Chapter I

Local Public Budgeting and the Challenges of Decentralized Governance

Scenario #1: The complexity of local government and the need for inter-jurisdictional cooperation. Following several unsuccessful attempts to pass local property tax levies to finance public services, four separate governing jurisdictions initiated a strategic planning process and enlisted help from their local university to assist in creating a tax levy plan and citizen outreach strategy for funding local services. The four governing units (a unified school district, the county, the city and an independent parks district) realized that citizens were confused as to how local services were funded and believed that too many requests for increased taxes were being made by too many governing entities. The goal of the strategic planning process was to generate a better understanding of the priorities citizens placed on the separately funded public services, educate citizens on the mutual needs and funding sources of the various entities and create a plan for property tax revenue requests by the four independent entities.

In the face of growing urbanization, government leaders in a large urban area were struggling to find ways of meeting increased service demands without dramatically increasing property taxes or compromising the existing property tax base upon which the various jurisdictions relied for funding. The major governing entities in the region agreed to create a joint task force that recommended the creation of a new regional government and the transfer of region-wide functions to the new entity (e.g., zoning land for higher density development versus preserving for agricultural use, the zoo, the Exposition Center, solid waste disposal, and parks) with the taxing authority to fund these functions. The recommendations of the task force were supported by citizens and government leaders alike.

Scenario #2: The Financial fragility of local governments. On average 40% of the funding for services provided at the local level comes as transfers from the state and federal government (Tax Policy Center). Since the stock market crash in 2008, forty-six states plus the District of Columbia have initiated major budget cuts, which have resulted in the reduction of health care (31 states), services to the elderly and disabled (29 states and the District of Columbia), K-12 education (34 states and the District of Columbia) and higher education (43 states) (Nicholas Johnson, Phil Oliff and Erica Williams 2011). These cuts are occurring at a time when local debt has risen by more than 114% between 2000 and 2008 (www.census.gov/govs/www/estimate.html).

Scenario #3: The creative governance role of career administrators in local public budgeting – Unable to fund the growing social service needs of its citizens, county administrative leaders facilitated a community envisioning process with citizens and stakeholders to identity shared aspirations and map existing resources in the nonprofit, business, religious and governmental communities that could be better coordinated and leveraged to meet these unmet social service needs. The county created a new 501 C3, called the Vision Action Network, to serve as the holding company for addressing these needs and it committed to using this new Network as the governing entity for dispersing county funded social service activities.

Struggling to find ways of replacing seriously under-maintained old buildings, a local school district entered into a partnership agreement with the Boys and Girls Club, the city, the development commission and the private sector to develop a new mixed income residential community large enough to require a new school. The new school includes a community and recreation center, partly owned and operated by the Boys and Girls Club and the city parks department. The school has full use of the athletic facilities for all of its school functions but only pays for a share of the total costs. Because the new development includes neighborhood businesses located within the new development and is built within a low income area of the city, the development qualifies for low interest federal loans. The old school building and land has been donated to the city in exchange for the land in the new community development.

We begin this book with the above scenarios to illustrate why local public budgeting deserves special attention. Budgeting is not simply a technical exercise about how best to spend the expenditure of revenues collected from citizens through fees, taxes, rates and other sources of revenue. It is ultimately about determining what the community values and generating the support necessary to fund these values. The support is not only reflected in dollars, it is reflected in patterns of relationships that have been developed through time and have acquired institutional status. The local school, library, Boys and Girls Club, chamber of commerce, rotary club, friends group, community center or a long-enduring citizen group may symbolize this institutional role. While the national and state budgeting processes are greatly influenced by well financed lobbyists speaking on behalf of well organized interest groups, this is not the case in most of the 89, 496 local government jurisdictions in the United States (see Figure 1.1. below). Instead, the budgeting process is shaped by deeply imbedded local institutional entities that have a vested interest in how government officials use the budget process to promote the common good of the community. This makes the budgeting process political, but it is a different kind of politics than the "interest group" model used to explain what happens at the state and federal levels of government.

Most books on public budgeting focus on the federal and, to a lesser extent, state budgeting processes. And most of these books view budgeting more narrowly as an interest-based lobbying activity that determines how various revenue sources will be allocated to support what government does. What government does and what deserves to be supported based on what the community values frequently can sometimes differs quite substantially. But this gap between what is valued and what is reflected in the budget is much smaller at local levels of government in the United States than is the case at the federal and state levels (Carroll and Johnson 2010). The reasons are an artifact of a legal and political structure that gives local citizens large amounts of control over the discretionary authority of elected officials to collect various kinds of revenue and to expend those revenues to support what government does.

We have organized this book around four core themes that, taken together, explain why government budgeting at the local level deserves to be given special attention. First, there are 89,496 (see Figure 1.1 below) local governments in the United States, which are responsible for providing services that matter most to the average citizen, including schools, land use planning, public safety, water, sewer, transportation, mental health, just to mention some of the more important services that are delivered by local governments. The complexity of this arrangement creates the need for cooperation across organizational and jurisdictional boundaries and provides a multitude of opportunities for the exercise of creative leadership on the part of career public administrators as they carry out their local budgeting responsibilities.

A second reason for giving special attention to local public budgeting is that for the foreseeable local jurisdictions are going to be facing a financial crisis that will require the

Figure 1.1

Number of Governmental Units by Type, 1952–2007

Type of Government	1952	1962	1967	1972	1977	1982	1987	1992	1997	2007	Change 1962–2007
Total Units	**116,807**	**91,237**	**81,299**	**78,269**	**79,913**	**81,831**	**83,237**	**85,006**	**87,504**	**89,527**	**-23%**
U.S. Government	1	1	1	1	1	1	1	1	1	1	**0%**
State Governments	50	50	50	50	50	50	50	50	50	50	**0%**
Local Governments	**116,756**	**91,186**	**81,248**	**78,218**	**79,862**	**81,780**	**83,186**	**84,955**	**87,453**	**89,476**	**-23%**
Counties	3,052	3,043	3,049	3,044	3,042	3,041	3,042	3,043	3,043	3,033	**-.6%**
Municipal	16,807	18,000	18,048	18,517	18,862	19,076	19,200	19,279	19,372	19,492	**16%**
Townships and towns	17,202	17,142	17,105	16,991	16,822	16,734	16,691	16,656	16,629	16,519	**-4%**
School Districts [2]	67,355	34,678	21,782	15,781	15,174	14,851	14,721	14,422	13,726	14,561	**-78%**
Special Districts	12,340	18,323	21,264	23,885	25,962	28,078	29,532	31,555	34,683	35,052	**84%**

Source: U.S. Census Bureau, *2002 Census of Governments.* vol. 1, no. 1, *Government Operations,* Series GC02(1)-1 and U.S. Census Bureau, *2007 Census of Governments*.
[1] 1952 adjusted to include units in Alaska and Hawaii, which adopted statehood in 1959.
[2] Includes dependent school districts, which are under the control of the state, county or other governing body.

invention of new approaches to local service delivery and civic engagement strategies to enlist the support and confidence of the local community. Because local governments are the legal creatures of the state within which they exist, they operate within a more constrained environment than their federal and state counterparts. Despite this constrained environment, we argue that local administrators have opportunities to exercise creative leadership that is not as readily available to those with budget responsibility at the state and federal levels of government. Most local governments are run by part-time and unpaid elected officials who depend on their career administrators for innovative problem-solving. This is a third reason we believe local public budgeting deserves separate consideration.

Finally, local governments in the future will be increasingly responsible for what we call "polity budgeting". By that we mean a concern for how the community's assets across the nonprofit, public and private sectors can be identified and mobilized to make the highest and best contribution to the community's common good. This goes beyond the traditional jurisdiction's concern for using the budget process to preserve the delivery of high quality government services, even in the face of diminishing resources. In the future we believe local governments will increasingly use their "soft power" of influence rather than relying on their smaller sphere of constrained "hard power" and formal legal authority in the local public budgeting process. In the sections that follow, we will elaborate more fully on each of these four core themes of the book:

- The unique role of local governments in building democratic legitimacy
- The perfect financial storm, a transformational opportunity
- The unique role of local administrators in exercising leadership in the budgeting process
- Polity budgeting and the rebuilding of local communities

THE UNIQUE ROLE OF LOCAL GOVERNMENTS IN BUILDING DEMOCRATIC LEGITIMACY

In the United States local governments play a decisive role in building and maintaining the legitimacy of democratic government. The tenth Amendment to the U.S. Constitution makes explicit that the "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people". The states in turn have delegated their powers down to a wide variety of local governing bodies, which provide the services that most citizens care most about. This legal arrangement reflects the historical reality that many local governments existed prior to statehood.

Alexis de Tocqueville in his travels across the United States in the mid 1830's was struck by the high levels of decentralization of governmental authority and the advantages this provided in building the trust of citizens in their public officials.

> What I admire most in America are not the *administrative* effects of decentralization, but the *political* effects. . . . Often the European sees in the public official only force; the American sees in him right. . . . As administrative authority is placed at the side of those whom it administers, and in some way represents them, it excites neither jealously nor hatred. . . . Administrative power . . . does not find itself abandoned to itself as in Europe. One does not believe that the duties of particular persons have ceased because the representative of the public comes to act. (Alexis de Tocqueville 2000, 90)

If de Tocqueville were to travel across the United States today, he would likely be even more impressed by the extraordinary expansion of the process of decentralization that has occurred over the past two centuries. Today there are 89,476 separate local governmental entities in the United States, each of which levies taxes to deliver services to the citizens it serves. Figure 1.1 provides a summary overview of the kinds and growth of these governing bodies over the past 50 years. As Figure 1.1 illustrates, over the past 50 years special districts have increased by more than 143 percent, growing from 12,340 in 1952 to 30,052 in 2007 (U.S. Census Bureau, *2002 Census of Governments.* vol. 1, no. 1 and U.S. Census Bureau, *2007 Census of Governments*.). On the other hand, school districts have undergone a dramatic consolidation and contraction.

While all local governments in the United States are the legal creatures of the state within which they exist, the long-standing American tradition of "bottom-up governance" has resulted in the creation of a rich array of models that set local governments off from their counterparts around the world. First, there is a very large degree of discretionary authority at the local levels of the system, resulting in a wide variety of governing structures and processes. Neither the central government nor a controlling political party dictates what or how the majority of money raised from local citizens shall be spent by local government officials. This is not the case in many "single party" systems or in countries like France, whose local governing bodies are the administrative agencies of the central government. While local officials are elected in counties like France, Japan, South Korea, and Italy, their discretionary authority is severely limited by comparison to local government officials in the United States. For example, in Japan and Korea local government officials have very limited taxing authority. This is also the case for European democratic states like France and Italy were local governing bodies have limited powers to collect taxes for some services like public safety, transportation, garbage collection and street lighting. But most of the revenue flows downward through the central ministries to local offices. This contrasts to the United States where on average more than 60 percent of the budget is controlled by the discretionary authority of local officials (http://www.census.gov/govs/www/financegen.html; also see Tax Policy Center 2008).

Most Americans are surprised to learn that there are so many local budgeting entities that have the authority to levy taxes, charge fees and borrow money to pay for the services they provide to local citizens. A typical citizen may be a taxpayer of up to a half-dozen local jurisdictions: city, county, borough, township, state, school district, fire district, water district, soil conservation district, library district, hospital district, parks district, just to mention a few of the more common possibilities. One of the authors of this book resides in a county with 33 separate governing jurisdictions and pays taxes to six separate entities. This complexity of the local government landscape creates unique budgeting and revenue issues for both citizens and elected officials, which we will discuss in more detail in the section that follows.

Each state defines by statute the types and kinds of local jurisdictions that can exist within the state. This enabling authority is codified in each state's statutes. There is a dizzying array of models that are used.[1] For example, the State of Pennsylvania organizes its local government code authority by county, subdividing each county into cities, class 1 townships, class 2 townships and boroughs. By contrast, the State of South Carolina, organizes its code authority by counties (Title 4), Municipal Corporations (Title 5) and Local Government - Provisions Applicable to Special Purpose Districts and Other Political Subdivisions (Title 6). The State of Washington represents the extreme in specification of local government authority by providing for separate code authority for cities and towns (Title 35, which provides for the creation of class 1 cities, class 2 cities and towns), home rule (Title 35A), counties (Title 36) library districts (Title 27), fire protection districts (Title 52), port districts (Title 53), public utility districts (Title 54), Sanitary districts (Title 55), and water-sewer districts (Title 57).

In the sections that follow we will summarize the major types and kinds of local government jurisdictions and forms of government, pointing out the wide variability from state to state with respect to the legal authority extended to the same types of governmental units. It is important for those who have budgeting responsibility to know what kind of authority and budget responsibility they have under their state statutes. The general summary of the **types of local governments** and their **forms of governance** in the two subsections that follow is not a substitute for knowing this more specific information.

Types and Kinds of Local Government

There are six basic types of local government in the United States: towns/cities; townships, counties/parishes; boroughs; school districts; and special districts. Each will be discussed in greater detail in the sections that follow.

Counties

All states except for Rhode Island and Connecticut have county units of government. Louisiana and Alaska subdivide the state into parishes and boroughs, respectively, instead of counties. While states rely heavily on counties to provide services, they vary widely in the power and functions they delegate to counties. In New England counties serve as judicial court districts and provide sheriff's services. In the Mid-Atlantic and Mid-western states counties provide a broader range of services, including courts, public utilities, libraries, hospitals, public health services, parks, roads, law enforcement, and jails. Counties in western and southern states have even broader authority, including the provision of public housing, child/ family/elder services, airports/ recreation/convention centers, zoos, health clinics, museums, welfare/mental and public health services, animal control, veterans assistance services, probation/parole supervision, historic preservation, food safety regulation, and environmental health services.

Counties vary widely in the number and kind of elected offices that exist. Most counties provide for a county registrar, recorder, or clerk (the exact title varies). The clerk collects vital statistics, holds elections (sometimes in coordination with a separate elections office or commission), and prepares or processes certificates of births, deaths, marriages, and dissolutions (divorce decrees). The county recorder normally maintains the official record of all real estate transactions. Other key county officials may include the district attorney, coroner/medical examiner, treasurer, assessor, auditor, and controller.

In New England regional councils have been formed to fill the void left by the abolishment of county governments. The regional councils' authority is much more limited compared with a county government. For example, regional councils have no taxing authority or authority to issue permits; the aforementioned powers are delegated to the town governments. However, the regional councils do have authority over infrastructure and land use planning, distribution of state and federal funds for infrastructure projects, emergency preparedness, and limited law enforcement duties.

Counties not only vary widely in their authority and the number and kinds of officials who are elected to office, they also vary in their governance structures (Berman, 1993; Coppa 2000; Jeffrey, Salant & Boroshok 1989; National Association of Counties website). Approximately 60% of the counties use the commission form of government (see explanation below in the next section on forms of government). Under this system three to five commissioners share administrative responsibility for the functions not performed by the other elected officials described above (i.e., sheriff, coroner, district attorney, clerk, registrar, recorder, etc). There is no person specifically designated to carry out executive functions. These functions are shared by the commission. Approximately thirteen percent of the counties provide for an elected executive who serves as an equal member of the commission, but has responsibility for operational oversight and budget management for the jurisdiction. The remaining 26 percent of the counties use a council-manager system, in which a career administrator is hired to provide administrative oversight of the county and who works at the pleasure of the commission. Less than one percent of the counties have merged with cities. For example, Denver, Philadelphia, and San Francisco are simultaneously cities and counties.   Just over half of the 3,033 counties in the United State have home rule with the delegated authority to operate with much greater independence regarding their taxing, budgeting and control to adopt their own form of government.

An important budget issue for many counties in the western part of the United States is the large amount of land that is federally owned. More than 660 million acres of land—one-third of the entire United States—has been removed from state and county taxation. Yet, many of the counties adjoining this land provide search and rescue services for recreationists who use the national parks and forested areas. In 1976 Congress recognized the need to compensate counties for the loss of tax revenue as well as the increased costs of providing services on the adjoining federal lands. They adopted a system of funding called Payment in Lieu of Taxes, which in some counties in the west has accounted for more than 80 percent of the entire county budget.

Cities and Towns

Cities and towns are by far the most numerous units of government in the United States, comprising 40% of the total. There is no agreed upon definition distinguishing a city from a town, but most citizens commonly think of cities as larger versions of towns. From a legal point of view, most states recognize a legal distinction within its enabling legislation that either authorizes the establishment of one form rather than another or, more commonly, allows for the creation of class 1 and class 2 cities/towns. By contrast the state of California treats towns and cities as legally equivalent. In New England, towns are the norm in contrast to most other parts of the U.S. where the term “cities” are the norm.

Both towns and cities are created and operate under several legal frameworks, including home rule charter, special act charters, or general law jurisdictions. Most cities and towns are general law jurisdictions, which means they operate under the general enabling legislation provided by state statute, and thus are considered "unincorporated", and usually do not have elected officials. Incorporated cities and towns operate under a special charter approved by the local voters pursuant to state law. The charter lays out in considerable detail the governance structure, processes and authority of the local jurisdiction. If chartered cities have the legal authority to amend their charters without state approval, they are considered "home rule" jurisdictions

Cities provide the core services most citizens have come to rely upon, including: public safety (police, fire), utilities (water, sewer, and franchising electricity, telephone, internet, etc.), land use planning and permitting, and overall quality of life. In sparsely populated areas of the United State like Maine and the western United States, small towns and unincorporated cities rely on the county for law enforcement.

Townships

Most Americans would be surprised to learn that they live in a township. In fact, most of the United States has been divided up into townships as part of the General Land Survey System that was created with the passage of the Land Ordnance of 1785. This act provided that the land west of the Appalachian Mountains, north of the Ohio River and east of the Mississippi River was to be divided up into ten separate states. Together, with the Northwest Ordinance of 1787 (commonly known as the Northwest Territory Act), these acts resulted in organizing thirty of the fifty states into townships that were mapped into square blocks by the Public Land Survey

System (PLSS) that were six miles on each side with mile square subdivisions called sections, as illustrated in Figure 1:2.

The creation of townships was not merely a land survey and mapping exercise. It was also an exercise in local public budgeting. For example, the original Northwest Ordinance of 1787 provided that section 16 of each township be reserved for a public school, thus

Figure 1.2

Public Land Survey Townships in the United States

6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

Source: Bureau of Land Management, *Manual of Survey Instructions*, 1973)

guaranteeing that local schools would have an income and that the community schoolhouses would be centrally located for all children. In most of the western states both sections 16 and and 36 (or an equivalent) were designated to be held in trust by the state as a condition of statehood (Souder and Fairfax 1996; for an example see http://www.land.state.az.us/history.htm). The land survey system put in place by the Northwest Ordinance has served as the basis for creating townships with governing authority (called civil townships) in most of the mid western states. According to the U.S. Census, 20 states currently use the township form of government (http://www.census.gov/govs/go/state_townships.html). In the early years, these townships cared for the poor, maintained the roads, preserved the peace, registered brands and fulfilled the needs of local government generally. Today, townships in mid-western states provide services in the following broad areas: 1. Public safety (including law enforcement, fire protection and building code enforcement); 2. Environmental protection (including sewage disposal, sanitation and pollution abatement); 3. Public transportation (including transit systems, paratransit systems, streets and roads); 4. Health; 5. Recreation; 6. Libraries; and 7. Social services for the poor and aged. In the six New England states that have created charter townships (Connecticut, Maine, Massachusetts, New Hampshire, New York and New Jersey), townships perform municipal-type functions that resemble the services traditionally provided by cities and towns.

Boroughs

This is a term derived from the Middle Ages and was used to describe settlements that were granted some self-governing rights from the central authority. Only six states use boroughs for governance and budgetary purposes Most often today borough refers to a single town with its own self-government, but in the City of New York, it refers to a subdivision of the city and in the State of Alaska the term is used instead of the term county, but designates a region that is much larger than a county. Alaska, unlike other states, does not recognize towns, cities and townships as legal units of government in its codified law. Instead, it has only two tiers: the state and boroughs (Title 7). Towns and cities acquire legal status by special charter on a case by case basis.

In Connecticut boroughs are legal entities usually created within the populated center of a town, but are still part of, and dependent on, the town within which they exist. This contrasts with both Pennsylvania and New Jersey where boroughs are recognized as one of the authorized forms of municipal government under state law. In Pennsylvania boroughs are self-governing units smaller than a city, while in New Jersey boroughs are one of the five recognized types of municipal government (townships, town, city and village) (Cerra 2007). In Virginia when multiple local governments consolidate to form a consolidated city, the consolidated city may be divided into geographical subdivisions called boroughs, which may be the same as the existing (i) cities, (ii) counties, or (iii) portions of such counties. Those boroughs are not separate local governments (VA Code, Title 15.2-3534).

School Districts[2]

As we indicated above in our discussion of townships, schools that are controlled by local citizens have been a cornerstone of American democratic governance. This contrasts to most parts of the world where school funding and operation is controlled by the state. While school districts have declined by nearly 80% over the last 50 years through consolidations, over 90% of the school districts in the United States are still operated independently from other units of government (e.g., sates, counties, cities, towns and boroughs). Table 1.1 above shows a 5% growth in school districts between 1997 and 2007. This growth is largely due to the creation of independent **education service districts**, which provide supplementary services to other independent school districts and help fund services that would otherwise be jeopardized by funding shortages at the state and local levels. (We will elaborate more fully on these kinds of districts in our discussion of special districts in the section that follows.)

There are some important exceptions to the general rule that schools are independent units of government. In Maryland all school systems are run by the county and in New York State some school districts are independent and others are subordinate to cities (e.g., New York City). Hawaii is the only state which functions as a state-wide school district. The *2002 Census of Governments* listed the following types and numbers of school systems in the United States (http://www.census.gov/govs/www/gid2002.htm).

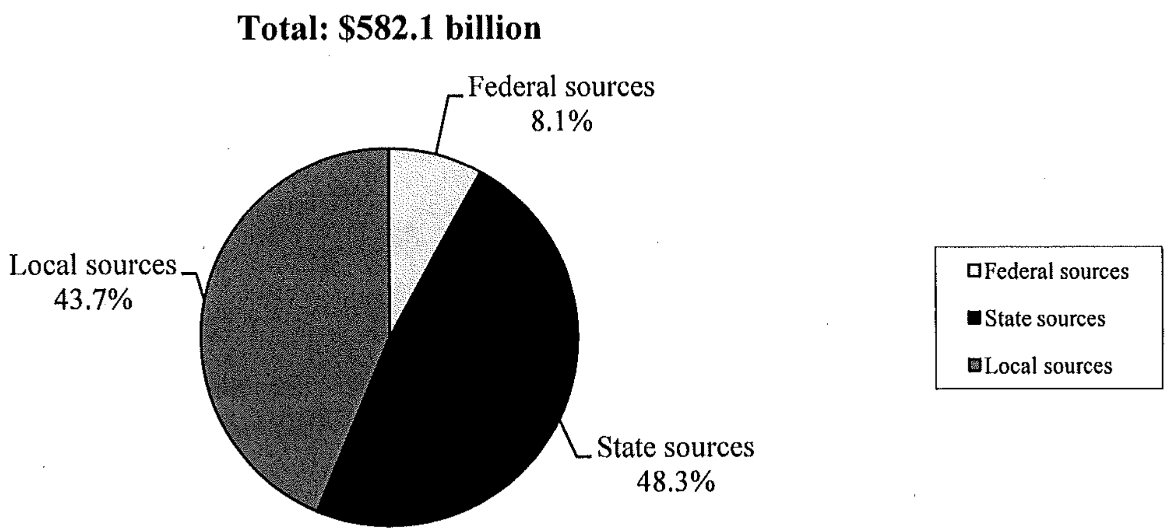
Figure 1.3 The Number and Kinds of School Districts in the United States

- 13,506 school district governments
- 178 state-dependent school systems
- 1,330 local-dependent school systems
- 1,196 education service agencies (agencies providing support services to public school systems)

School districts have traditionally been funded by local property taxes. Figure 1.4 below indicates that nearly 44% of the revenue for K-12 education is provided by local sources, with the states providing 48% and the remainder provided by grants from the federal government (8.1%). But there is considerable variation among the states with respect to reliance on local revenue sources by comparison to reliance on state funding. For example, state funding in Hawaii and Vermont comprises nearly 90% of the total school revenue by contrast to Nevada and Illinois where the states provide about 30% of the total (U.S. Census 2008, Table 5; Kenyan 2007, 47).

The variations in approaches to school funding are an integral part of on-going debate about the fairness of strategies in supporting local public education. For example, school funding on a per student basis averaged in 2005-2006 from a low of $5,437 in Utah to a high of 14,884 in New York (U.S. Census, 2008 Figure 4). These disparities are not only caused by

Figure 1.4 Percent Distribution of Total Elementary-Secondary School System Revenue: 2007-2008



Source: U.S Census Bureau 2008

differences in state support, but also by disparities in the value of local property, which determines the amount of property taxes that can be assessed. These disparities have resulted in law suits throughout many of the states to equalize the provision of educational support as a requirement of the equal protection clause that are part of most state constitutions. These suits have prompted more than a dozen states to consider school finance restructuring, with litigation actively ongoing in about 20 states (Kenyan 2007, 12).

We will not devote extensive attention to school district budgeting in this *Handbook* because it is a specialized field with several excellent publications (see endnote 1). But most of the principles we cover in each of the chapters apply to school budging. More importantly for purposes of this text, those responsible for local public budgeting need to understand the interactive relationship between local school budgets and the budgets of other local jurisdictions. This is illustrated in our opening scenarios where local school funding is viewed by voters as competing for the funding of other public services. While similar to special districts discussed in the following section, school districts frequently hold the highest priority among local citizens for the allocation of scarce resources (Maher and Skidmore 2009).

Special-purpose districts [3]

Special purpose districts are the most rapidly growing unit of local government, increasing by 84% over the last fifty years. As with all local governments, the authority for creating special districts and the rules governing their operation is provided by state law. They have been created to provide specific services that are typically not provided by general-purpose governments. These services include hospitals, ports, sewerage treatment, water supply, fire and police protection, mosquito abatement, soil and water conservation, supplementary educational service and upkeep of cemeteries. Most special districts provide only a single service, which makes them popular with citizens who want to live outside an urban area, pay lower taxes, but receive a higher level of service than is normally provided by the rural jurisdiction within which they reside. Special districts usually have their own governing board and separate revenue authority from some combination of property taxes, fees, excise or sales taxes and the issue of bonds.

Since the New Deal, five factors have greatly influenced the growth and autonomy of both cities and special districts. First, President Roosevelt began the process of expanding local jurisdictions by encouraging the creation of public corporations to float revenue bonds as a way of avoiding municipal defaults. He urged the creation of water, sewer, and electric power districts, arguing "that these governments should be used to circumvent debt limits and referendum requirements for issue of bonds" (Burns 1994, 53). Roosevelt provided model legislation for enabling citizens to form housing authorities and soil conservation districts, and tied federal funding exclusively to the creation of these jurisdictions.

Second, the impetus for expansion special districts occurred under the pressure for economic development in the post–World War II period. The expansion of industry and housing, for example, caused the real estate industry to reorganize and apply political pressure to establish new cities and special districts. Race played heavily as a third factor in the expansion. It was common practice prior to the 1950s for neighborhood improvement associations to create restrictive covenants that excluded individuals on the basis of race. The U.S. Supreme Court declared in 1948 that race-based restrictive covenants were unconstitutional, and this encouraged cities to use their zoning authority in new and creative ways (Burns 1994, 60, 54–55).

Fourth, new pressure to expand cities and special districts occurred during the 1960s with the New Frontier administration of President John F. Kennedy and the Great Society administration of President Lyndon B. Johnson. Federal aid to cities almost doubled. It came in the form of programs for housing, urban renewal, mass transit, education, job training, poverty, model cities, and grants-in-aid (Burns 1994, 62). These initiatives yielded two consequences. First, they changed the expectations of the role that cities could play in meeting the redistributive social needs of the community. In addition to planning for growth and providing infrastructure, Great Society and New Frontier programs laid the groundwork for a larger community-building role to be played by public administrators.

A second consequence of the Kennedy/Johnson program initiatives is that they increased the complexity of local government and placed new challenges of interorganizational and interjurisdictional coordination on local government leaders. For example, transportation planning had to be coordinated with a growing number of local jurisdictions as well as with newly created administrative bodies. The elected and career officials responsible for these new arrangements were placed in the catbird seat.

The fifth factor that spurred the growth of cities and special districts was the significant increase in state and local taxation during the 1960s. Starting in 1961, taxpayers at the local level experienced the largest increase in taxes since the 1930s. This increased burden induced businesses and residents to create new cities and special service districts in the attempt to escape these tax burdens. New special service districts also gave them options in deciding whether they wished to purchase additional services (Burns 1994, 62). For example, if suburban dwellers wish to live in the pastoral setting of the countryside but still have access to city-level police and fire services, how can they be funded? One answer is to provide everyone in the countryside with a base level of rural/county-level service, with an option to purchase additional levels of police, fire, health, education, or other services through a special service district. During the decades following the local taxation crisis of the 1960s, special districts grew in number from 21,264 in 1967 to 35,052 in 2002, an increase of more than 60 percent.

The expansion in the number, complexity, and role of local government jurisdictions since the New Deal has greatly increased the challenges for those who govern. At an administrative level, they have to coordinate more of their work with other jurisdictions. For example, how many special levies will voters support during any given election? How can jurisdictions coordinate their need for voter support while demonstrating that they are wise and prudent stewards of the community's resources? At a political level, the challenge becomes even greater, as communities balkanize into relatively isolated pockets that are organized by socioeconomic status, race, ethnicity, and business opportunities for employment. Under such circumstances, it becomes difficult for administrators to meet the needs of the community in ways that create a shared sense of common interest across many boundaries established by narrow self-interests.

What Difference Do the Forms Government Make to Local Public Budgeting?

For the forms of government, let fools contest,

That which is best administered is best.

(Alexander Pope, *Essay on Man*, 1732-34.

Alexander Pope's epigram has proven to be less true than he might have wished. This is because citizens trust themselves more than they trust others when it comes to spending their money. If they have to trust others, they would rather trust those over whom they have the most direct control than those over whom they exercise only indirect control, like professional career administrators. This principle has been institutionalized into the majority of local systems of government, which do not have the traditional tri-partite system of checks and balances and separation of powers. Most local governments have more of a "fused power" model that structurally resembles the parliamentary system. While there are important exceptions, the prevailing practice in local governments is for part-time elected officials to make policy decisions that are implemented by a professional career administrator who works at the pleasure of the elected council.

This local government model reflects the spirit of the American Revolution, which memorialized the principle that elected representatives of the people shall have the authority to levy taxes and approve spending. For that reason, the U.S. Constitution requires that all appropriation bills originate in the U.S. House of Representatives (the People's House). But at the local level this legal authority is exercised by part-time and unpaid elected officials who depend heavily on the expertise of career administrators to assemble the details of taxing and spending plans. For that reason, the forms of government play an important role in shaping how the budgeting process gets carried out in each of the following four types of local government structures: strong mayor, council-manager, weak mayor and commission system.

Strong Mayor

This form of local government consists of a mayor and a city council, both of which are independently elected through predominantly nonpartisan elections. Both share in making policy, although the mayor has near complete authority over the executive branch of government and commonly takes the initiative in making policy recommendations. Officers of the executive branch – the city attorney, assessor, treasurer-comptroller, and heads of departments – are appointed by the mayor and serve at his/her pleasure, though these appointees generally must be confirmed by the council. The city council, in its role as the legislative branch, approves key mayoral appointments and ordinances prior to their becoming effective.

The objective of the strong mayor form of local government is to centralize control over the executive agencies of government. This control is defended on a variety of grounds. From a partisan political point of view, many proponents of democratic accountability argue that the mayor should be able to control the policy directions of a city by appointing department heads who share the mayor's policy agenda. From a "good government" perspective, proponents argue that democratic accountability requires that assiduous attention be paid to issues of administrative efficiency and effectiveness. Without the supervening oversight of a strong mayor or professional chief executive officer (i.e., city manager, county administrator, etc.), many believe these values may be compromised by the self-serving and self-aggrandizing interests of individual departments, programs and their constellation of stakeholders.

In keeping with the desire of the strong mayor system to centralize executive authority, the budget is prepared and presented to the legislative body in a fashion similar to the role of the U.S. President or a state governor in presenting a budget to the legislative body for deliberation. One of the major differences is that local and many state legislative bodies do not possess the kind of analytic capacity exhibited by the Congressional Budget Office. This limits the ability of elected legislators to undertake their own independent analysis of financial impacts and outcomes of various funding options. This is particularly the case at local levels of government where part-time elected officials are heavily reliant on the work undertaken by the mayor or city manager's budget office.

Council Manager

The council manager form of government is the most widely used system in the United States. According to the International City/County Management Association (ICMA), the council-manager form is used in 63 per cent of cities with populations of 25,000 or more; in 57 per cent of cities with populations of 10,000 or more; and in 53 percent of cities with populations of 5,000 or more. According to a 1996 survey by the National Civic League of municipal forms of government, 61 per cent of council-manager cities have popularly elected mayors (National Civic League, 1996). More than 80 per cent of all cities (mayor and manager) in the 1996 survey reported having appointed a chief official, like a city manager. This means that many mayor-council cities have a city manager-like chief administrative officer who answers to the mayor or the council. In the other cities, the mayor administers the day-to-day operations of the government.

The Council-manager form of government consists of a city council (the members of which are elected predominantly in non-partisan elections), a mayor (in most cases selected from the membership of the council but elected at-large in others), and a city manager (appointed by the city council). In this system, the council determines city policy and the mayor merely presides over city council meetings. The executive branch of government is administered by the city manager, who is a professionally trained administrator. The city manager appoints executive officers, supervises their performance, develops the city budget, and administers programs. Theoretically, the city manager cannot make policy, but as a practical matter, the recommendations of the manager are usually given great weight by the council. But it is also the case that when the city manager makes recommendations he has done so based on prior conversations with each member of council. This process plays a decisive role in shaping the city manager's recommendations to the council. For this reason many scholars argue that the relationship between the city manager and the council should be understood as a process of co-production (see endnote 5).

The city manager form of government was created by the "good government" advocates of the Progressive era at the beginning of the 1900's. The objective of the council-manager plan was to take "politics" out of city government by turning over its administration to a professional manager. This plan was developed in the early days of the Progressive movement as a response to the influence of political parties and party politicians over city government under the mayor-council plan. Party and personal loyalty were attacked as an inappropriate basis upon which to run local government. Critics argued that there is nothing political about operating sewer, water, transportation, parks, garbage and other local infrastructure systems. They pointed out that such systems could be more effectively run by a professionally trained administrator taking general directions from an elected city council. The council–manager system attempted to divide policy or politics from administration.   While more recent studies have documented that this "bright-line" distinction does not exist very clearly at the local government level (Svara 2006, 1999, 1991, 1990, 1985; Monjoy and Watson 1991), there is a general consensus that the city manager form of government is "less political". If the members of the council are elected in non-partisan elections, the influence of party politics is even further reduced.

The city manager system has important implications for the budgeting process. Both the development and implementation of the jurisdiction's budget is in the hands of the city manager. In putting the annual budget together, the city manager has extensive discretionary authority in shaping the spending priorities of the various departments. The manager works with members of council to meet their personal and collective priorities. Once the budget is ready for presentation to council, this anticipatory work by the city manager makes the budget approval process more routine than contested.

Once the budget is approved by the council, the manager has the discretionary authority to implement the budget within the broad policy and fiscal guidelines established by council. Usually these guidelines give the city manager broad discretion, especially through control over filling vacancies and authorizing new positions.

Weak Mayor

It is common for most smaller cities and a few larger ones (i.e., Charlotte, North Carolina and Minneapolis Minnesota) to have a weak mayor who performs mainly ceremonial functions. Unlike the strong mayor system, a weak mayor does not have the power to veto council decisions, to oversee city government operations or to draw up and implement the annual budget. These powers are lodged either with the city manager or with the council as a whole. The weak mayor system is the product of the Jacksonian democratic belief that too many government officials with too much power endanger the ability of the majority of middle class Americans to control their government and keep it accountable.

Under the weak mayor system, the budgeting process is controlled by the council as a whole or by a professional career manager. The mayor facilitates the public participation activities that are part of the Council's budgeting role and serves as the ceremonial leader of the council's deliberations over the budget adoption process. The mayor is "first among equals" when it comes to voting on the budget and exercising influence over the outcome.

Commission System

The commission system of government fuses executive and legislative functions almost completely in the hands of elected commissioners. They hold the legislative power to pass legislation, participate directly as administrators in overseeing the executive implementation of policy and adjudicated appeals, usually dealing with personnel and land use issues. Members of the commission (which is like a city council) are elected in non-partisan elections, and one member is designated the major or chair of the board to preside over meetings. Again, as in the council-manager plan, the mayor has little power. The commission makes policy for the jurisdictions and appoints some of the executive officers, such as the city attorney, assessor, treasurer, and chief of police. However, in addition to making appointments of departmental/bureau executive officers, the commissioners themselves also act as heads of the various city administrative units, such as the park commission and the public works commission, police, fire, etc. Each commissioner is ordinarily assigned as head of one or more commission and is charged with its administration. The elected board of commissioners as a whole coordinates policy and approves the city budget. Thus, the members of the commission act as legislators, administrators and judges.

The commission system was created in 1901 in specific response to the terrible hurricane on the island city of Galveston, Texas. On September 8, 1900, hurricane winds of at least 120 miles per hour ripped across the Texas coastline of the Gulf of Mexico, killing over 5000 people and decimating the city of Galveston. During the 18-hour storm, tidal waves swept through sea-level streets, destroying homes and buildings and wiping out electricity, roads, and communication systems. As news of the disaster spread, supplies, including tents for the nearly 8000 homeless, poured into Galveston from across the nation.

Influential business leaders of the community feared that the city might never recover its prosperity under the leadership of the incumbent city council, so they seized the initiative, prepared a plan and requested that the governor appoint them as a commission to govern the city during the rebuilding period. To appease opponents who argued that appointed government was undemocratic, the plan was altered to provide for popular election of two of the five commissioners. Subsequent court challenges to the constitutionality of the partially appointive government led the legislature to make the office of all five commissioners elective, and in this form the commission plan became popular across the nation (Texas State Historical Association, 1996)

The commission system was viewed by many of the business-oriented reformers of the day as the right answer to getting things done quickly, effectively and efficiently. Experienced and knowledgeable business leaders could take single minded control over a given functional area and mobilize the resources needed to complete a plan of action. At its peak in 1918, there were 500 cities that had adopted the Commission system, but by 1984 the number had dwindled to just 177. Portland, Oregon is the largest city of its size to still be governed by the commission form and is widely regarded as a “strange anomaly” (Morgan, Nishishiba and Vizzini, 2010).

The commission system gradually fell out favor as it was replaced by the city-manager system that was increasingly viewed as being much more effective in harnessing the growing and complex functions of local government under a single executive who had been specifically trained in the business of “making government work”. Galveston abandoned its own child when the island city adopted the city manager form of government in 1960 (Texas State Historical Association. 1996; Rice, 1977).

Ironically, the Commission form of government fell out of favor for some of the very reasons that it was created in the first place. First, the commission system was criticized for its **lack of “professionalism**”. For example, a commissioner, who may have lots of private sector expertise in financial management and budgeting, may end up having oversight responsibility for transportation, police, fire or other departments for which the elected official has no special competence, training or experience. The city manager movement aggressively advanced the view that managing the public’s business required special people who were committed to public service as a calling and who were armed with the modern management tools necessary to transform this commitment into efficient and effective delivery of services carried out by technically trained career professional administrators. While the critics of the commission system agreed with their opponents on the need for management expertise, they denied that private sector business experience was sufficient to deliver on the Progressive era promise of increased efficiency and effectiveness in managing the increasingly complex activities of local government. Public sector work was regarded as uniquely different from the substantive competence necessary in managing for-profit enterprises in the private sector.

In addition to assuming responsibility for hiring and managing a professional cadre of public administrators, proponents of reform argued that a city manager could do a much better job than a group of independent commissioners in **coordinating** all of the complex activities associated with the delivery of local public services. While initially seen as a "take charge system" that could get results in a hurry, the commission system came to be viewed as seriously defective in its ability to coordinate activities among diverse city functions. For example, the Commissioner of Environmental Services might announce a new initiative to mitigate erosion through a partnership with local volunteer organizations to "plant a 100 trees per month", with little or no discussion with other Commissioners who may have tree-planting responsibility in their roles as commissioners for the Transportation Bureau, the Parks Bureau, or the Parks Bureau. A city manager system was viewed as the solution to this problem by creating a single focus of responsibility for coordinating the disparate sets of expertise and organizational units that need to work together in order to achieve a common purpose.

Finally, in addition to the challenges of coordination posed by the commission system, there is also the problem of providing **adequate representation to a diverse population**. Because at-large balloting is intrinsic to the commission concept and since at-large elections may dilute minority voting strength, most southern cities were forced to abandon the commission plan because of suits brought under the Voting Rights Act of 1965 and subsequent amendments (Texas State Historical Association 1996).

Despite the variety of governing models at the local level of government, they share some common characteristics that enable us to talk about the distinctiveness of local public budgeting compared to state and federal budgeting processes and systems. First, there has been a confluence of forces that has created a moment of truth for many local governments. While both the state and federal systems of government are asking whether they can continue to do business as usual, no one is questioning their continued existence. This is not the case with some local governments, where increased attention is being given to their ability to declare bankruptcy, go out of existence, or transfer authority for some provision of services back to the state. On average 8 municipalities per year for the last 30 years have filed for Chapter 9 protection. The majority of these have gone bankrupt as a result of mismanagement, financial calamity or fraud (McGeee 2011). Now there is increased concern that local governments revenues may not be adequate to meet their regular on-going financial obligations (Christie 2010; McGee 2011).

A second commonality among local systems of government is the frequent lack of a bright-line distinction between the executive and legislative functions of government. This may be the artifact of the formal structure of authority, as with the commission or city manager forms of government, or it may be the artifact of part-time elected officials. In either case, there tends to be a much closer working partnership between the executive and legislative branches of government than is the case at the federal and state levels of government. This has important implications for local budgeting as we will elaborate in greater detail in the following two sections.

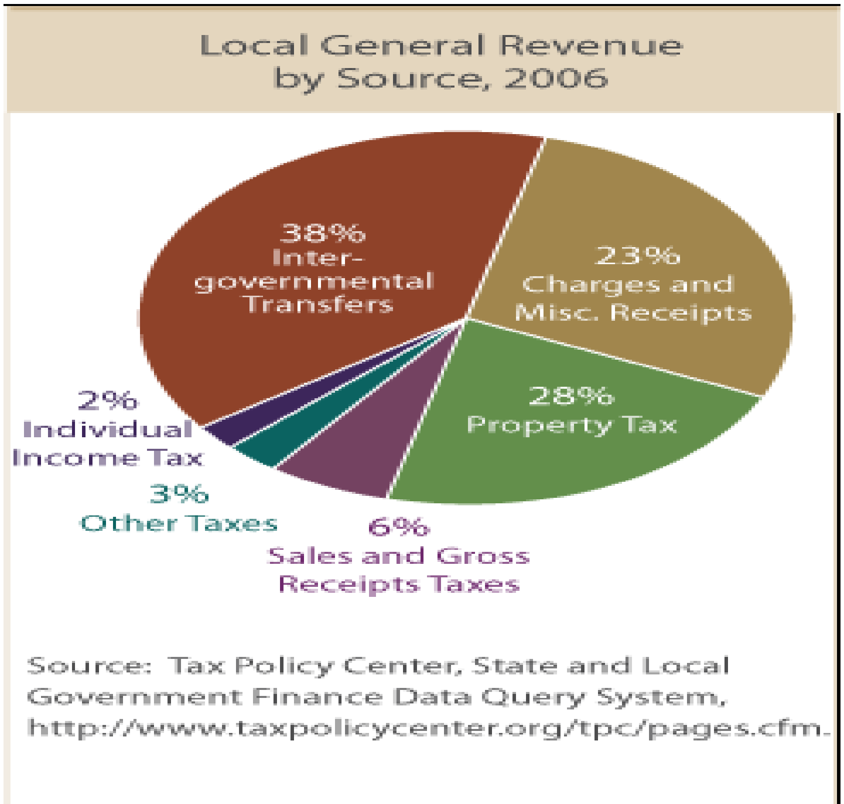
THE PERFECT FINANCIAL STORM: A TRANSFORMATIONAL OPPORTUNITY

The complexity in number and types of local government in the United States and the significant role they pay in funding and providing local services is reason enough to devote a book to local public budgeting. But there is a growing additional reason that local public budgeting deserves special attention. Over the past decade two forces have come together to create the perfect local government funding storm, which we believe will transform our traditional approach to local government budgeting. On the revenue side, local governments are facing growing constraints on their ability to generate revenue. On the expenditure side, there has been an expansion of federal unfunded mandates, employee benefit costs (e.g., health care and pensions), infrastructure deterioration and growth in demand for services that is rapidly outstripping local revenue capacity.

The Revenue Limitations

Figure 1.5 below indicates that nearly 40% of local revenue comes as transfers from the state and federal government and another 30% comes from property taxes. Both of these sources of revenue have fallen dramatically since the collapse of the housing mortgage market in 2008. When combined with the political psychology of increased taxation, local governments face a steep uphill climb in persuading voters to pay more for government services.

Figure 1.5



Property Tax Limitations

The dependence of local governments on property tax revenue hit the wall in 2008 when the private market for home mortgages dropped from nearly 60% of the total to less than 5%. (Phillips 2011). While government guaranteed loans increased, it was not enough to close the private market mortgage gap. In the wake of the Wall Street Mortgage crash in 2008, home values dropped 23 percent in the Phoenix area in just one year. In California's Riverside County, budget officials witnessed an 11 percent drop in property tax receipts. Las Vegas experienced the first property tax decrease in at least 30 years. Since property tax revenue accounts for 50-60 percent of a typical county budget — funding everything from schools and police to trash pickup – many have had to cut personnel and benefits, freeze hiring and require employees to take furloughs in order to balance the budget (National Public Radio, June 11, 2009). Schools are especially vulnerable to the downturn in property taxes. Nearly half of the property taxes collected by counties across the United States go to fund elementary and secondary education (Kenyon 2007). This constitutes about 50% of the total revenue that schools receive, the other half coming from state and federal funding sources (Biddle and Berliner).

As we suggested in our introductory scenarios, local governments may be the most vulnerable to economic downturns. As we will show in greater detail in Chapter 6, the heavy dependence on property tax revenue by local governments has been severely constrained by various property tax limitations put in place by either a vote of the state legislature or by an initiative process of the citizens. This "so-called" taxpayer revolt began in 1978 with the passage of California's Proposition 13, which established a maximum property tax of one percent (1%) of the full cash value of such property. It decreased property taxes by assessing property values at their 1975 value and restricted annual increases of assessed value of real property to an inflation factor, not to exceed 2% per year. It also prohibited reassessment of a new base year value except for (a) change in ownership or (b) completion of new construction. In addition to decreasing property taxes, the initiative also contained language requiring a two-thirds majority in both legislative houses for future increases of any state tax rates or amounts of revenue collected, including income tax rates. Proposition 13 also required a two-thirds vote majority in local elections for local governments wishing to increase special taxes. Variations on Prop 13 have been adopted in 37 states (Mullens and Joyce 1996; Winters 2008).

Decline in State and Federal Intergovernmental Revenue

In addition to limitations on property tax revenues, intergovernmental revenue from the state and federal government is on the decline. In the two years following the 2008 Wall Street collapse, forty-six states plus the District of Columbia initiated major budget cuts, which resulted in the reduction of health care (31 states), services to the elderly and disabled (29 states and the District of Columbia), K-12 education (34 states and the District of Columbia), and higher education (43 states) (Nicholas Johnson, Phil Oliff and Erica Williams 2011).

On the revenue generation side of the budget balancing equation, local jurisdictions have pushed for increased reliance on user fees and the creation of various kinds of special districts that can generate new revenue for identified categories of service. For example, some districts are intended to encourage urban renewal and economic development by reliance on tax-increment financing, a technique that exempts development in the targeted renewal district from property taxes for a specified period of time as an incentive to business investors. Other special service districts provide residents with the opportunity to purchase higher levels of police, fire and other services contingent on their willingness to approve higher levels of property taxes to pay for the services. But these strategies to increase taxes and fees are particularly problematic in populist democracies because of the large gap between the voter psychology governing taxation compared to the psychology governing expenditures (for further elaboration of this issue, see section below: *The Proximity Imperative: The Political Psychology of Taxation v. Expenditures and Their Consequences for Local Government*, p 40).

Expenditure Control Pressures

Local revenue has been increasingly constrained at the very time that there have been a variety of upward pressures on expenditures from employee benefits, increased demand for services and rapidly deteriorating infrastructure.

Employee Benefit and Retirement Programs

Public funded employee benefit costs (retirement and health care) has become a cause célèbre since the crash of the Wall Street mortgage market and will continue to receive front page attention for the foreseeable future. This is because the current liabilities of the 2,550 state and local government retirement systems cannot be sustained at their current rate of funding. While most of the attention has focused on state retirement programs, there are 10 times more local retirement systems than there are state systems (2,372 compared to 218), although they comprise only 11% of the eligible beneficiaries participating in state and local retirement programs (http://www.census.gov/govs/retire/2008ret05a.html). There is no evidence that these local retirement systems will be able to meet their future liabilities any better than the state systems.

In 2010 The Pew Foundation undertook a study of state and participating local government retirement and benefit systems. It concluded that the total accrued retiree pension and nonpension benefits totaled $3.35 trillion but only $2.35 trillion (85%) in assets have been set aside. This leaves a trillion dollars of unfunded liability (PEW Foundation 2010). Some studies have pointed out these retirement benefits enjoy protected legal status, much like one's personal property, and therefore cannot quickly or easily be reduced. Taking this factor into account means that a lower discount rate should be used to calculate the unfunded retirement and benefit liabilities of public entities. Doing so increases the liability to more than $3 trillion (Collins and Rettenmaier 2010, 5).

Whether one uses PEW's admittedly conservative number or the higher number that uses a lower discount rate, it still leaves local governments with serious long-term expenditure control issues.

Local Government Infrastructure

At the eye of the perfect local budget storm (decreasing revenue and increasing expense) is the financing of local government infrastructure, which is in a serious state of disrepair. The American Society of Civil Engineers (ASCE) has maintained an inventory of the growing infrastructure needs that exist at the federal and local levels of government throughout the United States. They have estimated the following gaps that are summarized in figure 1.6 below:

Figure 1.6

Estimated 5-Year Investment Needs in Billions of Dollars

Category	**5-Year Need (Billions)**	**Estimated Actual Spending***
Aviation	87	45
Dams	12.5	5
Drinking Water and Wastewater	255	140
Energy	75	34.5
Hazardous Waste and Solid Waste	77	32.5
Inland Waterways	50	25
Levees	50	1.13
Public Parks and Recreation	85	36
Rail	63	42
Roads and Bridges **Discretionary grants for surface transportation**	930	351.5
Schools	160	125
Transit	265	66.5
	2.122 trillion*	**903 billion**

Total Need $2.2 trillion **

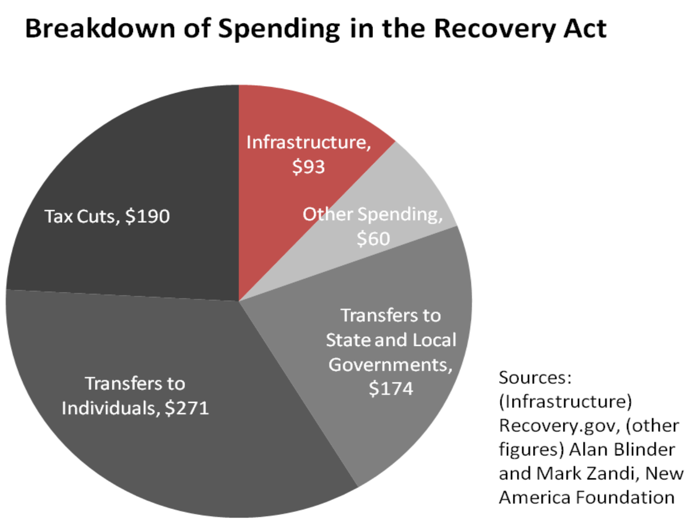
* Not adjusted for inflation
** assumes a 3% rate of inflation

The ASCE estimates the total infrastructure costs to be over $2 trillion to maintain and improve roads, bridges, transit systems, airports, ports, schools, water works, sewers, dams, solid waste disposal, and more. That includes $930 billion to improve roads, highways, and bridges; $265 billion to improve and build mass transit systems; $87 billion to expand and modernize airports; $160 billion to bring school facilities up to good condition; $255 billion to improve the drinking water infrastructure; and $255 billion to improve wastewater systems to meet the projected needs of the U.S. infrastructure (American Society Civil Engineers 2011).

In 2002 the U.S. Congressional Budget Office estimated that for the years 2000-2019, the annual costs for investment in the nation's water and water systems range will average between $24.6 billion and $41 billion. The CBO projected that the annual costs (in 2001 dollars) over the period for operations and maintenance (O&M), which are not eligible for aid under current federal programs, will average between $25.7 billion and $31.8 billion for drinking water and between $21.4 billion and $25.2 billion for wastewater (CBO 2002) . What is troubling about these numbers is that the local government gap between infrastructure funding and replacement needs is widening at the very time that the national government is shifting increased attention away from infrastructure support to local government and toward reducing the federal deficit. This is illustrated by the allocation of funds under the American Recovery Act of 2009.

While spending money on infrastructure has traditionally been viewed by many economists as a sound strategy for priming the economy during periods of downturn, contrary to public perceptions, only a small portion of the American Recovery Act of 2009 was dedicated to infrastructure investment. According to calculations by the New American Foundation, a nonprofit policy institute in Washington D.C., of the $787 billion originally allocated for the Recovery Act, only about $92.5 billion was spent on infrastructure, or roughly 12% of the final package. The majority of the funding provided by the Act took the form of tax cuts, transfer payments to individuals, and assistance to state and local governments, as is illustrated in Figure 1.7 below (Sherridan 2011). While President Obama's 2012 budget proposal to Congress included increased spending for selected infrastructure programs designed to bolster the nation's economic competitiveness, there is little reason to believe that local government infrastructure needs will receive significantly increased and sustained support in the coming years from the federal government as it struggles to reduce the federal deficit.

Figure 1.7



What makes the local infrastructure issue so problematic is the decline of the municipal bond market triggered by the Wall Street crash of the home mortgage market in 2008. Traditionally, local governments have sold bonds to fund such things as roads, sewer systems and government buildings. Because they are guaranteed by the general fund revenue from property taxes or the rates charged to sewer and water customer, municipal bonds have been traditionally viewed as nearly risk free. But that is no longer the case. Today state and local government debt is now at an all-time high of 22 percent of the U.S. Gross Domestic Product (GDP). Unlike the federal government, if state and local governments want to spend more than they bring in, they must borrow it from investors. But if investors believe that governments can no longer pay off the bonds, instead of borrowing, local jurisdiction will have to raise taxes and/or dramatically reduce services. Many argue that this is a strategy that local governments will readily pursue in order to preserve their ability to maintain a high bond rating from private sector investors (Hunsberger 2011). The average citizen is largely unaware of the indirect interactive consequences that bonding authority has on local public budgets.

Expenditure Reduction Strategies

As local revenue has declined and expenditures increased, local jurisdictions have resorted to a various cost-cutting strategies to complement new revenue-generation strategies discussed in the previous section. On the cost reduction side of the equation, local governments are making greater use of intergovernmental agreements with other jurisdictions, contracting out for services (Cooper 2003) and new outcome-based performance and management strategies to reduce administrative transaction and overhead costs (Osborne and Hutchinson 2006). Many of these initiatives are treated as part of the New Public Management movement to find ways of "making government run like a business" (Osborne and Gaebler 1994; Osborne and Hutchinson, 2004).

Intergovernmental agreements are increasingly common legal agreements among local jurisdictions to share police, fire, fleet maintenance or to take advantage of bulk purchases for materials and supplies. Some jurisdictions may be too small to provide specialized services, whether it be a library, convention center, or a public transportation system. One local jurisdiction even used an intergovernmental agreement to share a director of budget and finance.

Each jurisdiction by itself could not afford to pay a competitive salary to attract the kind of experienced administrator needed to deal with pressing and complex local finance issue, but together they could offer a competitive salary.

It is has become increasingly common for local governments to contract out solid waste, custodial services, building maintenance, food services, construction projects, computer services, transportation services, mental and public health. It is less common to contract out public safety, human resources, library services and the core management functions of a jurisdiction. But there are growing examples where local governments are contracting out the entire management of all city services, except for public safety. For example, in 2005, Atlanta's Sandy Springs contracted out its city functions to CH2M Hill. The city entered into a five year contract for $27 million per year for the first two years with results that leaders claimed had "created a new model for 21st century municipal government". At least a dozen other communities in the Atlanta metro area were inspired to follow the lead of Sandy Springs and hire private contractors to run their cities. "I think everybody across the country, from the federal level down to state and local, are seeing that resources are becoming harder and harder to come by, and you have to start doing things differently," says Sandy Springs City Manager John McDonough. "You can't just keep raising people's taxes. That was not a model Sandy Springs wanted. They wanted fiscal restraint and accountability, and that's what this model (has provided them" (Peisner 2006).

While few local jurisdictions have been pushed to the extreme exemplified by Sandy Springs, the majority has joined the wave of reform over the last decades to implement what have come to be called "outcome-based" or performance management (Osborne and Hutchinson 2004). The notion is fairly simple in principle. Instead of focusing all of one's energies on managing the dollar costs of an activity and the rules to ensure process compliance, managers are encouraged to shift the focus to performance outcomes that can be measured. Commonly identified with the “new public management movement” this strategy is said to result in the elimination of unnecessary rules and process controls that reduce costs, increases both efficiency and effectiveness and result in much greater customer satisfaction. A new cottage industry of consultants has been spawned by this “results-oriented” expenditure control strategy.

While local governments face a variety of financial challenges that will require forceful and creative leadership in the decades ahead, there are good reasons to be optimistic. As we will argue in the sections to follow, local governments are blessed by a long tradition of taking initiatory responsibility and they posses systems of government that promote the co-production of solutions among elected officials and career administrators in collaboration with community partners.

THE UNIQUE POLITICS OF LOCAL PUBLIC BUDGETING

A third reason to give special attention to local public budgeting is that in most cases “the politics” of the budgeting process is quite different at the local level from the politics at the federal level. The classic view of public budgeting at the federal level is that it is governed by the interplay of major large and well organized interest groups. Over the course of his remarkably productive and highly influential academic career Aaron Wildavsky explicated the “interest-based” political logic that drives the federal budgeting process (Wildavsky, 1993; 1984; 1978; 1966; 1961). It is a logic that can best be understood in term of “interest group” politics that dominate the policy and budget allocation process at the sub-government level of the U.S. Congress. Scholars have documented the key role played by a predictable coalition of vested interests that include key lobbying groups, elected officials and agency career public servants who make the decisive policy and budget appropriation decisions at the subcommittee levels of Congress. Once an agreement is reached among the vested interest groups making up the "iron triangle" (i.e., elected officials, agency administrator and lobbying group) to fund an activity, it becomes very difficult to make significant changes from one year to the next. This dynamic is one of the major explanations of the "incrementalism" that characterizes the federal budgeting process and is put into operational practice through the principles of "base budget" and "fair share" increases and decreases from the base, depending on whether spending is on the rise or is on the decline.

While there are variations on this model,[4] scholars are in fundamental agreement that the "truth of the matter" about the federal budgeting process over the last half century is that it is largely controlled by "peak" interest groups who use their relationships with administrative agencies and the subcommittees of Congress to form coalitions to ensure successful passage of legislation (authorization) and the funding to support it (appropriations). This process serves the re-election interests of political officials and the administrative interests of bureaucrats whose demand for services by clients almost always exceed their capacity to meet.

Based on our own experience with many different types of local public budgeting processes, our work as consultants, and our role as faculty teaching career public administrators, we believe there are three major factors that create a different political logic at work in most of the nearly 89,500 local government jurisdictions. First, local governments are closest to the citizens and more accessible in bearing the burden of frustration that citizens experience in paying their taxes. Second, the large number of local government jurisdictions at the local level encourage a spirit of cooperation. Third, most local governments have a different political structure than the tri-partite systems of checks and balances and separation of powers that exists at the federal and state levels of government. This system encourage greater cooperation between the legislative and executive functions of government. Taken together, these factors create a different political logic that governs the budgeting process than is the case at the federal level. We will discuss these differences in more detail in the sections that follow.

The Proximity Imperative: The Political Psychology of Taxation v. Expenditures and Their Consequences for Local Government Budgeting.

> In a democratic society, the division of resources between the public and private sectors is roughly determined by the desires of the electorate. But because it is such a complex and time-consuming task to acquire adequate political information, the electorate is chronically ignorant. . . . This ignorance causes governments to enact budgets smaller than the ones they would enact if the electorate possessed complete information. . . . The resulting misallocation of resources becomes more and more serious as the economy grows more complex [**and as government becomes more populist]**. (Anthony Downs 1960, 76, emphasis added by the authors.)

Anthony Downs reminds us that there is an important psychological dimension to the public budgeting process. Because citizens have a high level of ignorance over both what is in the budget and what benefits the budget items are intended to achieve, the majority will always opt for the trade-off of spending the money themselves rather than have it spent by elected officials on unknown activities with uncertain benefits. This is another way of saying that the economic rationality of the budgeting process is less important to the electorate than the political rationality of whether the citizens think they are “getting their money’s worth”. Since the benefits of the budget are indirect and longer term, it is hard for taxpayers to believe that government is doing all it can to eliminate waste and reduce spending on programs that are out of alignment with their personal priorities. This places a very heavy burden on public officials to educate the citizenry as to what is in the budget and what benefits are achieved with the dollars that are being spent. As we will see in Part III of this book, which focuses on budgeting formats, much of the history of public budgeting is driven by a desire of professional experts working for the executive branch of government to make use of their analytic expertise and training to ensure that the taxpayers are getting their money's worth in terms of issues of efficiency and effectiveness. But Downs suggests that no matter how successful public officials may be in undertaking this challenge, they will never be fully successful in overcoming the relative ignorance of the electorate of both what is in the budget as well as the benefits that are provided by public expenditures.

Citizen anxiety over taxation and spending is not only the result of the rational calculation of individuals, it is also an issue of political principle that goes to heart of America's founding. As Madison observed in the *Federalist Papers,*

> Tax laws have in vain been multiplied; new methods to enforce the collection have in vain been tried; the public expectation has been uniformly disappointed, and the treasuries of the States have remained empty. The … popular government, coinciding with the real scarcity of money incident to a languid and mutilated state of trade, has hitherto defeated every experiment for extensive collections and has at length taught the different legislatures of the folly of attempting them (*The Federalist* No. 12, 92–93).

Madison's reminder that you can't substitute taxation for wealth generation without undermining the legitimacy of government itself continues as a central political problem for all government leaders, but especially those at the local level of government where control over the conditions of economic prosperity are severely limited. Unable to do much about economic development and limited by what can be collected from property taxes even when development is robust, public officials are left with the difficult task of triaging and coordinating efforts among multiple jurisdictions to assuage the concerns of taxpayers (see opening scenarios). Even 150 years ago, DeTocqueville was struck by the general "stinginess" of American citizens. "To judge what sacrifices democracies know how to impose on themselves, we must therefore await a time when the American nation is obliged to put half of the revenue from goods into the hands of its government, like England (Alexis de Tocqueville 2000, 213). That has not happened. In fact, some public opinion polls show that the average citizen's overall "willingness to pay" is around 40% of their gross income (Need Hibbits citation here).

The Local Government Cooperation Imperative

In addition to the challenge of having to produce and maintain a budget that balances expenditures with revenues, local officials have the additional challenge of managing the competition among multiple jurisdictions for the "taxpayer's willingness to pay". Deciding how to coordinate and sequence the various requests for increases in the revenue streams across multiple jurisdictions creates extra governance challenges for local officials. For example, if three separate governing bodies decide to ask the taxpayers for approval of new bond measures at the same election or during the same budget process, they all may risk failure if they do not coordinate their conversations with taxpayers to apprise them of what is happening, why and the collective contributions to the public interest that results from their support of special revenue measures to fund public service. Or the public officials may simply decide to have these conversations at different times with the citizens by sequencing their approval requests for additional revenue over a period of years. In either case, there is a need for local governing bodies to coordinate their interface with a common pool of taxpayers and to demonstrate their "good faith" efforts to maximize the use of scarce resources through visible signs of cooperation.

Local Government Partnership Between Elected Officials and Career Administrator

As the above discussion of the various forms of local government makes clear, one of the important characteristics that many local governments share in common is that they are governed by part-time elected officials who may receive little or no pay for their work. As a result, career administrators bear an especially heavy burden of successfully managing the relationship with community stakeholder groups and between elected officials and career administrators. Managing these relationships is especially difficult in the United States because of the deep and long-abiding distrust of government in general and public officials in particular (Karl 1987; Morgan, et al 2008, Chapter 4). Citizen are not certain that they can trust their government officials to be good stewards of their tax dollars, especially when these officials are perceived as having a self-interest in growing their programs and organizations. There is a large and well developed body of research that seeks to describe and explain how this tripartite set of relationships among citizens, elected public officials and career administrators is most successfully managed. [5] The difficulty of being successful is reflected in the relatively short tenure of city and county administrators. The International Association of City and County Managers Association (ICMA) reports that the average tenure for city and county managers was 7.5 years in 2006.

(http://icma.org/main/bc.asp?ssid1=2868&ssid3=2868&from=search&hsid=9&bcid=812, accessed May 2009).

While public officials at the federal government level also have to deal with the same challenge of managing the conflicts between the "pains and fairness" of revenue generation with the public demands for services that usually exceed revenue, there are two important differences that distinguish local from national government budgeting. First, the federal government has the legal authority to carry deficits, while all state and local governments have to create and maintain a balanced budget. While local governments can borrow money, as we will see in Part II, the constraints on local governing units are far more stringent than is the case with the national government.

Taken together, we believe the psychology of getting and spending money, the number and kinds of local governments and the "fused power" structure of authority that characterizes most of these forms creates a different political logic that distinguishes the "politics of local budgeting" from the "politics of budgeting" at the federal and state levels of government. A combination of reliance on professional career administrators, part-time elected officials, the requirement to create a balanced budget, nonpartisanship and proximity to citizens result in greater reliance on performance data, planning, and the expertise of professionals than is the case at the federal and state budgeting levels. This creates an especially important moral burden, which we will discuss in greater detail in the following section and in Chapter 2.

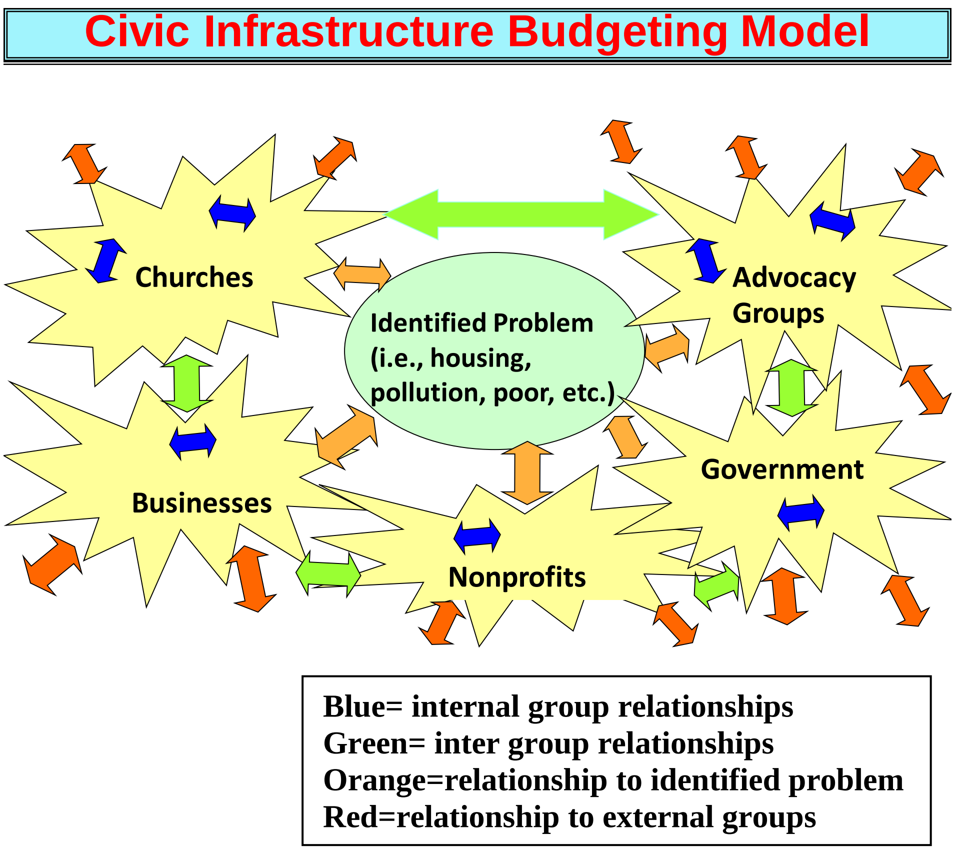
POLITY BUDGETING: BUILDING LOCAL COMMUNITIES

A fourth and final reason that local public budgeting deserves to be treated separately is that local government leaders are not simply budgeting for the government; they are budgeting to achieve the larger good of the community. While this can also be argued for those involved in the federal and state budgeting processes, the common community good is more tangibly visible at the local level, where decision makers are in face to face relationships with nonprofit service providers, other jurisdictions and the business community on a regular basis. The common good is less of an abstraction and is less capable of being reduced to ideological principles or formulaic solutions to budget constraints. It is easier for citizens to see the tangible results of budget cuts locally than those that result from the consequences of decisions trickling down from state and federal budgeting levels. With most state and federal grant funds, the target populations who are helped or hurt by funding decisions are less visible, not always well organized and benefit from a layer of professional career administrators who serve as a buffer that obscures and tempers the adverse consequences for the local community. Ultimately, when these efforts by the professional cadre of grant administrators cannot quietly solve the problem created by reduced funding, local officials have to engage the community in discussions about how best to deal with decreased federal and state funding.

We call this budgeting for the common good “polity budgeting”. By polity we mean the organic wholeness of a political system that contributes to the distinctive way of a life of a political community. It emphasizes the synergistic influence of history, institutions, and culture in creating a shared system of values, and shared agreement on governance processes and structures, both formal and informal. Over the past decade there has been a resurgence of scholarship that uses “polity” or “regime” as the unit of analysis for understanding political change, governance and leadership development (Rohr 1989; Morgan, et. al. 2008; Ozawa, 2005; Soltan and Elkins; Johnson, 2002; Stone 1989; Leo 1997, 1998; Lauria 1997). Our use of the term polity throughout the book is consistent with this scholarship. It is also consistent with what others have described as “networked governance (O’Toole 1996, 2006.), which is illustrated in Figures 1.8 and 1.10 below.

In figure 1.9 we illustrate a local problem that needs attention. It could be housing for a given target population; it could be social services for the mentally ill; it could be crime. Pick your favorite. This book argues that local governments will increasingly be called upon to use

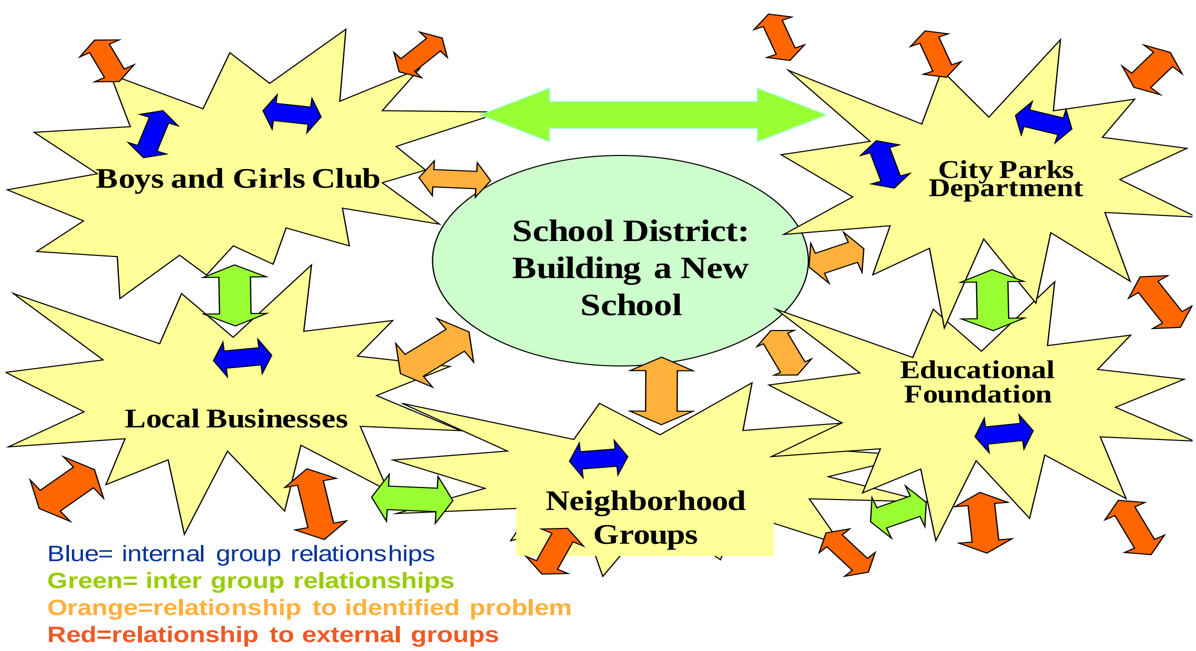
Figure 1.8



their budgeting process, not necessarily to solve the problem by themselves, but to play a leadership role that leverages all of the assets in the community to maximize the community good. Notice that the government sits as equal partner in figure 1.9 with other institutions in the community. This contrasts with Figure 1.10, where a governmental entity is taking the lead to enlist the support of other partner organizations and institutions in the community to leverage scarce resources. Our opening scenario on building a new school illustrates this kind leveraging role. The school district enlists the support of the City, the Boys and Girls Club, members of the business community, neighborhood associations and a school foundation to generate sufficient funding to leverage resources to build a new shared multiuse facility that is jointly funded by a

Figure 1.10

The Relationship Between the Public, Private, Nonprofit, and Special District Sectors [6]



variety of community partners. In both types of polity leadership illustrated in figures 1.9 and 1.10, budget officials are required to coordinate resource across interjurisdicctional units of government to include actors in the market economy as well as in the nonprofit civic sector. Polity budgeting requires local government officials to bring both an intersectoral and an institutional and perspective to their budgeting roles. We will elaborate more fully on each of these components of polity budgeting in the following two sections.

The United State posses a mixed economy which relies upon the contributions of the public, private, nonprofit and special district sectors to contribute to the common good of the community. No one sector can be counted on to do it all. This simple principle is the foundational underpinning of American democratic governance and is legally recognized in our state and federal constitutions, statutes, rules and judicial opinions. The private sector has confidence that its private property will be protected and that businesses have constitutionally protected rights to advance their interests in the political process. The nonprofit sector enjoys special legal recognition at both the national and state levels of our political system, including exemption from taxation on its income at the federal level and in all but six states. Citizens are free to join these organizations, knowing their rights of association and advocacy will be protected. And if these outlets for meeting the collective needs of groups of individuals are not adequate, citizens in most part so the United States can exercise their political rights to form special governmental units if their general purpose governments are not responsive. This legal system has produced a complex array of entities that make a contribution to the larger public good.

The variety and complexity of the mixed economy can produce confusion about the role of the parts and how the parts contribute to the larger common good. To simplify this complexity, in Figure 1.11 below we have summarized the essential differences among the sectors based on how they arbitrate value differences and the breadth of interests they serve. As figure 1.11 illustrates, the private sector negotiates value differences through the market, and its interests are parochial. The interests of the nonprofit sector, on the other hand, are usually regarded as part of the larger common good. Special districts and general purpose public bodies arbitrate value differences through the political process, but differ in the scope of interests they embrace. Special districts are established to pursue parochial interests in contrast to the broader common interests of general purpose governmental units. The distinctive characteristics summarized in Figure 1.1 are not meant to be exhaustive; they simply illustrate that each of the sectors has its own logic, and that there is complex interplay among these sectors, marked by mutual dependence in serving the larger common good.

Figure 1.11
Institutional Forms

		Scope of interests	
		Parochial	Common
How values are arbitrated	Political	Special Districts	Public Agencies
	Market	Agencies and Firms	Nonprofit Organizations

The public sector plays a pivotal role for private, nonprofit, and special district organizations. Markets cannot sustain themselves without a stable infrastructure of roads, communication systems, defense systems that protect and maintain international lanes of commerce, banking systems that provide security for loans, a legal system that enforces contracts, and a regulatory system that stabilizes the rate and complexity of change in markets as well as their relations with consumers and communities. The nonprofit sector also relies on this infrastructure, depending heavily upon the grants, contracts, and other forms of sponsorship by governments at all levels, not to mention its privileged tax exempt status. The elaborate legal and procedural environment of many governments helps provide stability for the other sectors, but it also presents impediments to highly efficient operations. Private sector firms and nonprofit organizations enjoy substantial advantages over the public sector in this regard.

The private sector's concern for innovation, creativity, and customer satisfaction is assumed to be the best mechanism for efficiently maximizing the allocation of society's resources. This may be the case, as long as the goals of society are compatible with those of individuals, and the demands of customers can be arranged to induce a market response. But there are numerous instances when these private marketplace conditions do not exist. The following are the most common examples of market failures or exceptions that have provided justification for public sector intervention: (1) the provision of "public goods," such as national defense; (2) the amelioration of some of the "diseconomies" or "externalities" of collective action, pollution of the environment and drug abuse among them; (3) the avoidance of "tragedy of the commons" problems, such as natural resource depletion; (4) reaping the collective benefits of "public economies," such as education and early childhood development programs; and (5) taking advantage of "natural monopolies," such as water, sewer and other public utilities. In these and other instances, the public sector is encouraged to intervene in the private market place in the interest of promoting greater equity (Okun 1975; Wanat 1978, chap. 2).

Neither the public nor the private sectors are as capable as the nonprofit sector in meeting individual clientele needs with the least amount of rules and costs to the client. Soup kitchens and shelters for the homeless, runaway youth, and domestic violence victims rarely require clients to meet some extensive eligibility requirements. Those who provide these kinds of services to target populations are passionate about what they do, and this passion—combined with flexible, adaptive approaches to care—is clearly reflected in the quality of treatment that is extended to each person in need. Because of these factors, more service can usually be provided for fewer dollars than is the case with either the public sector or the private marketplace. Nonprofits are also created in response to a variety of impulses, including government failure to provide sufficient public goods (for example, United Way), the American tradition of self-help (for example, Alcoholics Anonymous), or out of a commitment to help others (for example, Catholic Charities).

Special districts offer still another alternative to providing public services. Unlike general purpose governments that administer a broad range of services, special districts are established to administer one specialized activity on a "cost of service" basis. Fire, hospital, police, water, sewer, library, and other services can be provided by creating a unit of government whose sole purpose is to administer that service at a specified cost to each member of the district. The advantage of this approach is twofold: it allows citizens to purchase additional levels of service that government may not be able to provide, and it controls the price they are willing to pay. One of the disadvantages of special districts is that they further balkanize public service delivery and allow those with more financial resources to obtain more and better service than the poor. Under such circumstances, it becomes more difficult to build a shared sense of the common public or community interest (Burns 1994).

In short, the public, private, nonprofit, and special district sectors are suited to perform quite distinctive tasks. It is important for local public budgeting officials to know what each sector can do particularly well and why, as they increasingly reach out across the sectors to obtain assistance in rethinking how to budget for the common good. The distinct characteristics of each sector are summarized below in Figure 1.12. The summary is not meant to be exhaustive, but simply to illustrate that each of the sectors has a logic of its own, and that there is complex interplay among the sectors with mutual dependence of one upon the other. These characteristics also have important implications for shaping the ethical obligations of those responsible for

Figure 1.12

Comparative Characteristics of Sectors

Private Sector	Nonprofit Sector	Public Sector
Mission driven	Clientele driven	Legal/rule driven
Results oriented	Needs oriented	Process oriented
Entrepreneurial	Meeting needs with few rules and questions asked	Bureaucratic
Motivating others for high performance	"Doing the right thing"	Constitutional agent of a sovereign power
Customers	Target populations	Citizens
Flexibility	Service	Control
Innovation	Flexibility for target population	Following rules
Customer satisfaction	Clientele needs	Citizen rights and responsibilities
Incentives	"Doing good"	Regulations
Employee empowerment	Voluntary commitment	Hierarchy
Delegation of authority	Informal coordination	Centralization of authority
Self-interest	Responsibility	Accountability
Interests	Values	Rights
Preferences	Needs	Equity
Profit	Moral duty	Duty to the law

budgeting for the common good. We will illustrate this more concretely in the next section where we focus on the special role of nonprofits in the local public budgeting process.

The Special Role of Nonprofits in Polity Budgeting

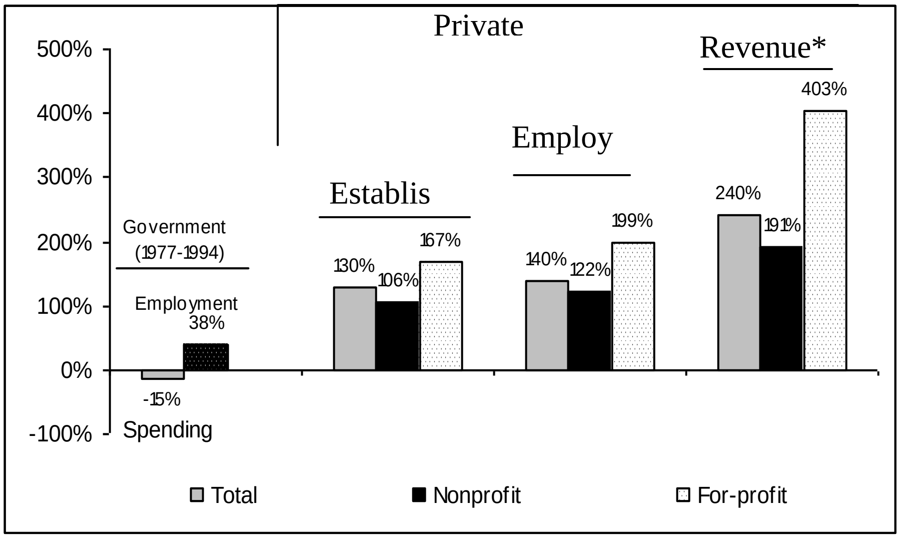
An important but largely ignored development over the last several decades has been the rapid rise of nonprofits in providing local services to the community. This is a result of an important shift that has occurred in the role of government in funding social services. Federal Government spending on social services increased by 259 percent in inflation-adjusted dollars between 1965 and 1980 (Salamon 1999, 61). But, beginning in the 1980s, government spending began a sharp reversal and experienced a 15 percent decline in inflation-adjusted dollars between 1977 and 1994 (116).

Despite the decline in government funding, support for the social service sector continued to grow as a result of the increased role played by the nonprofit and for-profit sectors. For example between 1977 and 1992 (116):

- Private social service agencies grew by 130 percent.
- The number of employees working for these agencies grew by 140 percent.
- The revenues of these agencies rose nearly 240 percent above what they had been in 1977, even after adjusting for inflation.

Figure 1.13 summarizes the key trends in social service delivery between 1977 and 1996. The paradox of declining government support and expansion of spending is explained by the shift of service provision to nonprofits and the private sector, which relied increasingly on fee income and greater support from private giving. By 1996, "fees came to outdistance both government and private giving as a source of nonprofit human service agency income" (Salamon 1999, 117). As of 1980, "approximately 25 percent of all government spending in the fields where nonprofit organizers were active flowed to such organizations" (63). In Massachusetts, the dollar amount of purchase-of-service contracts with private nonprofit service agencies more than doubled between 1977 and 1981, increasing from $36 million with 380 contracts to $84 million and over 1,000 contracts (Smith and Lipsky 1993, 56). In addition to these service contracts, federal block grants and federal programs providing funding for Head Start, runaway shelters, and an extensive array of other social services have been funneled to nonprofit organizations.

Figure 1.13



Source: Salamon 1999, 116.

What are the consequences of this enlarged role for nonprofit organizations in becoming major providers of public goods and services? From one point of view, it represents the triumph of America's reliance on associations to achieve the common good of the community. Huge numbers of volunteers become enlisted in this effort and in the process, to quote de Tocqueville, "sentiments and ideas renew themselves, the heart is enlarged and the human is developed" (de Tocqueville 2000, 491). But from another perspective, the mutual dependence of government and nonprofit organizations raises significant questions. Smith and Lipsky ask, "If the state no longer directly delivers services, but authorizes private parties to conduct its business, where shall we locate the boundaries of the state? Massive contracting for services should also have significant implications for the limits of government and the autonomy of nongovernmental community affairs…. More dependence on nonprofit organizations means not less but more government involvement in the affairs of voluntary and community agencies. . . ." (Smith and Lipsky 1993, 5).

Why is it the case that more contracting out is likely to undermine rather than strengthen the nonprofit sector? To answer this question, we need to return to the distinctions made in the previous section between the public, private, and nonprofit sectors. The public sector's emphasis on providing maximum service to as many citizens as possible conflicts with the nonprofit sector's emphasis on providing as much service as possible to its chosen clientele population (see Figure 1.12). In addition, the public sector is held to a different standard of accountability than the nonprofit sector. The dual principles of equity and accountability for public sector officials create an incentive to write contracts that require nonprofit organizations to deliver specified levels of service to given numbers of clientele with the dollars available. To accomplish this goal, nonprofits may have to alter their mission to accomplish the specifications of the contract. For example, instead of providing homeless shelter services to a given client for as along as it is needed, the nonprofit may be required to restrict the service to a client in order to meet its contract goals with respect to target numbers. It may even be subject to direct control by government "over admission, treatment and discharge decisions" (Smith and Lipsky 1993, 229, 122–132).

In addition to the need for a nonprofit to rearrange its service mission to accommodate the specifications of a contract, the accountability requirements of the contract may require the agency to hire professionals in accounting, financial management, personnel, and fundraising in order to meet its elevated eligibility standards and reporting procedures. This pressure to professionalize the management of nonprofit organizations can displace volunteers, thereby losing much of the passion, flexibility, empathy, and singleness of focus that they bring to such organizations (Smith and Lipsky 1993, 83–87, 100–108).

There is a final, unintended consequence of government's reliance on the contracting process as a substitute for providing direct service. As public dollars have become scarcer, there is pressure on the contracting process to squeeze greater results from the contactors. As a result, nonprofit service providers are being asked to deliver more for less, as are government agencies in general. When this occurs in the private business sector, the results are quite predictable, and so is the case with nonprofit organizations. To meet this demand for greater economies and efficiencies, nonprofit organizations have consolidated and merged their operations, leaving many fewer providers in the community than in the past (Smith and Lipsky 1993, 177–182). Smith and Lipsky conclude that the nonprofit sector now reflects "a shift . . . from the informal to the formal care systems, greater homogeneity of service within particular service categories, a diminished role of the board of directors in agency governance, and destabilization among nonprofit agencies" (215). In short, they have become more instrumental than constitutive in their mission and culture, and are thereby weakened in their ability to promote citizen engagement in governance. Those responsible for the public budgeting of services play a decisive role in not only providing efficient and effective services but doing so in ways that preserve the vitality of local communities, including the ability of nonprofit organizations to perform their distinctive role in contributing to the common good. For this reason, we believe it is important for those who are responsible for local budgeting to thinking institutionally in their approach to budgeting for the common good. What does it mean to think and to act institutionally? We will address this question in the final section on polity budgeting.

Importance of an Institutional Perspective

As we have argued in this section on polity budgeting, local officials will be increasingly required to enlist the support of others across jurisdictional and organizational boundaries in promoting the common good through the exercise of their discretion in the budgeting process. This boundary spanning leadership requires identifying long-term partners who have acquired the trust and legitimacy of the community. These types of partners are frequently an integral part of what citizens associate with the very identity of the community itself and because of that enjoy institutional status, not just an organizational identity. As Phillip Selznick has argued "[i]nstitutions are established, not by decree alone, but as a result of being bound into the fabric of social life" (Selznick 1992, 232).

This process of institutionalization establishes cultural identity that makes the whole greater than the sum of an organization's parts. The Green Bay Packers, for example, mean far more to their fan base and their community than winning games and making money. The team engenders ways of dressing, conversing, and of living in anticipation of, and during, the season. It is literally and figuratively "owned" by the community. It is the pride of the community. Likewise, the transformation of a set of religious practices into something like the Catholic Church, the development of the market economy in the United States, and the role of the U.S. Forest Service in public land management exemplify public institutions built through such processes. And they illustrate why institutions have to be understood historically in order to fully grasp their significance. Every local community has its own examples of such entities

There are at least three major advantages to taking an institutional approach to local public budgeting: it greatly influences our understanding of how change occurs; it significantly improves our understanding of the interface between public and private sector activities; and it enriches our understanding of the processes for generating legitimacy. All three will be increasingly important for those who have local public budgeting responsibility. The future will require local budget leaders to redefine the government's role in promoting the common good in partnership with institutional leaders across multiple sectors. In order for this change to add up to a difference that counts and to acquire legitimacy, it must be embedded in the institutional agents who can hold and sustain these agreements over time.

As the lead partner in this process of redefining what the community values, it is important for local public officials to be clear about the ethical role responsibilities they have as agents of a rule of law system bounded by state and federal constitutional and statutory authority. Since many of these officials operate within a fused "fused power" model similar to a parliamentary system (e.g., weak mayor, city manager, commission), the ethical role of administrators in the budgeting process is confusing and frequently conflicting. It certainly belies the traditional bright-line distinction between the legislative and executive functions. How do these local forms of government "square" with the conventionally held view of American democracy where responsibility for policy development is lodged in the legislative branch and responsibility for policy implementation is the purview of the executive branch? What "legislative role" does the city manager play with part-time elected officials? How do commissioners who hold both legislative and executive functions balance these roles in ways that ensure legislative responsiveness while also giving appropriate attention to the executive capacity to implement policy with energy, effectiveness and efficiency? These are questions we will address in the next chapter on Public Budgeting and Democratic Governance.

In subsequent chapters we will use the model of democratic government presented in Chapter 2 to inform our discussion of local public budgeting. The *Handbook* is divided into four sections. Section I examines three foundational elements critical to understanding why the process works the way it does: 1) the competing purposes a budget is intended to serve; 2) the consequences of the budget cycle for all participants; and 3) the conflicting perspectives of the budget actors. The central question raised by Section I is: What is the best way to manage the allocation of scarce resources in the face of diverse opinions on complex issues that have to be decided in a short period of time? This is the basic question that all public budgeting processes have to succeed in answering.

Section II focuses on the role that revenue sources and estimation play in the budget allocation process. This has become an increasingly important issue, especially since the establishment of new legal limitations that have been placed on revenue sources in Oregon through the initiative and referendum processes.

Section III explores a variety of budget formats that are used to help solve the allocation problem that emerges from Section I. The various formats of line item budgeting, program budgeting, performance budgeting, and zero-based budgeting represent different decision criteria and what counts for evidence in resolving the problem of allocating scarce public resources. At the heart of this discussion is the question of whether analysts and program managers should have a major say in answering this question or whether the decision should be left primarily to elected officials. We return in the Conclusion of the Handbook to address this question in the context of our system of checks and balances and separation of powers.

Section IV focuses on budget control and implementation. This is the shortest of the sections, not because it is less important, but because it is governed by a combination of technical protocols and practices that are idiosyncratic to each organization and jurisdiction.

We conclude this chapter with some final reflections on the purposes of this Handbook. Our goal is to show how the budgeting process and the role of its participants contribute to the overall functioning of our many systems of local democratic governance. We argue that our system of checks and balances and separation of powers necessitates a strong role for career administrators, citizen activists, elected officials and technical experts. This view does not do much to help resolve conflicts in the budgeting process but it reframes the conflicts so that they are seen as a natural and necessary byproduct of our peculiar form of democracy. We believe this "reframing" has a sobering influence on expectations. By viewing conflicts as an important part of the process of our system of democratic governance, participants are less likely to see conflicts as artifacts that can be made to disappear through the magic of budget reform or restructuring. The Handbook is thus intended to serve as a corrective to the corrosive consequences of the truncated perspectives of participants in the public budgeting process. The Handbook is not designed to make one a technical expert on budgeting. Instead, it is written with the following three specific goals in mind:

1. to help participants understand the overall logic of the public budgeting process and the respective role performed by each of the participants;
2. to provide the reader with a historical understanding of the limits and possibilities for budget reform initiatives; and
3. to demonstrate the need for participants in the budgeting process to view their activities as an essential element in our system of democratic governance. In fact, this Handbook assumes that you cannot be a responsible agent in the budgeting process without possessing a theory of democratic governance. In the absence of such a theory, participants simply become instrumental functionaries in a mechanical kind of process.

Given the broad focus taken by this Handbook, readers can not expect the text to provide them with what they need to be fully proficient with the micro-details of their jurisdiction's budget process. The information in this Handbook clearly needs to be supplemented by the detailed technical information and organizational requirements that are unique to each jurisdiction's and organizational unit’s public budgeting process.

Endnotes

1. States vary widely in the number and kind of local jurisdictions that have been created under state authority (United States Advisory Commission on Intergovernmental Relations. 1993. *State Laws Governing Organizational Structure and Administration*. "Local Governments in the United States", Chapter 1. Report M-186. U.S. Government Printing Office: Washington D.C.). For example, the State of Colorado in 2009 listed 3,183 local government units (cities and counties) and an additional 3,628 special districts (including school districts). (http://www.dola.state.co.us/dlg/local_governments/lgtypes.htm, accessed May 13, 2009). This contrasted to New Jersey's 2002 listing of 687 local units and 825 special districts (http://www.city-data.com/states/New-Jersey-Local-government.html , accessed May 13, 2009). In 2002 Louisiana listed 362 local units of government and 110 school and special districts (http://www.city-data.com/states/Louisiana-Local-government.html, accessed May 13, 2009).

   While there is wide variation in the number and kinds of local units of government that exist in the United States, it is generally true that the further west one lives, the greater the number of local units of government you will find. This is largely an artifact of the influence of the Populist era at the close of the 19th century. Frustrated by the unwillingness of legislative bodies to control the growing abuses by private business, and by the unresponsiveness of elected officials to the electorate, Populist reformers introduced a variety of new accountability mechanisms that included recall, the initiative, and the referendum. While some scholars include these reforms as part of the Progressive movement in the early decades of the twentieth century, they were Populist in origin and were included in the national Populist Party platforms of 1892 and 1896 (Johnson and Porter 1973, 110). In fact, most of the electoral reforms advocated by the Populist movement became reality decades later under the banner of the Progressive movement. One of these structural changes included recall by voters of some elected public officials prior to completing their term of office. Another instrument of direct democracy included the initiative, which enables voters to directly place measures on the ballot without having to go through the legislative process. Such measures can include changes in statutes as well as alterations of a state constitution. A third reform, the referendum, allows the legislative body to refer a controversial piece of legislation directly to the voters for final approval. These instruments were first introduced in the West. Oregon became the first state to establish the statewide initiative and popular referendum. In the early days of the twentieth century, these institutions became widely known as the Oregon System. They fell into disuse in the middle decades of the twentieth century before being revived in 1970s and 1980s as a way of dealing with citizen dissatisfaction and loss of confidence in government policies—especially with taxation and spending. A final pillar of Populist accountability was put in place with the successful campaign to broaden the use of direct popular election for officials such as secretaries of state, education commissioners, treasurers, district attorneys, clerks, auditors, and sheriffs (see Morgan, et. al, Chapter 4, pp. 73-74)

2. School district budgeting will not be a primary focus of our attention in this book, largely because the topic is covered quite well by other texts (see; Poston 2010, Harman 2003, Kratz 1996) and because each local system varies widely as a result of the way in which state, local and federal funding creates various mixes of discretionary authority by local school boards over the budget expenditure process. In general local discretionary authority has

been significantly reduced in recent years as a result of federal "No Child Left Behind" and the increased role of state governments in supporting school funding.

3. We have relied heavily in this section on our previous treatment of this issue (see Morgan, Green, Shinn, Robinson 2008, pp.21-22, 84-86). See Burns (1994) for a detailed analysis of the reasons for the rapid growth in local governments during the period between 1960 and 2000.

4. For variations on the "interest-based" model see: Theodore J. Lowi (1972), James Q. Wilson (1989), and Randall Ripley and Grace Franklin (1991). For actor-based models see: Anderson 2003; Lowi and Ginsberg 2000; Rourke 1984; Kingdon 1995; Meier 2006. For advocacy-coalition models see: Sabatier and Jenkins-Smith 1993. For intergovernmental relations models see: Scherberle 2004; Goggin et al. 1990; and Daniel J. Elazar 1987; Morton Grodzins 1960.

5. See Lazenby, 2010, chapter 3; Morgan and Kass 1993; Nalbandian 2000, 1994; Svara 2006, 1999, 1998, 199, 1990. For a history of the debate on the role of city managers in local government see: White 1927; Stone 1940; Childs 1963; Stillman 1974, 1977; Ammons & Charldean 1989; Green 1989; Hale 1989; Banovetz 1994; Teske & Schneider 1994; Hinton and Kerrigan 1995; Svara 2006, 1999, 1991, 1990, 1985; Montjoy and Watson 1991; Crewson and Fisher 1997; Rove 1999; Wheeland, 2000; International City/County Management Association 2008.

6. We have relied heavily in this section on our previous treatment of this issue (see Morgan, Green, Shinn, Robinson 2008, pp.81-83).

7. We have relied heavily in this section on our previous treatment of this issue (see Morgan, Green, Shinn, Robinson 2008, pp.20-22).

Study Questions

1. How many and what kinds of local governments do you pay taxes to support? What kinds of services do you receive in return for these taxes?
2. What authority does each jurisdiction have to raise various kinds of revenue (i.e., bonds, taxes, fees for service, etc.)
3. What are the consequences of having so many local government jurisdictions to meet the needs of citizens?
4. What is the structure of the various local governments that you pay taxes to support? How are budget allocation decisions made? What kind of influence do you have over these decisions?
5. In what ways does the local budgeting process differ from the processes at the federal and perhaps the state level?

Unfunded mandates

http://www.ncsl.org/documents/standcomm/scbudg/CatalogJune2009.pdf