generates for them. This surplus comes in the forms of (1) non-residents paying local sales taxes and (2) the lower level of local services provided to retail as compared to alternate land uses. (pp. 9–10)

Further, these different revenue sources can have positive or negative influences on economic development decisions made by municipalities.<sup>41</sup>

Recent revenue trends in state and local revenues as reported by the U.S. Census Bureau indicated a decline of 4.5 percent in taxes received in 2009 as compared to 2008. However, local property taxes for the same period increased 3.7 percent, which may be attributable to the lag between property tax receipts and real estate assessments. Overall state and local revenues declined 22.1 percent in 2009 as compared to 2008 revenues. Conversely, expenditures increased 4.6 percent for the same time period<sup>42</sup>—perhaps due in part to stimulus payments via the federal government, and in part due to increased costs for expenses such as motor fuel and other petroleum-related products.<sup>43</sup> Further, the economic downturn and high unemployment have caused an increased demand for social service programs such as food stamps, and an increased level of enrollment in Medicaid as individuals lose job-based health insurance coverage and as incomes decline.<sup>44</sup> The Congressional Budget Office also reports that increased demand for local services in a time of economic downturn includes public transportation, as people look for more cost efficient modes of transportation, and on police services as crime rates rise.<sup>45</sup>

The U.S. Census Bureau also compares 2010 and 2011 fourth quarter state and local revenues by type of tax, which indicated an overall total increase of 2.1 percent as presented in Table 1.<sup>46</sup> The NLC report on city fiscal conditions in 2011 stated that survey respondents expected general revenue funds as well as expenditures to decline;<sup>47</sup> and while the 2012 report stated that survey respondents expected general revenue funds to decline again, respondents expected expenditures to rise slightly.<sup>48</sup>

Overall, indebtedness increased for municipalities, while cash and security holdings dropped.<sup>49</sup> “State and local governments rely on borrowing in the municipal bond market to fund all sorts of capital projects....and there has been a sharp increase in the cost of credit for municipal borrowing.”<sup>50</sup> While short-term debt

restructuring might alleviate fiscal stress, borrowing may in the long term add to it, as eventually those loans will have to be repaid, along with the debt service costs. Some states restrict the amount and level of short-term financing allowed to be undertaken by local governments. Eventually, this debt might affect the interest rates incurred by the locality and, ultimately, its credit rating.<sup>51</sup>

Ending fund balance per capita or ending fund balances as a percentage of general fund expenditures are both measures of a municipality’s fiscal health. A decade ago, ending fund balances were often built into the reserves of a city as a means to cope with unexpected downturns in the economy, a natural disaster, or a reduction in intergovernmental aid; to upgrade credit ratings; or to cover start-up costs for a new project or program.<sup>52</sup> While these ending fund balances are often carried forward to the next year’s budget, today substantial ending fund balances are increasingly rare. They are important, though, as they are an indication of fiscal responsibility and are often looked at for credit rating purposes. Unfortunately, there is every indication that there will be fewer cushions available in future budgets for unexpected occurrences.<sup>53</sup>

## **Workforce and personnel policy trends**

The U.S. Census Bureau reported that fewer people were employed by state and local governments in March 2010 than in March 2009. This was only the second time since 1992 that this number decreased (it also decreased in 2009 from 2008 levels). At the local level, 14.3 million people were employed full-time and part-time by local governments in March 2010.<sup>54</sup> One manager reported, “As early as 2005, we could see the trends starting and so we started reducing personnel levels. So while the recession hit and affected us like everyone else, we had already started to take steps to address that and have reduced our personnel levels over time by 12 percent.”<sup>55</sup>

**Table 1** 2010 and 2011 fourth quarter state and local revenues

|                       | <b>Fourth Quarter 2010</b> | <b>Fourth Quarter 2011</b> | <b>Percentage change</b> |
|-----------------------|----------------------------|----------------------------|--------------------------|
| Property Tax          | \$176.8 billion            | \$177.2 billion            | +0.2%                    |
| Individual Income Tax | \$66.0 billion             | \$68.8 billion             | +4.2%                    |
| General Sales Tax     | \$73.1 billion             | \$75.2 billion             | +3.0%                    |
| Corporate Income Tax  | \$10.5 billion             | \$9.6 billion              | -8.2%                    |

Source: United States Census Bureau (March 22, 2012).

However, recent reports indicate that hiring by state and local employers, including school districts, is up 20 percent within the first four months of 2012 over the same period in 2011. This may be due to governmental units filling positions that were previously left vacant for a variety of reasons, including filling vacancies due to retirements.<sup>56</sup> Updated information from the U.S. Census Bureau indicates that between March 2010 and March 2011, most states saw decreases or no statistically significant change in the number of local government full-time equivalent employees.<sup>57</sup>

The NLC report on city fiscal conditions in 2011 states that “survey respondents pointed to health costs, prices in general, pension costs, and infrastructure costs as the leading factors contributing to a negative effect on their budgets.” In the 2012 city fiscal conditions report, the leading factors were prices in general, health benefits costs, and pension costs. Survey respondents in 2011 reported that in response to these negative effects on their budgets, they instituted personnel-related cuts, delayed capital projects, cut services, and modified health care benefits for employees. Other specific personnel-related cuts include hiring freezes, wage freezes, layoffs, early retirements, furloughs, revision of union contracts, and reductions of pension benefits. These same personnel cuts and strategies were reported in the NLC city fiscal conditions report for 2012.<sup>58</sup>

As an example, Miami-Dade County, Florida, has merged 42 departments into 26, which included an overall 6 percent decrease in total employees. Some of the departmental changes included demotions and reassessments. Some top executives will get a 6 percent cut in salary, will no longer get a car allowance, and will contribute more toward their health insurance premiums.<sup>59</sup>

In another example, the Society for Human Resource Management (SHRM) reports that the use of furloughs is on the rise as a means to control labor costs in both the private and public sectors. SHRM says furloughs are a way to cut costs, but retain talented personnel for organizations that do not want to fire or lay off employees. Many furloughs are mandatory city-wide and are only short-term, but other cities have started closing city hall every Friday, for example, and shutting down all but essential services on those days.<sup>60</sup>

In a recent report prepared by the Center for State and Local Government Excellence,<sup>61</sup> local government workforce trends in 2012 include pay freezes, hiring freezes, and layoffs. Local governments are also

seeing their older employees delay retirement. Some cities in this study reported the use of furloughs, pay cuts, cost of living adjustments, contracting out, and lower starting salaries for new hires to meet budgetary shortfalls. Of those participating in this survey, 67 percent reported that their workforce is smaller since the economic downturn in 2008. This is of concern to those reporting governmental units primarily because of the need to have enough staff to provide core or essential services.

In this same report, responding units of government that made changes to their pension or retirement plans did so in the form of increased employee and employer contributions, increased age and service eligibility requirements, decreased benefits, and reduced cost of living adjustments. For reporting units of government that made changes to their health care plans, changes took the form of higher premiums, higher co-pays and deductibles, creation of wellness programs, and requiring more contribution from retirees. SHRM reports that businesses and governmental units are adopting new cost sharing strategies to deal with increasing health care costs. Among the changes reported are: 1) increasing the percentage that employees contribute to the premiums; 2) increasing in-network deductibles; 3) increasing out-of-network deductibles; and 4) increasing out-of-pocket maximums.<sup>62</sup>

## Qualitative Methodology: Common Themes

To more fully understand how the financial trends referenced above are perceived by city managers, managers across several states were interviewed during the summer of 2012. A list of questions used to guide the interviews is included in Appendix A. The questions were tailored to address particular issues unique to the cities included in the study. Follow-up questions were utilized as appropriate. All interviews were conducted by the author. Without overstating the results, at the very least there are lessons to be learned from the experiences of others. Although the results of this research cannot be fully generalized, the information may help managers make improvements in their organizations in the areas of municipal finance and citizen participation.

This research project utilized a qualitative approach for gathering data. Even the best survey instrument has its limitations. The in-depth interview approach

provides a more diverse and richer type of probing than another data collection method might have allowed, which was a primary goal of this particular study. The individuals who were asked to participate were based on a purposive sample. Cities and managers chosen were based on something unique about the community or the individual. Each potential interviewee was first contacted by email or telephone to ascertain whether s/he was agreeable to being interviewed by the researcher. Most of the interviews were conducted in person, usually lasting from 45 to 60 minutes in length, and were done at a location of the interviewee's choice—usually city hall. A limited number of interviews were conducted via telephone due to scheduling difficulties.

As with all qualitative research projects, critics interested in strictly quantitative analysis point to the lack of the generalizability of the results as a deficiency. The best way to assure that we are presenting reliable and valid results is to listen to these interviewees and pursue high standards of accuracy and verifiability in the presentation of their words and the conclusions drawn from the interviews. It is impossible to interview as many people as some would suggest is necessary to fully understand such complex subject matter. However, based on previous experience with qualitative research, the interviews conducted appeared to provide a good sense of the particular topics addressed.

It must be noted that there are missing voices. This study does not include input from cities of every population size or every type or form of government, nor does it cover every geographic region in the United States. Further, limitations of resources—time constraints, for example—also affected the number of interviews conducted.

The next section presents the themes that developed from the manager interviews. These themes are organized into four areas as referenced in the Stenberg<sup>63</sup> study—personnel, core service and programs, service partnerships, and restructuring. The findings presented here support Stenberg's conclusions—that cities to this point have not been raising taxes nor fees dramatically, but rather have looked for ways to cut expenditures. Nor have cities slashed programs or services, but all report they are poised to take action and are seeking innovative and creative ways to continue to responsibly manage their cities. Each of these four categories reflects the reinvention and coping strategies utilized by the managers. Specific examples are presented that further expand upon the information outlined above.

## Personnel

In the area of personnel, strategies undertaken to address the financial shortfalls reflect what we find both in the literature and in other governmental reports. Each manager confirmed that personnel cuts were the first strategies undertaken, and restoration of some of those cuts are starting to happen this year. For example, one city reported that it used to be normal to add more police and fire employees every year, but not any more. Their first step in reaction to the economic downturn was to put the right number of people in the right positions. This entails conducting a careful assessment of the number of personnel and skills needed for service provision. This city did lay off employees, but also took the opportunity to eliminate positions, combine duties and positions, downgrade assistant department head positions, reallocate work to existing employees, and look hard at the pay plan.<sup>64</sup> One city reported that beginning in July 2011, they instituted "an across-the-board 2 percent reduction in salaries."<sup>65</sup> Another city reported that they instituted salary freezes and eliminated positions or did not fill vacant positions. This city chose not to use layoffs, because they did not want to give the employees false hope that these positions would be reinstated. This city also suspended tuition reimbursement for employees for a period of two years, and that has now been partially reinstated. Training has been scaled back and the city has used more webinars to save money, rather than send employees away to conferences for training. Overall travel budgets were cut as well.<sup>66</sup>

In a more extreme example, one city reported that for a variety of reasons in 2010, all employees were ordered into a mandatory 30-day furlough. At the same time, the police union had gone to arbitration over this issue. The arbitrator ruled that the furlough was unacceptable for police, but that the city could lay them off with notice waived. Six officers were laid off. The police department was closed to the public because there was no staff available. If the public needed the police department, they had to call 911. During this time, the police chief retired. Morale was low citywide and efficiency dropped in all departments. To turn things around, a new police chief was hired along with a new finance director. A new strategic plan was developed that focused on improving the financial aspects of the city. The new budget has allowed the city to hire back the police officers who were laid off, and the city negotiated with the police union the ability to utilize part-time officers. This allows for part-time officers to fill in when people are

on vacation, sick, or hurt. It also addressed a safety issue because officers were working a lot of overtime hours. The police department is now open 24/7.<sup>67</sup>

A second strategy in the area of personnel was addressing health care insurance programs. In one city where some employees had not contributed at all toward health insurance premiums, an Employee Health Care Committee was formed to address the task of revamping the premium contribution structure to ensure that the plan would be equitable and sustainable. The new plan made changes that included a provision that all employees would contribute, but it also improved choices for employees and their families and increased coverage in some areas.<sup>68</sup> Another city adopted a second tier option with a higher deductible plan, and many of the city's younger employees took that option because it was more affordable for them and their families. Of course, all cities are weighing how the federal Affordable Care Act will affect them.<sup>69</sup>

The challenge of full funding for pension and retirement plans continues to plague all municipalities. As predicted by the Alliance for Innovation in 2009, "due to the market losses and the expected increase in employer pension contributions, some states may reduce pension benefits for new employees by creating a new tier....(some) will require new employees to work longer and retire later to receive full pension benefits."<sup>70</sup> One city reported that retirement costs over the last ten years had increased 208 percent for non-hazardous pay employees and 131 percent for hazardous pay employees. "In 2003 we spent \$1.6 million and today it costs \$6.7 million. That means five million dollars worth of stuff you cannot do in other areas. It is getting more costly just to have the same number of employees."<sup>71</sup> Another manager reported wanting to make changes to the plans, but any changes to the plans are under the state's control.<sup>72</sup>

Further complicating personnel matters are collective bargaining agreements. Some cities have not been able to meet terms of prior agreements. One city reported that they are entering contract negotiations with one of their unions. The city administrator said it is quite apparent that they cannot do what they have done before, but she is hopeful that the union representatives already have an understanding that she will do the best she can for them, especially since they have already foregone COLA increases. She predicts that the final numbers are not going to be as much as the employees want.<sup>73</sup>

## Core service and programs

Some cities that had pursued aggressive capital improvement plans put those plans on hold or significantly scaled them back in both spending and time-frame.<sup>74</sup> Citizens want essential services, but they also want new sidewalks, repaving of roads, and stormwater projects completed.<sup>75</sup> Some cities initially were able to utilize federal stimulus money for road projects, for example, but report that intergovernmental funds have really dried up. Delaying projects is one of the easiest decisions to make in times of economic downturn,<sup>76</sup> but it can cause the telephone to start ringing at city hall, and result in a public relations nightmare. The effects of postponing capital projects are not always felt immediately, but to continually defer maintenance or delay capital improvement projects can result in infrastructure system failure, and may cost more in the long run.<sup>77</sup>

As a specific example, the city of Lake Forest, Illinois, believes it has an objective process for prioritizing services that also helps citizens understand the necessary delays. The city analyzes the quality of each road, ranks them, and posts the list online. They then proceed to fix or pave the roads—worst to best. So, anyone looking to see when their road will get fixed can see where they are in the lineup.<sup>78</sup> As one manager said, "Roads are tangible; you are on them every day. You see the puddles, the holes. People don't mind paying for those kinds of things, but they are always impatient."<sup>79</sup> In another example, the city of Morro Bay, California, has recently instituted an e-request system called "Let Us Know," so that when someone emails in a compliment or reports a concern, city staff can reply to the citizen and inform the citizen of anticipated action or give the citizen a date that the issue will be addressed.<sup>80</sup>

Contracting out is one viable strategy that may save money for cities in both capital construction projects and service provision. While there may be additional costs to transition into a contracting out arrangement for services, many cities already contract out services such as trash pick-up, recycling, janitorial services, printing and copying services, web design and maintenance, and bus services. Concerns about quality when services are provided by the private sector are often voiced, but some studies indicate quality is often as good or better when provided by the private sector over that provided by government.<sup>81</sup> Other studies report the opposite.

Creativity is another coping strategy. One manager, who asked not to be identified, has a controversial idea for service provision that touches on all of the

four areas—personnel, core services, service partnerships, and restructuring. He said, “I am starting to get some others interested in this idea of setting up a limited liability corporation (LLC) to provide our services. So that we, the city, would have representation on the board of that LLC, but we would set them up as private businesses so that they then would not be covered by state law with respect to pensions and health care, and so forth. The reality right now is that we are pricing ourselves out of the market. So, the only option I have is to contract out, and there are certain negatives with contracting out. I would like to be able to have some control over the quality of the service and the type of service, and I can do that if I set up an LLC....The reality is that we have to change the cost structure. It is that simple. My revenues are somewhat fixed, and they are never going to grow at double-digit rates; and so as long as my personnel costs are growing faster than my revenue, the only options I have are cutting employees or discontinuing services. If I want to keep providing services, I have to find a cheaper way of doing it. I have to be creative.”

Critics of this type of approach for service provision point to the ethical and legal implications of such an arrangement. The concerns are that this type of arrangement would run counter to the highest principles of professional local government management, undermine local government authority to address local problems and issues, and ultimately erode the very foundation of democracy. Further, there would be less assurance of transparency and quality, and little fiscal accountability to the citizens of the community.

In a city where cemeteries are city-owned and operated, instead of contracting out this service, the city took on a new service provision area by providing burial services at a private cemetery within the city limits, thus increasing revenues.<sup>82</sup> In another example, the city of Morro Bay, California, has merged several city functions into the public services department. This department includes planning, building, engineering, and public works. Within this department, some employees have started cross-training so that they can take on large-scale capital improvement projects—such as street paving—as they arise. In the past, this type of project might have been contracted out; now it is more likely the department could handle it in-house with city workers.<sup>83</sup>

Several cities reported taking a look at how their vehicle fleets were managed and who was allowed to have a take-home vehicle. Some tried to extend the useful life of the vehicles; others eliminated vehicles that they had

once kept because they could not get a sufficient price on trade in. When they analyzed what they were spending to keep those vehicles insured, maintained, fueled, and operating, they revised these policies.<sup>84</sup>

Another strategy involved some cities deciding to completely eliminate departments, but often the responsibilities were absorbed or transferred to another already existing department. More than one manager stated that they have modified service level provisions slowly over time and citizens really have not noticed the reductions. One example reported was snow plowing. The city previously tried to plow all snow on city streets within six hours; that goal was modified to eight hours.<sup>85</sup> One manager stated that “in the future, we will either have to cut programs or redefine how we collect revenues, and no one wants to step out front to do this.”<sup>86</sup>

One example of eliminating a department was the Convention and Visitors Bureau in Prospect Heights, Illinois. The city administrator explained, “Normally, the CVBs are district-wide, or county-wide, so this was unique. This is one thing I had to look at from multiple perspectives. First, we had employees drawing large salaries. Second, we had a recurring grant, but we had to provide a huge match for this grant. Third, other neighboring municipalities did participate with us, but we did not charge them anything....Upon review we felt that we could dissolve the existing CVB, join another CVB, and, additionally, we created a tourism district, which included our locally owned airport....It is a very positive move, everybody is thrilled.”<sup>87</sup>

## Service partnerships

Managers reported creative ideas and strategies for working with other units of government for service provision—other cities, the county, nonprofits, and the private sector. There are many terms that describe service partnerships—cooperation, coordination, collaboration, service integration, partnerships, joint ventures, and strategic alliances.

One community reported a new initiative to build an 800 MHz digital radio system to serve all of the public safety officials within the county. This idea languished for years, but was recently brought forward for discussion between the city and county.<sup>88</sup> In another example, one city has investigated the idea of utilizing the sheriff’s department for providing city police services; but that idea was not well received by citizens, so no action was taken. They also looked at contracting out information technology work, but decided it would not make a significant impact on the budget, due to

the small size of the existing department. However, this city does work cooperatively with the school district to provide and fund a school resource officer.<sup>89</sup>

Another city reported using several inter-local agreements with neighboring cities: a neighboring police department responds to accidents; another city has a contract to deliver water; sales tax is shared with a group of cities; and the local airport is run with yet another city. Further, a group of municipalities in the same region work together on many issues so they can share common interests and help each other.

This same city is working with a regional transportation authority to get increased stops at the local metro station, which is severely underserved. If a person takes the train downtown, they cannot get back in the evenings. The city administrator said, "We need a good, safe mode of transportation. This is just part of it, and it will help improve our economic development potential."<sup>90</sup>

Many economic development initiatives were undertaken in partnership with other units of government and community and business groups. As recommended by the Alliance for Innovation in 2009, when resources are scarce it is the "appropriate time for jurisdictions in a region to share incentives and benefits instead of pursuing new development as a zero-sum game....Local community assets including infrastructure, a skilled workforce, and educational institutions matter to private sector firms in location and expansion decisions."<sup>91</sup>

The city of Morro Bay, California, worked with its Tourism Business Improvement District (MBTBID) advisory board and interested businesses to develop an annual assessment of lodging businesses, which funds the promotion and marketing of the city. The city council reviews and approves applications for improvements, programs, and activities that benefit lodging businesses located and operating within the boundaries of the district. The proposed improvements and activities are required to target increased transient stays, and therefore generate further revenue for the city.<sup>92</sup>

In another economic development initiative example, the local university played a huge role in the creation of a TIF district.<sup>93</sup> In another case, one city administrator who hopes to make improvements in this area said, "We are behind. We see other neighboring communities that were able to encourage economic development because they planned for it, they saved for it, and they used TIFs. We have nothing."<sup>94</sup> This statement illuminates the difficult decisions cities face as they consider making cuts. Cities have to consider whether cuts to programs, services, and investments position them

toward a more prosperous future, or limit the ability of local governments to provide the amenities that businesses desire when they choose where to create high-paying jobs.<sup>95</sup>

## Restructuring

In another example that affects personnel, core service provision, service partnerships, and restructuring, one manager reported entering a partnership with three other communities to consolidate fire departments, and they are also looking to consolidate dispatching operations. These partnerships are pursued in an effort to reduce personnel costs. There are many questions to be answered as this process is worked through, such as who will provide pension and health benefits for these employees. Union agreements will have to be reworked to make these intergovernmental arrangements a reality. For current shared services agreements in this particular city, several services are performed by city employees on a contracted-out basis for an agreed-upon fee per inter-local agreements.<sup>96</sup>

As mentioned previously, the city of Prospect Heights, Illinois, tried to adopt home rule as a strategy to cope with the economic downturn. This effort was defeated in the spring of 2012. The city administrator said, "We tried to focus on the positive, because the citizens' main concern was that taxes would be raised. We have a unique city. We don't have a water facility. We have many people that are still on wells and want to remain that way. That, of course, hurts us with economic development. We can't have a big box retailer coming here and tell them they need a deep well. That makes all economic development efforts daunting. Some grassroots groups only wanted to say no, no, no....but there were people who started to listen to information and become better educated through the process about home rule, about wells and water systems, and about city government, in general. That was a positive outcome."<sup>97</sup>

## Best Practices in Citizen Engagement and Participation

### Service provision and prioritization

It is a complicated process to decide which services a city should provide directly. The values held important by the city and its citizens must be carefully considered and discussed as services are prioritized. If it has been determined that services currently provided by a city need to be shared, the mechanism for that service

provision must be decided upon. Services may be provided in a variety of ways:

- self-service—for example, checking out your own library book
- contracting out
- regionalizing—pooling resources and sharing costs
- marketing or exchanging services, equipment, or facilities
- co-producing services, such as using volunteers to conduct community policing efforts.<sup>98</sup>

For the most part, city managers mentioned examples of these alternative types of service provision mechanisms and strategies in their interviews. No matter how the service is provided, the cities reported varying degrees of success in garnering citizen participation in decision making.

### Citizen engagement and participation

A recent report<sup>99</sup> on measuring community engagement identifies six reasons a municipality may want to engage citizens:

1. to inform and educate the public
2. to improve government decision making
3. to create opportunities for citizens to shape policies
4. to legitimize government decisions
5. to involve citizens in monitoring outcomes
6. to enhance citizens' trust in government.

Interwoven in this list of reasons is the need to engage citizens in helping elected officials and administrators to prioritize essential and non-essential services provided by a municipality. To ensure an effective citizen participation process, this same report identifies six necessary variables and questions that must

be answered both by citizens and elected officials and administrators. If any of these variables presented in Table 2 are missing or perceived as weak, then citizen participation will be reduced or absent.

One city administrator described what she considers a citizen participation success. “I find that the people we have volunteering have either already served in government or are a friend of someone who volunteers and talks them into it. We have a great volunteer base, and those who participate do so much. For example, our garden club members were here at city hall at 5:00 a.m., hooking up hoses and watering all the plants. They do all the signage maintenance, a Christmas event, a parade, and an event at the Botanic Garden. If I need anything additional I can call them. We also have a group that cleans up a local creek and works to prevent erosion. They do it because they love it. I have also found in our community so many people that are willing to do things—retired financial people, computer people, and lawyers. In the past it was that no one reached out to them. People step up when asked. I start out just trying to get to know them, and then I form relationships. I have to put myself out there, and then more people open up to volunteer.”<sup>100</sup>

In another successful example of citizen participation, a police department got help in maintaining services due in part to creating a citizen's police academy. Citizens signed up and went through a nine-week training during which they rode with the police department and got hands-on exposure to the day-to-day activities of the police department. The city administrator said, “After they graduated, they volunteered to run the front desk and answer phones. With those volunteer citizens we rotate shifts and that is how we are able to keep the department open. They have done a superb job, and we will hold another

**Table 2** Variables necessary for citizen engagement

| Variable                     | Questions to ask   |
|------------------------------|--|
| Government trust in citizens | Do the staff and elected officials trust their residents to co-produce public goods?                 |
| Citizen efficacy             | Do residents understand and feel they can influence government?                                      |
| Citizen trust in government  | Do residents feel government responds to them and looks out for their interests?                     |
| Citizen competence           | Do residents understand how the government functions and have skills to contribute to the community? |
| Government responsiveness    | Did the government do what it said it was going to do in a timely manner?                            |
| Government legitimacy        | Is the government telling the truth?   |

Source: Thompson and Allen (2011). Measuring Community Engagement. ICMA.

academy in the fall. As with most things, when you volunteer it can be a great thing in the beginning and then wanes. People are busy with their lives. This was great citizen involvement and people were responsive.”<sup>101</sup>

## Methods and mechanisms for overcoming barriers

Previous researchers have identified several barriers to meaningful citizen participation. Included in this list of barriers are:

- lack of knowledge
- perceptions by citizens that their input is not valued or is unwanted
- a lack of trust and legitimacy
- citizen apathy
- time constraints
- the idea that the self-interest of residents may get in the way of community interests.<sup>102</sup>

As one manager said, “What can we do when it seems that citizens only show up when they are upset about something or when government is perceived as a negative force?”<sup>103</sup> Another city administrator said, “Those who don’t participate work all day—they don’t have time, they have kids and family. It is a different lifestyle than when I was younger. So, because the parents don’t have time, it is not instilled into the children to volunteer. My parents volunteered for a lot of things, and I did, too. Those family values have changed. People don’t trust government.”<sup>104</sup>

Another manager expressed concerns that apathy and time constraints are the biggest obstacles and are underestimated. “Many cities must rely on volunteers to serve on boards and committees. Many people will say, ‘I would love to help you, but right now I travel a lot, or this or that.’ If they volunteer they are really engaged, but then they often fall off the radar. The people who really have something to contribute and would be a positive presence do not make it a priority.”<sup>105</sup> So, how do we overcome these barriers to meaningful citizen participation?

Methods to ensure participation, particularly in the area of budget preparation and adoption, include:

- including participants who are representative of the broader community
- opening participation to large numbers of participants
- soliciting input early in the budget process
- making all communications two-way
- having decision makers consider citizen input

- ensuring that input reveals the sincere preferences of residents.

Additionally, there are different mechanisms that may be used to garner citizen participation. These mechanisms may include:

- citizen surveys
- priority setting sessions
- neighborhood or district-wide advisory boards
- budget simulation exercises
- public hearings
- open forums
- focus groups
- direct citizen contact with elected officials.

Each of these mechanisms is only as valuable as the effort put into making it a meaningful experience. It is critical to articulate expectations up front and to stress how important it is for citizens to be sincere about stating preferences. Further, timing and structure of the information gathering process must be clear. It must be done early enough to ensure full consideration of the preferences gathered from citizens. Finally, each mechanism must be chosen with particular attention paid to the unique political and environmental factors present in a particular community.<sup>106</sup>

In addition to the mechanisms mentioned above, some cities are making an effort to reach out to their constituents using social media tools such as Twitter, Facebook, YouTube, and blogs. Others have redesigned their websites to be more user-friendly to citizens. A recent report states that three out of four people in the U. S. are participating in some form of social media. This can be a cost effective tool if used appropriately.<sup>107</sup>

Many governmental agencies at the federal level are setting an example for municipalities by “using social media tools to inform the public about their programs, build relationships with customers and constituents, and solicit input about agency programs or activities.”<sup>108</sup> Social media tools can be “used to generate new ideas or approaches to solve problems, provide greater public access to leaders, educate the public, encourage collaboration, and make it easier to provide formal or informal feedback about plans, policies, or programs....Most uses of social media...focus on informing the public about issues, giving people a chance to ask questions, and building a relationship between citizens and governmental officials.”<sup>109</sup> By experimenting with these social media tools, municipalities can find what works best for their particular community and citizens.

To reach out to under-represented parts of the community, some cities have created international liaison offices. One city, at the request of Hispanic leaders, created an International Communities Advisory Council to work with and represent the needs of all immigrant and international sectors of the population. A Hispanic radio show and a Hispanic blog are underway to enhance communication between the city and this group of constituents.<sup>110</sup> These ideas grew out of the same conversations between elected officials and Hispanic leaders. The goals are to enhance diversity, create a media outlet for communication in the Spanish-speaking community, and preserve culture and traditions.<sup>111</sup> Additionally, in another city where they are redoing their comprehensive plan, they will take the process into the schools and will have at least two meetings in Spanish to make sure that this part of the community is heard and represented.<sup>112</sup>

In a study of citizen participation in the budgeting process of cities in 12 states during 2004 and 2005, Franklin, Ho, and Ebdon looked at the types of participatory activities engaged in and the value elected officials place on these activities for outcomes and this process. They point out that professional organizations, such as the American Society for Public Administration and ICMA, advocate for public sector managers to encourage citizen involvement in decision making. These researchers found that public hearings and budget meetings were the two types of mechanisms most frequently used by responding cities. Neighborhood or district meetings and surveys were also used to gather information. In terms of the value placed on these mechanisms for desired outcomes, surveys and special budget meetings ranked highest in educating the public, fostering two-way communication, informing decisions, gaining budget support, building community, and enhancing trust. The authors conclude that city officials need to be more deliberate in articulating what they want to get out of the participation and adopt mechanisms accordingly.<sup>113</sup>

Neighborhood or district meetings may be as informal as a coffee shop community engagement chat, such as one held in June in the city of Janesville, Wisconsin, by City Manager Eric Levitt.<sup>114</sup> It may also be much more structured, such as the city of Bowling Green, Kentucky rally of neighborhoods forum, in which leaders from multiple neighborhoods gathered together to prioritize needs. At this forum, elected officials and candidates were invited to "listen in" to what these citizens had to say about their seven neighborhood priorities: relationships in the community; safety

and respect for the law; physical environment; leisure and recreation; growth and development; community pride; and attitude and personal responsibility.<sup>115</sup> This city also holds "neighborhood summer strolls," when elected officials and citizens walk together, discuss issues of concern and get to know one another.<sup>116</sup> So, while these events were not organized around city departments or specific programs, they gave citizens an opportunity to provide input on their priorities.

Surveys are another mechanism for gathering information from citizens. For example, the city of Bowling Green, Kentucky, participates every two years in the National Citizen Survey<sup>TM17</sup> to understand the views of its residents, including civic engagement. Recognizing that citizen involvement is key to improving the community, questions are asked about civic activities such as voting, volunteering, and participation in city government. In response to changes in technology, the latest survey was amended to ask questions about the use of the Internet or other social media to better understand citizen engagement through technology. Each of the response rates on each question is then compared to other communities in the southern region of the United States and to the nation. This allows city officials to gauge how their citizens' responses compare to these other groups, and how the city is performing compared to their peers. Where there are deficiencies, there is the opportunity to make improvements, and these response rates can be tracked over time.

Another component of this survey is to identify key drivers that help city officials understand citizen priorities through questions that dig deeper than just identifying core services, such as police and fire, which are important to citizens. This allows the city to focus on key services and how they relate to overall service quality. So, for example, street cleaning and economic development are two of the factors most closely tied to service quality in the 2010 survey. The draft report states, "Residents in the city of Bowling Green were somewhat civically engaged. While only 20 percent had attended a meeting of local elected public officials or other local public meeting in the previous 12 months, 96 percent had provided help to a friend or neighbor. A majority had volunteered their time to some group or activity in the city, which was much higher than the benchmark. In general, survey respondents demonstrated trust in local government."<sup>118</sup>

So, in addition to analyzing the civic engagement practices of its citizens, the same type of comparisons and information can be gleaned about service provision areas such as transportation, housing, land use

and zoning, economic sustainability, public safety, environmental sustainability, parks and recreation, culture, arts and recreation, and health and wellness. This kind of survey instrument and process can be helpful for communities trying to involve citizens in prioritizing services provided, and in determining the direction the city should go in the future.

For a longitudinal perspective, other types of citizen surveys are sometimes used to compare responses from one year to the next. The city of Lake Forest, Illinois, conducted a survey in November 2011 to measure the satisfaction level of residents on certain aspects of living within Lake Forest. Citizens were asked about their satisfaction with items such as appearance of community, amount of open space, quality of parks, quality of bike and walking paths, and then also on more traditional city services provided such as fire protection, police protection, library services, water system, street lighting, snow and ice removal, etc. In this particular survey respondents reported that they were least satisfied with street repair/maintenance, street lighting, and the building permit and inspection program.

Knowing where there is dissatisfaction with services can help cities make improvements in how those services are provided or the amount of resources directed toward those issues. Respondents to the Lake Forest survey also reported on what they felt to be the greatest challenges for their city. The survey addressed individual departments; residents were asked, for example, what the top three priorities should be of the police department. Their top three choices were crime prevention, neighborhood patrols, and traffic enforcement. In another, more general, question, residents were asked what one city service should be discontinued. Some reported that they thought the twice weekly garbage collection could be most easily eliminated. Responses to these questions help the city council prioritize the issues to which they devote their time and resources.<sup>119</sup>

Finally, participatory budgeting is a relatively new approach in the United States (town meeting form of government<sup>120</sup> of the northeast notwithstanding) for encouraging direct citizen participation in the budget process. As described by Schugurensky, participatory governance is one type of collaborative public action where citizens are involved in both deliberation and decision making. Participatory budgeting takes this a step further into resource allocation. It helps citizens feel connected to each other and to their communities.<sup>121</sup> Examples are provided to help us understand

this approach to citizen involvement—particularly focusing on Ward 49 in Chicago, Illinois.

Ward 49, the northernmost ward in the city of Chicago, has a three-year history with participatory budgeting. The ward has a population of about 57,000. In the ward, more than 80 languages are spoken, with a racial and ethnic composition of approximately 30 percent Latino, 30 percent African American, 30 percent Caucasian, and 10 percent Asian.

Ward 49 was the first political jurisdiction in the nation to adopt this approach to budgeting. Alderman Joe Moore became interested in the concept in 2007 when he attended a conference that introduced the idea. He brought the concept home to his community. Alderman Moore said, “It comports with my own philosophy of inclusion and giving people the power to make real decisions that affect their lives, and politically I felt it would be popular in a community such as mine that has a strong history of community activism and people expressing their views in a very vigorous way.”<sup>122</sup>

Alderman Moore invited his constituents to take over the decision making process. An initial public meeting brought out more people than anticipated and they were more diverse than those who normally attend most public forums. He started by telling the citizens, “I’m not just asking for your opinion—I’m asking you to make real decisions about how we spend money.” Alderman Moore began the process by forming a steering committee in April 2009 and hiring consultants to provide technical assistance. The committee developed a process, rules, and timetable. Neighborhood assembly meetings were held to inform citizens about the process and to brainstorm ideas for formal proposals. The committee was then split into groups organized around themes. These subcommittees then met with experts, conducted research, and developed budget proposals. As an example, the committee that focuses on public safety met with police officials and researched how increased lighting versus the presence of cameras might act as deterrents against crime. One year later, the first proposals approved by the neighborhood assemblies were formalized, accepted, and then voted upon by residents.<sup>123</sup>

In 2012, residents of Ward 49 voted on how to spend \$1.0 million of the \$1.3 million of discretionary funds allocated to the ward for capital infrastructure projects. There are parameters on the type of projects that can be proposed and restrictions on how the funds can be spent. Each proposed project is subject to final approval by the city or other relevant agencies operating in

the ward, but generally, all projects have preliminary approval before going on the ballot. Anyone age 16 and older can cast a ballot, regardless of citizenship or voter registration status. This year 1,324 residents cast a ballot. The projects chosen included tree planting, sidewalk replacement, a new playground, and new murals to be painted at more than 20 transportation viaducts. If projects chosen by the residents cannot be completed for any reason, a project on the “runner-up” list takes its place.

Alderman Moore said that when he was deciding what to spend the money on, it typically went to traditional nuts and bolts type of projects. Now, with citizen involvement in the decision-making process, he says he “...sees more art projects or dog-friendly areas or community gardens funded. People have taken a much broader view of what constitutes quality of life in the inner city. These examples are pursuits that add to the quality of life in the city.”<sup>124</sup>

The Chicago *Tribune* ran an op ed by Alderman Moore<sup>125</sup> in which he states his case for participatory budgeting: first, it is time to do things differently; second, citizens don’t trust their elected officials or government to do what is right; third, citizens don’t believe they have the power to affect change.

“We need a new governance model, one that empowers people to make real decisions about policy and spending decisions,” Alderman Moore writes. “In an experiment in democracy, transparent governance and economic reform, I’m letting residents...decide how to spend my entire discretionary capital budget....The process is binding. The projects that win the most votes will be funded....Hundreds of residents...many of whom have never before been involved in a civic activity, have become engaged in the participatory budgeting process....They know they have the power to make decisions, and that their government is not just hearing them but actually following their mandate. Empowering people to make real decisions openly and transparently is the first step toward restoring public trust in government.”

Alderman Moore is excited to report that several other Chicago wards are adopting participatory budgeting this year. When asked what he is most proud of, Alderman Moore replied, “The process is what I am most proud of, and that there are a diversity of projects chosen by the people different from when I made the decisions.”<sup>126</sup>

The Participatory Budgeting Project, a nonprofit organization, has been working with many cities in the United States to launch the development of the

participatory budget process at the municipal level. Most cities form local steering committees and then those committees begin the real work.<sup>127</sup>

Lest participatory budgeting be labeled as a panacea for all budget woes, it comes with costs to the organization in terms of administrative support. Some critics say in rather harsh terms that participation rates are not high enough for the process to be considered of value, and that those who participate are interested in only their own narrow viewpoints and cannot possibly take into account the broader public interest.<sup>128</sup>

Other challenges of participatory budgeting include:

- educating residents to see beyond their specific, short-term project to more general long-term planning needs of the community
- the fact that government remains the primary actor as the provider of funds and in making sure promises are kept
- the focus is on local issues and projects, as opposed to broader issues that may need the involvement of the federal or state government.<sup>129</sup>

## Framework for Service Prioritization Utilizing Citizen Collaboration and Empowerment

The International Association for Public Participation<sup>130</sup> offers the following illustration of increasing levels of public participation in decision making (Table 3, pg. 16). Focusing on the goals of collaboration and empowerment, we create a framework for service provision prioritization that utilizes components of participatory budgeting and priority-driven budgeting. Both of these approaches are explained in greater detail below.

### Participatory budgeting

Participatory budgeting (PB) may be one way for all communities to collaborate with their citizens to prioritize service provision. As Joe Moore states, “Participatory budgeting as a model for service prioritization could serve very well, especially when governments have to make very difficult decisions. It is unfortunate, though, that government wants to get people involved when it is time to make politically unpopular decisions rather than at a time when the question is not what you should cut, but what you should spend the money on.”

**Table 3** Spectrum of public participation

|                           | <b>Inform</b>  | <b>Consult</b>  | <b>Involve</b>  | <b>Collaborate</b>   | <b>Empower</b>  |
|---------------------------|--|---|---|--|---|
| Public participation goal | To provide the public with objective info and assist them in understanding problems, alternatives, and solutions.                      | To obtain public feedback on analysis, alternatives, and decisions.   | To work directly with the public to ensure concerns are consistently understood and considered. | To partner with the public in each aspect of decision-making, including the development of alternatives and solutions.                                 | To place final decision-making in the hands of the public.  |
| Promise to the public     | We will keep you informed.   | We will keep you informed, listen, acknowledge your concerns, and provide feedback.                           | We will work to ensure that your concerns are reflected in alternatives.                        | We will look to you for advice and innovation and will incorporate your recommendations into the decisions.  | We will implement what you decide.  |
| Examples                  | <ul style="list-style-type: none"> <li>• Fact sheet</li> <li>• Web site</li> <li>• Social media tools</li> <li>• Open house</li> </ul> | <ul style="list-style-type: none"> <li>• Public comment</li> <li>• Focus groups</li> <li>• Surveys</li> </ul> | <ul style="list-style-type: none"> <li>• Workshops</li> <li>• Deliberative polling</li> </ul>   | <ul style="list-style-type: none"> <li>• Citizen advisory committees</li> <li>• Consensus building</li> <li>• Participatory decision-making</li> </ul> | <ul style="list-style-type: none"> <li>• Citizen juries</li> <li>• Ballots</li> <li>• Delegated decision</li> </ul> |

Source: IAP2 Spectrum of Public Participation (2007). International Association for Public Participation.

"With that said, we have found that people rise to the occasion and do look at the broader perspectives especially if they are given real power to make real decisions. The process broke down the cynicism...We said to people, 'You collectively will make decisions that politicians will honor.' In prioritizing services, a system has to be set up where elected officials will agree to implement the recommendations of the process....Don't be afraid to give up power."<sup>131</sup>

For fiscally distressed cities, at the very least, participatory budgeting offers all parties a mechanism for discussing where to go next in tight economic times.

Josh Lerner, executive director of the nonprofit Participatory Budgeting Project,<sup>132</sup> has developed a how-to guide for communities interested in participatory budgeting (abbreviated PB below). Table 4 summarizes Lerner's suggested list of questions that citizens and elected officials need to ask themselves and steps they will need to address as they move through the process.

### Priority-driven budgeting

Whether or not a community wants to pursue participatory budgeting as it begins to collaborate with citizens, this same list of questions and suggestions

might be useful as communities strategize about how to involve citizens in the process of prioritizing essential services. If revenues are anticipated to be lower or expenditures higher, or if budget cuts are necessary for any reason, it might also be helpful to utilize components of priority-driven budgeting in the process of prioritizing services. Using this approach, a city takes steps to allocate resources based on the effectiveness of each program or service provided, and each program or service must provide value to the community. The success of this approach will be contingent on the commitment of the elected officials and management. The Government Finance Officers Association (GFOA) presents eight principles for adopting a priority-driven budgeting process:

- Prioritize services
- Do the important things well
- Question past patterns of spending
- Spend within the organization's means
- Know the true cost of providing a service
- Provide transparency of community priorities
- Provide transparency of service impact
- Demand accountability for results.

**Table 4** How-to guide for participatory budgeting

| Questions to ask  | Steps to take   |
|---|---|
| Could PB work in our community?                         | Political will and permission from those controlling the budget is a must.  |
| How do we put PB on the agenda?                         | Organize public events to explain what PB is.   |
| Who should be at the table for initial discussions?     | Find interested organizations—private, non profit and governmental, experts at local universities, churches, neighborhood groups, schools, community leaders.   |
| How do we pitch PB to attract interest?                 | Stress the following reasons: <ul style="list-style-type: none"><li>• Democracy—it is a way for politicians and constituents to connect. It is a way to bring new people into the political process. Many of the participants reported they had never been involved in any community or governmental activity prior to PB.</li><li>• Transparency—this will provide for less corruption and waste.</li><li>• Education—citizens become more active and more informed.</li><li>• Efficiency—you have the benefit of local residents' expertise on their neighborhoods, and they will take an interest in seeing the projects through to completion. The citizens will have a sense of ownership.</li><li>• Social justice—everyone has a voice. Underrepresented groups participate and often projects are directed to those who truly need the most help.</li><li>• Community—regular meetings build camaraderie and community.</li></ul> |
| How do we deal with resistance?                         | Address these commonly heard concerns and criticisms head on— <ul style="list-style-type: none"><li>• You are doing the elected officials' job.</li><li>• There is no money.</li><li>• The process will be stolen by the "squeaky" wheels, the loudest and most active.</li></ul>   |
| Where will this money we will use come from?            | Elected officials usually commit some discretionary funds, although cities in a difficult financial situation can address broader issues.   |
| How much money do we need to get started?               | Any amount will work. It depends on the type of projects that will be undertaken. The point is that the citizens have real power over real money that will address real community needs.  |
| What other resources will we need?                      | <ul style="list-style-type: none"><li>• You will need time, patience and a lot of planning.</li><li>• You may need external experts, and you will have to do a lot of outreach and educating. To enrich participation you may need to offer child care, or take the meetings out to the neighborhoods, or have meetings on the week-ends when people are available. And food never hurts. It takes real work. It will not just happen.</li></ul>  |
| What will our community really get out of this process? | <ul style="list-style-type: none"><li>• Transparency.</li><li>• More efficient budget processes where citizens help make tough choices.</li><li>• Educated citizens who are committed to the community and re-energized to participate in their government.</li><li>• Citizens will trust their elected officials and view their government as valuable.</li></ul>  |

Source: Hadden and Lerner (December 3, 2011).

GFOA suggests involving key stakeholders in the priority-driven budget process—Chamber of Commerce, labor leaders, media, neighborhood associations, employees, and citizens—and to make the

process as open and transparent as possible, which will give the process more legitimacy. The steps to be taken are to identify available resources, identify priorities, prepare decision units for evaluation, score

decision units against priority results, compare scores, allocate resources, create accountability for results, and create service efficiencies and innovation.<sup>133</sup>

As cities allocate resources in this process they need to also rank or prioritize the programs. This is a helpful step for all communities to consider as they prioritize programs and services. It is important to understand the community's core values as cities move toward this prioritization process.<sup>134</sup> Utilizing participatory techniques can make it easier to discontinue programs that depart from the core values of the community.<sup>135</sup> As suggested by the Alliance for Innovation, this can be an opportunity to improve productivity, to consider shedding activities that can be divested or eliminated, to consider introducing or increasing fees or charges, and to secure special assessments on certain capital improvements.<sup>136</sup>

For example, a city might prioritize based on budget projections—last year's budget, projected budget with small increase, projected budget with small decrease, etc., or on the basis of a tiered system using something as simple as “definite,” “maybe,” “high,” or “low” priority. One manager says that although they have an annual goal-setting meeting that is open to the public, she has been considering using a survey instrument to ask members of the community to rank the importance of services currently provided by the city. Social media tools might be one way to garner additional citizen input through online and mobile applications. She said “...it is hard for administrators to know how citizens will rank the importance of having the planning department’s customer service counter cut to four hours a day against cutting the funding of a staff position for an after-school childcare program. It is really important to keep communication open. Too much communication is just enough communication.”<sup>137</sup>

Involving city employees in this type of service prioritization process is important, too, but may require a change in the organizational culture. As one manager said, “I had to go to employees and say, ‘This is not just your department, you are part of the city, part of the bigger whole, and every part of that moves in conjunction with one another. What happens to you affects every other department.’ I had to ask, ‘How are we all going to make it work together and do it as a city?’”<sup>138</sup>

### **Proposed framework for service prioritization**

The city of Lake Forest, Illinois, has taken a first step toward an objective approach to service prioritization

by adopting a Core/Elective Prioritization Program in response to cuts that they knew would take place at a city-wide level. The city recognized that each citizen has a different set of priorities and preferences. Its approach was to have the city council work with the staff to look at each department and define core services and elective services. The process took a year. As the budget is reviewed, cuts come from the elective services first. Examples of core and elective services include:

- Human resources department: administration of salaries and compensation (core) and administration of non-contract benefits such as the tuition reimbursement program or the employee assistance program (elective).
- Police department: patrol and traffic (core) and the crossing guard program during the school year and staffed by seasonal employees (elective)
- Public works department: snow and ice removal and meter reading (core) and maintaining city street gas lights (elective)

Gathering citizen input remains the greatest challenge for service prioritization. One manager stated that, unfortunately, citizens were not engaged in this process, due to time constraints primarily. “People are so very busy that they do not get engaged unless it is affecting them on their street,” he said. “I wish at times that we could get more people involved but it is the nature of our community. We have tried to get people to come to budget hearings, we put it in our newsletter, on our website, and we do have ward meetings twice a year and we announce it there, too. The reality is that most people have seen that we have managed our resources very well, we are a AAA bond-rated community, and so, I like to think they think financially we are watching things closely and they don’t have to.

“Conversely, there are people who do not want to open up in a public meeting,” he added. “Many times when we have public forums, we purposely don’t do it in the traditional way. We break them down into open houses where people can come in and share their ideas. We do this because many times people will say later that they attended a meeting but did not want to speak in front of everybody. So, finding ways that you can solicit input, when citizens want to give it, and in a forum that they want to give it to you, that is critical.”<sup>139</sup>

Drawing upon components of participatory budgeting and priority-driven budgeting, the proposed

framework for service prioritization is presented in Table 5 (below), and is suggested for cities to use as they consider how best to involve citizens in the onerous process of prioritizing the services they currently provide. The focus is on collaborating and empowering citizens as described above in Table 3 (page 16).

This suggested process and the answers to each of these questions presented for consideration in the proposed framework might lead a city in new directions for service provision and for allocating resources within the budget process. The process adopted by each city will need to be as unique as the city adopting it. This is not meant to be a one-size-fits-all

approach to defining or prioritizing essential services; rather, the political, financial, and environmental factors unique to each city must be addressed. As one manager wrote in the proposed budget, “Operating in the ‘new normal’ requires that the city continue examining the ways it does business. It must focus on future challenges and opportunities that would otherwise not present themselves. This organization does not subscribe to ‘business as usual,’ which can handcuff creativity or blind us from potentially restructuring operations, forming partnerships, or developing other strategies that control costs and maintain desired service levels.”<sup>140</sup>

**Table 5** Proposed framework for service prioritization

| Steps to take   | Questions to ask  |
|---|---|
| Start early.  |   |
| Commit political will, time and resources.  | Why should we do this? What will happen if we do nothing?   |
| Gather data. Know what the true costs are of providing services. Understand past spending patterns. | What can we learn from historical data to help us predict the future?   |
| Involve internal and external stakeholders. What is most important to the community?                |   |
| Educate the public.   |   |
| Establish objectives, goals and a timeline.   |   |
| Establish parameters or rules for the process.  |   |
| Select and prioritize or rank core/elective services (essential/non-essential).                     |   |
| Honor the process.  | <ul style="list-style-type: none"> <li>• What level of service is required now? And in the future?</li> <li>• Is the program a priority for the community?</li> <li>• Would they accept a lower service level?</li> <li>• Does government have to provide the service? Or can it be contracted out?</li> <li>• Can we redesign the service provided?</li> <li>• Can we share the service provision with another unit of government or a non-profit? Can we co-produce with volunteers?</li> <li>• Can some other agency provide this service?</li> <li>• How do we address quality concerns?</li> <li>• Can we restructure how we charge for the service? Or find other funding?</li> </ul> |
| Implement the recommendations.  |   |
| Provide for two-way feedback.   |   |
| Evaluate the outcomes and the process.  |   |

Source: Based on Hadden and Lerner (December 3, 2011); and Kavanagh, Johnson and Fabian (no date).

## Conclusion

This paper has presented

- a summary of current financial trends that cities are facing
- an exploration of how city managers are coping with those financial realities and the strategies they have adopted, particularly in the areas of personnel, core services and programs, service partnerships, and restructuring
- examples of successful citizen participation efforts, barriers to meaningful participation, and methods and mechanisms used to overcome those barriers
- a proposed framework for essential and non-essential service prioritization that incorporates citizen collaboration and empowerment into the process.

In order to strike a balance between their new financial realities and the services they offer in the

future, cities will have to adapt. There is no question that the rules have changed. There is a “new normal,” but each city has to define what that means for its respective city. Options and strategies that cities had available to cope with these financial issues ten years ago, and even five years ago, are exhausted. Managers are redefining and recreating what it means to responsibly manage a city. In the future, managers and elected officials are going to have to involve citizens in the tough choices they make regarding essential and non-essential service provision prioritization. If they choose to collaborate with and involve citizens, cities will have manageable budgets and a more transparent government, along with residents who have a greater respect and trust for their government. In the words from a very old song and a more recently written budget message to a city council, “You can’t always get what you want, but if you try sometimes, you might find you get what you need.”<sup>141</sup>

# Appendix A: Interview Questions

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The interview questions are divided into two parts:

- reinvention strategies
- citizen involvement in the budget decision-making process, and in prioritizing essential and non-essential services.

## Personnel

Have you in the last five years

- Instituted pay freezes?
- Instituted hiring freezes?
- Laid anyone off?
- Eliminated positions?
- Instituted a furlough? How long? Who was involved?
- Had no COLA increase?
- Modified any provisions of your pension or retirement plans?
- Modified any provisions of your health care insurance plans?
- Faced any significant labor or union issues?
- Modified any other personnel benefit—such as leave accrued, educational reimbursement, etc.?

## Service Partnerships

Have you in the last five years

- Considered contracting out the services formerly provided by your city?
- Entered into any new partnerships, inter-local agreements, collaborations? Describe.
- Have you entered into any new regional approaches to service provision?

## Restructuring

Have you in the last five years

- Eliminated any programs or departments?
- Redesigned any programs or departments?
- Restructured any programs or departments?

## Budget and Finance

- What was your budget five years ago?
- Last year? Compared to this year?
- What are your major sources of revenue? What has changed in the last five years?

Have you in the last five years

- Made across-the-board cuts in the budget?
  - Increased user fees?

- Added additional user fees?
- Increased property tax rate?
- Increased sales tax rate?
- Cut services?
- Delayed capital projects?
- Cut public safety?

- How have intergovernmental revenue transfers affected your budget over the last five years?
- What was the housing market like five years ago? Now?
- What are your major expenditures? What has changed in the last five years?
- What was your debt level five years ago? What are your debt levels now?
- What was your ending balance level five years ago? Compared to now?
- For HR communities, has “home rule” made a difference for you in light of the financial downturn?

## Core Services

- What do you define as essential or core services? How do you delineate need versus want?
- Are you currently providing to citizens any non-essential services?
- What are they? Which of these might you consider eliminating?

## Citizen Participation

- How do citizens participate in the city budget process?
- How do citizens participate in deliberation and decision making?
- How do citizens participate in prioritizing services?
- What kinds or types of citizen participation efforts do you engage in?
  - Surveys—mail, web, telephone?
  - Citizen advisory committees?
  - Priority setting exercises?
  - Budget hearings?
  - Budget simulation exercises?
  - Public hearings?
  - Neighborhood meetings?
  - Focus groups?
  - Open forums?
  - Televised with call-in?

- Live streaming via internet?
- YouTube videos?
- Direct or indirect contact with city council members?
- What kind of participation do you get?
- Are the citizens who show up representative of all of your citizens?
- What do you know about participatory budgeting?
- What obstacles do you think get in the way of citizen participation?
  - Lack of knowledge?
  - Perceptions that citizens' input is not valued or is unwanted?
  - Trust and legitimacy?
  - Apathy?
  - Time constraints?
  - Self interests getting in the way of community interests?
- What are your impressions about citizen participation?
- Do citizens have the skills to make a significant contribution?
- Some say involving citizens delays the process or slows it down. What do you think?
- Others say involving citizens prevents consensus? Do you agree?
- What is your greatest success with citizen participation? Example?
- In the budget process, in particular?
- If you could do something to improve citizen participation, what might it be?
- How would you advise other cities to proceed if they are interested in involving citizens in the prioritization of essential and non-essential services?

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