LOCAL GOVERNMENT REVENUES AND SERVICES AFTER THE GREAT RECESSION

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Theories of fiscal federalism argue a decentralized system of governance increases efficiency because local governments can tax and spend according to local preferences. However, local governments are constrained by state policy, demography, and economy and these constraints increased during the Great Recession. How do these constraints shape local government choices and what are the implications for a federalist system? This dissertation uses two national studies and a single-state case study to explore the space for local government choices after the Great Recession.

The first paper uses national survey data of US municipalities in 2012 to examine how service provision level and delivery methods are related to local stress and capacity, controlling for community need and place characteristics. Probit regressions show local governments use alternative revenue sources and service delivery methods (privatization and cooperation) to maintain services.

The second paper uses 2012 Census of Governments data for 2,396 cities in metropolitan areas to explore how state policy, demography, and local context shape dependence on two important own-source revenues: property taxes and charges. OLS regression results show property tax dependence is higher in places with more capacity, while charges dependence is higher in places with more stress.

The third paper uses a case study of New York State to explain how politics shape local government choices. Focus group interviews with local officials show a state-driven narrative of inefficient local governments pressures local governments to maintain services without adequate revenues. The State can shift costs to local governments, while citizens think they can enjoy the same services with lower taxes. The consequences are expenditure cuts across the board and lack of long-term planning.

These findings challenge the basic precepts of fiscal federalism regarding efficiency and transparency. This dissertation advances a theory of pragmatic municipalism whereby local governments work within their constraints and try to maintain their role as service-providers. However, this is not a sustainable strategy and the imbalance between local power and responsibilities remain. Under the current system, state level governments can shift fiscal stress to the local level and use the miscommunication between local governments and citizens for political gains.

BIOGRAPHICAL SKETCH

Yunji Kim received her bachelor's degree in government from Georgetown University in 2009 and her master's degree from the Graduate School of Public Administration, Seoul National University in 2011. She started her PhD program at the Department of City and Regional Planning at Cornell University in 2013. In January 2017, she joined the Department of Urban and Regional Planning at University of Wisconsin-Madison as an assistant professor with a joint appointment in UW-Extension's Local Government Center.

For public servants everywhere

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CHAPTER 1

INTRODUCTION

Local Governments and Austerity

Local governments play an important role in the US governance system. The decentralized system of 38,910 local governments (defined as general-purpose local governments in this dissertation; 2012 Census of Governments) allows localities to experiment with diverse policies, creating “laboratories of democracy.” Furthermore, local governments can serve as spaces of participation (Pateman 1970), deliberation (Dryzek 2000), and discourse among citizens to build a “Great Community” (Dewey 1954). In a more practical sense, local governments deliver a wide variety of services that people rely on every day (e.g. roads) and in times of need (e.g. social services).

Perhaps reflecting this role of local governments, public opinion surveys find local governments consistently rank highest among the three levels of government for citizen trust. A 2013 survey by the Pew Research Center found 63% of respondents have a favorable view of local governments, compared to 57% for state governments and 28% for the federal government (Pew Research Center 2013) and Gallup’s Governance Poll shows similar results (71% trust local governments, compared to 62% for states; Gallup 2016). However, concerns about local governments also increased after the Great Recession (or 2008 Recession) as the City of Detroit declared bankruptcy in 2013. Experts warned that fiscal stress among local governments are widespread (Congressional Budget Office 2010; Ward and Dadayan 2009), and austerity became an important keyword in public discourse (Peck 2012).

Austerity refers to deficit reduction strategies by limiting government expenditures, increasing taxes, or both (Anderson and Minneman 2014). Anderson and Minneman (2014) point out that the impact of austerity depends on how we define austerity (e.g. any increases in tax or decreases in spending; fiscal consolidation with intent of reducing deficit; fiscal consolidation to correct past conditions). In the aftermath of the Great Recession, some see austerity as a political tool. Peck (2012) defines austerity as "the imposition of strict fiscal discipline and government spending cuts" (p. 626) that hurts vulnerable populations and creates profits for a select few (e.g. ALEC[1] members). Blyth (2013) defines austerity as follows:

> a form of voluntary deflation in which the economy adjusts through the reduction of wages, prices, and public spending to restore competitiveness, which is (supposedly) best achieved by cutting the states' budget, debts, and deficits. Doing so, its advocates believe, will inspire 'business confidence' since the government will neither be 'crowding-out' the market for investment by sucking up all the available capital through the issuance of debt, nor adding to the nation's already 'too big' debt. (p. 2)

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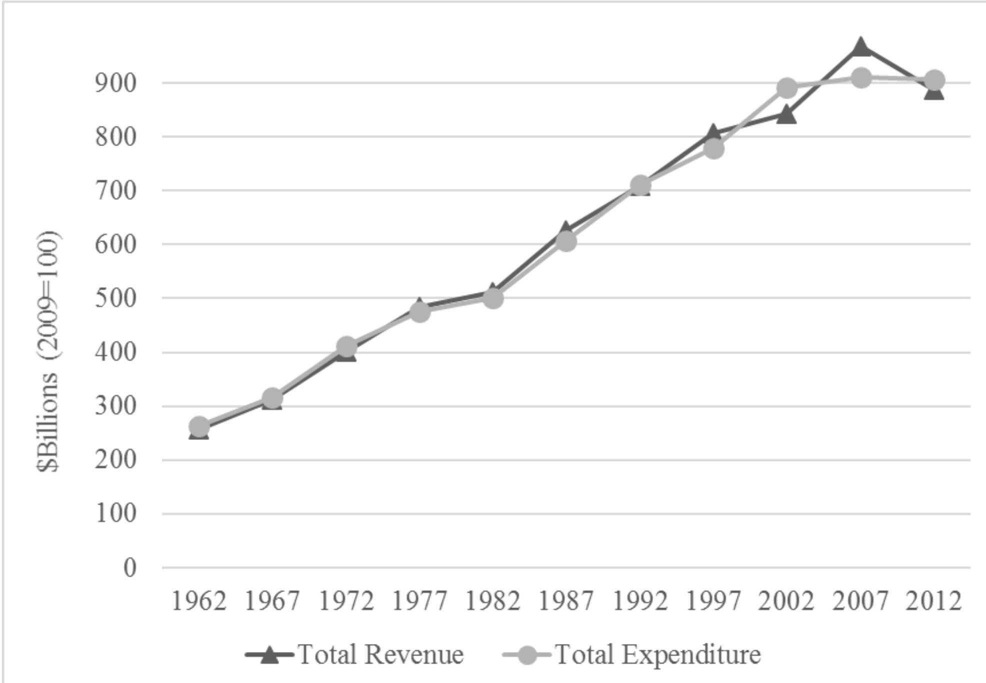
[1] ALEC or the American Legislative Exchange Council is a private organization of large corporations, corporate lobbyists, and state legislators. The organization drafts model bills that focus on shrinking government size and regulations.

The US Census Bureau's Census of Governments data give a broad picture of what type of austerity (if any) has been implemented at the local government level. Overall, local revenues and expenditures have been increasing since 1962 in real terms (see Figure 1). The growth was slower between 1977 and 1982 when local fiscal stress and cutbacks were widespread, but both expenditures and revenues recovered after 1982. This growth continued until 2002. Revenues continued to grow between 2002 and 2007, but expenditure growth dramatically slowed down. In the 2007-2012 period, both revenues and expenditures decreased in real terms. This is the first decrease in revenues and expenditures since 1962. These trends still hold when looking at expenditures and revenues per capita (not shown), except that expenditures per capita started decreasing earlier between 2002 and 2007. 2002 was also the first time there was a significant gap between expenditures and revenues in the 1962-2012 period with expenditures greater than revenues. In 2007, revenues exceeded expenditures, while in 2012 expenditures exceeded revenues. As the impact of the 2008 Recession trickled down to the local government level, some public finance scholars forecasted a permanent, growing gap between revenues and expenditures (Ward and Dadayan 2009).

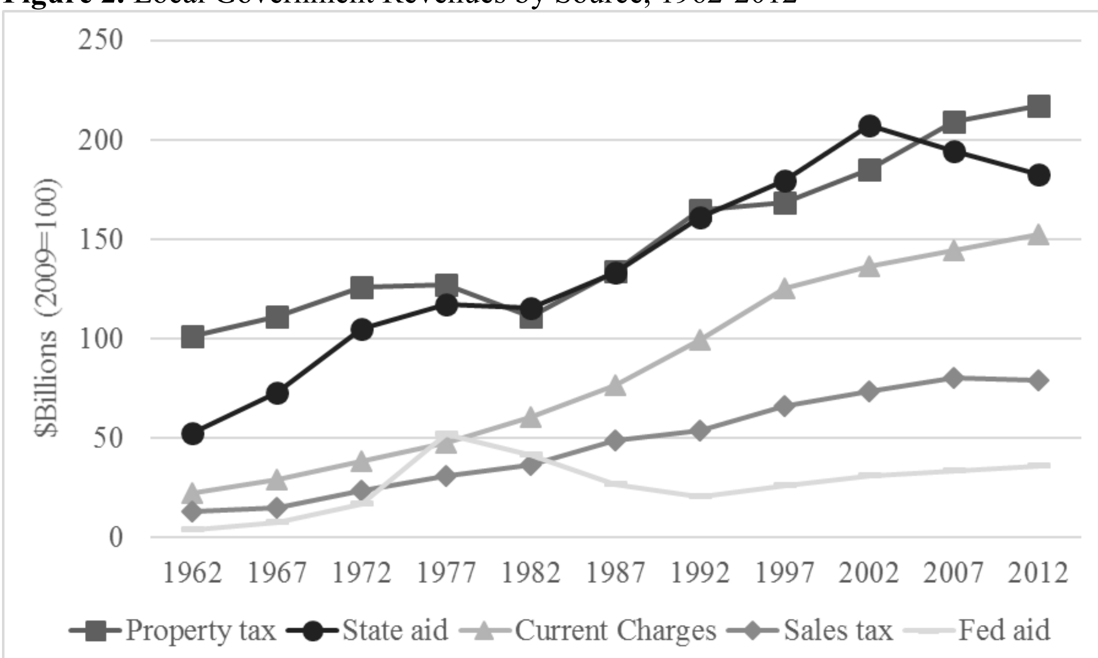
Figure 1. Total Revenues and Expenditures of Local Governments, 1962-2012



Data source: US Census Bureau, Census of Governments Historical Data
Note: Local governments refer to general-purpose local governments (counties, municipalities, towns).

During the 2007-2012 period, revenues dropped more than expenditures, mostly due to drops in state aid (see Figure 2). Property taxes, charges, and federal aid continued to increase during this period in real terms, while sales tax decreased slightly between 2007 and 2012. The federal government provided assistance to local governments through the American Recovery and Reinvestment Act (ARRA), which had positive impacts for many cities, but scholars argue this was not enough to meet local needs (Johnson 2009). Burtless and Gordon (2011) use data from several sources (e.g. US Department of Commerce, Bureau of Economic Analysis, US Department of Labor, Employment, and Training Administration, US Bureau of Labor Statistics, Census Bureau) and review other scholarly works on the impact of ARRA. They conclude that ARRA “reduced the income losses that vulnerable Americans suffered as a result of the recession and made the downturn less severe than it otherwise would have been" (p. 289). While states and local governments are better off than they would have been without the ARRA, local fiscal stress remains widespread (Congressional Budget Office 2010, Warner 2012) and ARRA was a temporary program that faded out after 2010. Federal aid increased between 2007 and 2012 from 33.6 billion to 35.8 billion (in 2009 dollars; 6.5% increase), but on a per capita basis, the increase was smaller (111 thousand to 116 thousand in 2009 dollars; 4.5% increase).

Figure 2. Local Government Revenues by Source, 1962-2012



Data source: US Census Bureau, Census of Governments Historical Data
Note: Local governments refer to general-purpose local governments (counties, municipalities, towns)

Various survey data suggest that local governments are using a multi-pronged response of changing revenue structures, cutting expenditures (services and staff), and exploring alternative service delivery methods. The Census Bureau's Survey of State and Local Government Employment and Payroll shows full-time equivalent employment at the local level decreased by 255,196 jobs between 2007 and 2012. According to the 2008-2014 City Fiscal Conditions Surveys published by the National League of Cities (NLC), increasing fee levels, increasing the number of fees, and increasing property tax rates have consistently been the top three most popular revenue actions among local governments. Despite these efforts to supplement declining property tax revenues, expenditure cuts at the local level are common. The 2009-2011 City Fiscal Conditions Surveys by NLC show that the most popular expenditure actions were personnel cuts (73%), delay/cancel capital projects (64%), cuts in services other than public safety and human services (40%), modify health care benefits (32%), and across the board service cuts (21%) (NLC 2011). Another survey of 2,214 cities and counties by the International City/County Management Association (ICMA) in 2009 shows similar results. 60% of respondents said they deferred capital projects, 43% froze salaries, 40% eliminated positions, and 35% reduced services (ICMA 2009). Local governments may also look for savings through use of alternative delivery methods. According to the City Fiscal Conditions Survey, 23% of respondents increased contracting out in 2012, 21% in 2013, and 19% in 2014.

Survey data offer a snapshot of local government behavior, but do not explain why local governments behave this way or the long-term consequences. Empirical work on local government behaviors in the aftermath of the Great Recession is limited to studies with small samples (e.g. Donald *et al.* 2014; Nelson 2012; Peck 2012; Skidmore and Scorsone 2011) or periods that may not fully capture the impacts of the

Recession (e.g. Lobao and Adua 2011; Lobao *et al.* 2014; Zafra-Gomez *et al.* 2013). This dissertation project has the following objectives:

- **Objective 1**: Describe how economic and fiscal pressures after the Great Recession shape local government choices about service provision and delivery methods.
- **Objective 2**: Describe how state policy, demography, and economy shape local government revenue structures (reliance on property taxes and charges).
- **Objective 3**: Explain how politics shape local government choices and the long-term consequences for local governments' role as service providers.

Purpose of the Study

This dissertation has two purposes. First, update empirical findings on local government behavior during times of fiscal stress with post-Great Recession data, particularly with a focus on state-local relationships. Second, build a theory of local government behavior – pragmatic municipalism – that overcomes the agency-structure dualism in previous theories. My theory of pragmatic municipalism identifies the various constraints that local governments must operate within and possibilities for local government agency.

Findings from previous studies may have limited implications for today's local government responses for several reasons. First, the relationship between higher levels of government, especially the state level, and local governments have shifted. Trends in intergovernmental aid reflect this shift. While federal aid decreased from 1977 to 1992, state aid continued to increase until 2002 (see Figure 2). In other words, when localities were experiencing fiscal stress in the 1970s and 1980s, state aid was a significant source of revenue that was increasing. Today, localities are seeing cuts in state aid.

While resources at the local level have decreased, responsibilities have increased. The 1996 Welfare Reform Act increased welfare responsibilities of states, and in some places, these responsibilities have been further devolved to the local level (Weir 1997). Nathan (1996) noted sharp increases in state to local devolution in the 1990s, and Warner (2001) and Xu and Warner (2016) argue the pressures on local governments to play a redistributive role, as well as a developmental role (Peterson 1981), may have increased due to further devolution.

Even though local governments have always been "creatures of the state," some argue there has been further restriction of city power by state governments in recent years (Bowman and Kearney 2012). Peck (2014) argues the politics of austerity after the Great Recession has encouraged state governments to push down fiscal stress to the local level.

Although studies of federalism have looked at devolution pressures and their outcomes, they primarily study federal-state relationships. Weissert and Ice (2014) describe state-local relationships as the "stepchild" of the three subfields of state politics, urban politics, and economics/fiscal federalism. Thus, studies of state-local relationships tend to use theories of federal-state relationships without recognizing the challenges unique to local governments. For example, local governments have little protection of their legal, political, or fiscal power and this lack of protection translates to little ability to push back on unfunded state mandates (Berman 2003). Previous studies also miss the publicness of governments, and the constraints that are especially heightened for local governments. For example, Levine (1978) suggested that, like private business, in the early stages of fiscal stress, local governments could cut essential services to demonstrate the organization's importance. However, essential services may be mandated or local governments may fear voters' responses, limiting local governments from engaging in such strategic behavior. In fact, cutting essential services is likely to encourage out-migration of residents and businesses, exacerbating fiscal stress. This possibility of out-migration is less concerning for state or federal governments; it is easier to leave a city than a state or country. This dissertation is one of the few studies that contributes to empirical knowledge of state-local relationships, such as Lobao *et al.* (2014), Lobao and Adua (2011), Warner (2001), Warner and Pratt (2005), and Xu and Warner (2015, 2016).

Second, the relationship between the public sector and private sector has changed. Scholars noted how the financial crisis of 2008 became a public sector crisis after the Great Recession (Blyth 2013; Peck 2014; Thompson 2012), and an intensification of using the public sector to promote private capital (or "financialization"; Fine and Hall 2012). Governments, both central and local, are much more vulnerable to changes in financial markets as many governments have "acquired vast new assets, in the form of major investments in the banks and other financial institutions" (Pollitt 2010, p. 9). For example, public pension fund contributions rose as the stock market fell. And in many states public pension funds lost significant amounts of money after investing in junk securities following misleading ratings (Viswanatha and Freifeld 2015).

Lastly, the relationship between local governments and citizens has become more complicated. Several demographic changes are happening across the US, such as aging population and increasing racial and ethnic diversity, that require communications between local governments and citizens so that local governments can respond to these changing needs and preferences. However, the overall sentiment towards governments and taxes has become more hostile. Scholars point out that people have less patience, want quick answers, and that the 2008 financial crisis has been highly politicized (Boin *et al.* 2008; Pandey 2010; Rosenthal 2003). The demographic forces that increase the demand for public services, and the hostile responses to the service providers (i.e. governments) are offsetting. One possible explanation is the politics of scarcity that "exacerbat[es] the struggle for smaller pieces of a shrinking pie" (Edsall 2012, p. 2), and how reminders of scarcity affect citizens. Levine (2015) finds the rhetoric of economic insecurity reminds us of the scarcity of our resources (both time and finances), and lead to less political action. As local government resources decrease (e.g. state aid, property taxes), the competition for these resources may increase, and the language of scarcity, which reminds people how little they have, could make them less likely to support tax increases, undermining the long term sustainability of local government finance.

Literature Review

I engage in the debate on the behavior of local governments within the context of fiscal stress and limited resources. What choices do local governments have and what shapes their decisions? Public administration studies on cutback management emphasize the managerial role of local governments (e.g. Levine 1978), while progressive planning theories emphasize the public-minded leadership of local governments (e.g. Clavel 2013). In the recent post-recession period, political geographers see local governments becoming austerity machines that cut and privatize services due to macro-level political and economic forces (Peck 2014). This debate on local government behavior is a question of local government agency – strong agency in the form of progressive planning or austerity machines shaped by the structure of scarce resources. I use pragmatism theories that resolve the artificial agency-structure dualism (Farjoun *et al.* 2015) and apply them to analyzing how local governments deliver services and raise revenues.

Local Government Agency or Structure?

Cutback Management. Much of the public management literature on local government behavior under fiscal stress builds on Charles Levine's (1978, 1979) work on cutback management and emphasizes strong local agency. Levine (1978) defined cutback management as "managing organizational change towards lower levels of resource consumption and organizational activity" (p. 180). Levine argued that the public manager would act strategically and adopt different sets of tactics, depending on the cause of decline and the purpose of the tactic: "resistance" or "smoothing."

He identified four causes of decline, depending on the location of the cause (i.e. internal or external) and the nature of the cause (i.e. political or economic/technical). The first cause is political vulnerability (internal, political), meaning the organization lacks internal capacity to resist environmental pressures of budget decrements and pressures to shrink. Some examples are lack of expertise or history of poor performance. The second type is organizational atrophy (internal, economic/technical). This is a decline in internal performance and mostly due to poor management (e.g. inconsistent and perverse incentives, role confusion, weak oversight, high turnover, etc.). The third cause is problem depletion (external, political) wherein the problem that the organization is supposed to address has been solved, alleviated, or become less popular politically. The fourth cause is environmental entropy (external, economic/technical). This means the environment's capacity to support the organization erodes. Examples are financially troubled cities with shrinking economic bases or market and technological shifts.

Levine argued that managers would try to resist decline at first, but soon switch to smoothing tactics since resistance tactics carry the risk of losing control over *where* cuts will take place. Resistance tactics include educating the public about the importance of the organization, cutting an important service temporarily to demonstrate the organization's importance, luring new public and private investments, adopting user charges and experimenting with less costly service delivery. Smoothing tactics include cutting low prestige programs, cutting programs to politically weak clients, installing rational choice techniques (e.g. zero-base budgeting), and deferring maintenance. Thus, Levine's model shows public organization managers as rational and strategic decision makers who focus on the survival of the organization.

Levine (1978)'s model is called a step-by-step approach to emphasize the sequential characteristic of local government actions in response to decline. Similarly, Wolman (1980, 1983) argued that local governments adopt a set of hierarchical choices during times of fiscal stress. Building on systems theory, he argues that local governments try to maintain stability in their environment (e.g. relationship with public employees and their unions). Thus, they first turn to strategies that are the least disruptive, such as drawing down reserves or utilizing one-time revenue. If they need to cut, they use more across-the-board cuts than targeted cuts, with service cuts as a last resort. Similarly, Pagano (1988) found cities are able to adjust and adapt to their environment, mainly through cost-shifting mechanisms, such as user fees and special assessments, requiring developers to finance more infrastructure, and sharing capital costs with state and other local governments.

Jick and Murray (1982) also emphasize the key decision-maker's perception of fiscal stress. Based on a literature review of organization decline in the public sector, they argue that two factors are the most important determinants for strategic responses to financial resource reductions. First, whether the key decision-makers perceive the cause of cuts to be rational or political, and second, how they perceive their position in the power hierarchy vis a vis the funding agencies, other relevant external bodies, and other internal groups and individuals. Once the cutback decisions are made, crisis behavior (i.e. reactions to the cuts) is mostly determined by the severity and time pressure of the crisis.

Related to all of these theories is the possibility of innovation. Zaltman *et al.* (1973), March and Simon (1958), Cyert and March (1963) hypothesized that environmental stress will push organizations to search for solutions to cope, leading to innovation. However, these theories were mostly based on studies of private organizations. Levine (1979) pointed out that analytic capacity is usually developed when public organizations have slack resources. Thus, he predicts that due to lack of resources during times of decline and the tendency for people to resist change in times of austerity, there will be little innovation. Clark (1994) used survey data from the Fiscal Austerity and Innovation Project on cities with populations of 25,000 and above and examined city innovation behavior in the 1980s and early 1990s. He found that there is no systematic relationship between the degree of fiscal strain and propensity to innovate. In addition, he found that innovation is not necessarily confined to affluent cities.

Progressive Cities. Another body of work emphasizes local government agency in an explicitly benevolent way. Communicative Planning Theory (CPT) shows the possibility of progressive cities emerging at the local level. CPT purported to solve problems of ignoring community needs and preferences through a focus on communication. Sager presents arguments to legitimize CPT based on Habermas' theory of communicative action (Habermas 1998): 1) CPT can lead to the "right decisions" (p. 30) by mechanisms of the Condorcet jury theorem[2] 2) CPT promotes anti-paternalism by encouraging deliberative democracy and 3) CPT produces relational goods.

However, social choice theory already showed difficulty in aggregating preferences through voting (Sager 2002). Thus while the Condorcet Theorem suggests

[2] Condorcet Jury Theorem (Condorcet 1785) gives the probability that a jury will arrive at the correct answer to a problem. The Theorem implies that it is possible to overcome the problem of citizen ignorance and disinterest leading to less than ideal decisions because a group of individuals is more likely to choose the correct answer than any single individual (McLean and Hewitt 1994).

that collective decision making might lead to better outcomes, the issue of collective action remains. Moreover, critics argue that CPT has been used for undemocratic outcomes and to legitimize neoliberal policies (Purcell 2008, 2009) because it ignores outcomes and power imbalances, while emphasizing consensus.

Democratic theorists have pointed out the important role of conflict in democracy. For example, Mouffe (2005), recognizing that the social will always have the potential of being conflictual and antagonistic, calls for an agonistic pluralism. The goal is to transform antagonism (struggle between enemies) to agonism (struggle between adversaries). Adversaries are defined as those “whose ideas we combat, but whose right to defend those ideas we do not put into question” (Mouffe 2000, p. 102). Wolin (1996) also defines democracy as a system that emerges from constant struggle. He argues that so-called stable forms of democracy based on a constitution tend to solidify existing structures that allow elites to exploit resources while excluding the *demos*. His definitions of a democracy require revolutions that “radically enlarge . . . the circle of political participants to include the active involvement of social classes hitherto excluded or marginal” (p. 37). The local could be a space for such active involvement.

In urban theory, cities have been seen as leaders of progressivism. Clavel (2013) called these places progressive cities, which mostly emerged in the 1970s and 1980s. He defines a progressive city as one that adopts redistributive policies and has wider public participation. Some examples are Hartford, Cleveland, Madison, Berkeley, Santa Monica, Santa Cruz, Burlington, Chicago (under Mayor Harold Washington), Boston (under Mayor Raymond Flynn), and San Francisco. Progressive cities are not the norm, but Clavel presents them as places where we might find alternative visions for cities. Recently, Loh (2016) found some evidence of pushback through planning processes in her study of six Michigan cities under emergency management. Planning processes functioned as a space for public participation when state imposed emergency management bypassed democratic procedures. However, she warns that structural forces like demography and lack of growth pressures cannot be solved by the city alone.

Thus, the question of whether progressive cities can be a sustainable vision remains. Clavel (2013) mentions rent control in Santa Monica and Berkeley as an example of progressive cities in action. While rent control has some benefits of potentially slowing down gentrification and allowing the poor to spend their income on other goods, there are costs as well. In general, price controls lead to a shortage in the good (in this case, housing), and often deterioration of the housing quality as landlords see little incentive to keep their property in good condition. Another example that Clavel uses for progressive city action is Chicago's implementation of industrial policy that favored retention of manufacturing jobs. Again, there are benefits to policies that can maintain jobs, but a policy that artificially preserves jobs without actually reforming the work force (e.g. better education) can lead to large costs in the future.

Austerity Urbanism and Growth Machines. Austerity urbanism theories emphasize the power that structures have over local governments. Cities have faced fiscal stress before in the 1970s and used cutback management to cope, but scholars have emphasized the radically different conditions after the Great Recession wherein service cuts are becoming part of the "new normal" (Martin *et al.* 2012). Scorsone and Plerhoples (2010) identified a new era of cutback management that emerged in the early 2000s. In this new era, local governments relied more on budget cuts and restructuring, rather than tax increases. This is directly opposed to what cutback management theories say; local governments will first turn to least disruptive strategies, and service cuts are last resorts.

Urban and political geographers have described these changes as the rise of austerity urbanism (Peck 2012), austerity machines, or austerity regimes (Donald *et al.* 2014). An austerity machine is a coalition of public and private actors that use austerity measures – often bypassing democratic processes – to decrease the level of public services, public infrastructure, and public employment, either by directly cutting local government aid, limiting revenue raising capacity, by decreasing collective bargaining rights, or reducing and privatizing services (Donald *et al.* 2014; Peck 2012). Some examples are Detroit's unelected emergency administrators restructuring public employment terms and privatizing public assets, and the activities of the American Legislative Exchange Council (ALEC) and the Tea Party to rewrite state legislation to limit local government power (Peck 2014). Thus, the austerity regime is both multi-sector and multilevel. Multi-sector because it includes actors from the business sector and civil society. Multilevel because it includes actors from local, as well as state and federal government who push down political blame and fiscal burdens to the local level (Peck 2014).

Austerity urbanism is an emergent phenomenon that is an intensification of neoliberal urbanism (Peck 2012). Neoliberal urbanism refers to a particular type of urbanism driven by programs, such as “deregulation, privatization, liberalization and enhanced fiscal austerity” (Peck *et al.* 2009, p. 58). The ultimate goal is to promote a “good business climate” (ibid. p. 63) in cities, usually through “place-marketing, enterprise and empowerment zones, local tax abatements, urban development corporations, public-private partnerships, and new forms of local boosterism to workfare policies, property-redevelopment schemes, business-incubator projects, new strategies of social control, policing, and surveillance” (Brenner and Theodore 2002, p. 21). However, neoliberal urbanism is not simply about making profits.

Critics of neoliberal urbanism emphasize that it includes an element of protecting some while exploiting others, exacerbating structural inequalities. For example, Jones and Ward (2002) point out:

> the neoliberal project of institutional creation is no longer oriented simply towards the promotion of market-driven capitalist growth; it is also oriented toward the establishment of new flanking mechanisms and modes of crisis displacement through which to insulate powerful economic actors from the manifold failures of the market, the state, and governance that are persistently generated within a neoliberal political framework. (p. 27)

Peck *et al.* (2009) write, “The overarching goal of [neoliberal] policy experiments is to mobilize city space as an arena both for market-oriented economic growth and for elite consumption practices, while at the same time securing order and control amongst marginalized populations" (p. 58).

One difference between austerity machines and the older regimes (Stone 1989) and growth machines (Logan and Molotch 1987) lies in the agency of the city. Regime theory argues that local governments form regimes in order to increase their capacity to govern (Stone 1989). There is a common goal that brings benefits to both the public and private actors. Even though critics of the growth machine say that the wider public rarely gains anything from these coalitions (Logan and Molotch 1987), at least there is the promise of the public benefitting by increasing their home values and/or increasing revenues for the local government, which can potentially lead to more or better quality services. In contrast, austerity machines cut service expenditures as well as the management capacity of local governments (Peck 2014). Furthermore, if the deterioration of services is capitalized in home values, this can harm homeowners as one of their largest assets (i.e. homes) loses value.

The key difference between austerity machines and growth machines is financialization. Financialization is broadly defined as "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" (Epstein 2005, p. 3). Austerity urbanism can be an example of financialized local governance. The ends of a "common goal" that can bring more tax revenues for the local government in the past growth machine are gone. Instead, the public only stands to lose and the local government has little to no agency. The only gains within the austerity urbanism framework are the profits from privatizing services that accrue to the private contractor and the political gains of small government proponents.

A limitation of neoliberal theories is their narrow focus on description and critiques, and failure to suggest real alternatives. In the words of Ferguson (2010), neoliberalization theories have been too focused on the "anti" while neglecting the "pro." He calls for a pragmatic approach that distinguishes neoliberal *technologies* of government from a class-based *ideological project*. Ferguson says that neoliberal technologies are tools that we could use for a wide variety of purposes. Ferguson emphasizes, "With social, as with any other sort of technology, it is not the machines or the mechanisms that decide what they will be used to do" (p. 183). As such, Ferguson brings back the agency of public leaders. Warner and Clifton (2014) point to user fees as an example of using market tools to achieve public outcomes. They suggest that some places are "riding the wave" of marketization to avoid service cuts.

Another example is social impact bonds that link private investment for social intervention programs by rewarding investors when beneficial public goals are achieved. For example, private investors could invest in a prisoner re-entry program that reduces recidivism. When recidivism rates decrease (the desired outcome), investors receive payments. Warner (2013) cautions that social impact bonds fail to attract private investment without substantial additional guarantees and can further financialize human development services. This is similar to what Mayer and Kunkel (2011) have called "neoliberalism with a human touch" (p. 221). Mayer and Kunkel (2011) agree with Ferguson (2010) that neoliberal technologies can be used for a variety of purposes, but caution that there is a fine line between whether a tool is used for neoliberal purposes or not. Lake (2016) describes this as the reversal of means and ends in social policy. That is, while the traditional bonds were using private capital for public purposes, social impact bonds are using social policies for the purpose of financial profits. The government's role has shifted from providing public goods to creating financial profits.

It is difficult to empirically identify austerity urbanism, as opposed to efficient management, by just using finance data. If expenditures and revenue decreased, we do not know if this is because the local government became more efficient, or if they are just cutting despite steady levels of need or even increased levels of need. A qualitative study can provide a more nuanced picture of local governments' responses.

Overcoming Agency-Structure Dualism: Pragmatic Municipalism

I use a lens of pragmatism to overcome the simplistic agency-structure dualism in studying local governments. Pragmatism is a strand of philosophy that emphasizes the practical consequences of accepting a proposition or its usefulness as the criteria for accepting or rejecting ideas. I use the term "pragmatic municipalism" to describe local governments behaving in ways that are consistent with the pragmatism theory. This is not the first application of pragmatism to local government studies, and as such I provide a brief summary of the recent dialogue in the field.

Administration & Society has been a major venue for discussions of pragmatism and public administration. The first round of debates in 2000 were centered on the historical relationship between pragmatism and American public administration, and whether there should be a closer relationship. The second round of debates in 2004 were centered on two strands of pragmatism: classical and neo (also known as linguistic pragmatism, postmodern pragmatism, or Rortyan pragmatism). Reviewing these old debates, Kasdan (2015) recently pointed out the two types of pragmatism are not necessarily in conflict, but rather perspectives along a spectrum. Nevertheless, most of the discussion in this paper refers to classical pragmatism, based on its longer history and more explicit linkages to public administration (Ansell 2011; Dieleman 2014; Shields 2004, 2008; Harmon 2006).

Scholars have argued for the use of pragmatism in the field of public administration (Ansell 2011; Dieleman 2014; Evans 2000, 2010; Harmon 2006; Hildebrand 2008; Shields 2004), but these scholars also lament the sparsity of pragmatism lenses in theoretical works and in practice (Deieleman 2014; Kasdan 2015; Whetsell and Shields 2011). Pragmatism focuses on problem-solving as central for understanding human behavior, and the following are the key features of pragmatism (Farjoun *et al.* 2015; Shields 2004, 2008; Webb 2004). Pragmatism, like positivism, believes there is a real world that exists independent of any person's thought. However, pragmatism rejects foundationalism or the Cartesian approach to inquiry that holds a few propositions as being the absolute truth. Instead, pragmatism subscribes to a fallibilist approach that every proposition has the possibility of being false, and as such, any "solution" is provisional. As for deciding on this provisional solution, pragmatists envisioned communities of inquiry that use scientific attitudes. The scientific attitude refers to using working hypotheses for collecting and interpreting data or facts. It is important to note pragmatists were different from positivists in that they acknowledge the role of values and ideals in these processes, rather than the fact-value dualism that positivists emphasize.

The debates regarding pragmatism and public administration are not conclusive, but I use this lens because it is a useful way to understand local government behaviors. This is largely due to two themes of pragmatism. First, pragmatism resolves several dualisms as it holds pluralism as one of its key tenets. The community of inquiry relies on both expert and non-expert knowledge and quantitative and qualitative knowledge. This allows us to overcome the agency-structural dualism. Previous theories of local government behaviors emphasized either structure or agency, painting an incomplete picture. As Evans (2010) summarizes, "By applying the lens of pragmatism, we can watch the interplay between human experience and the structures of accepted practice (p. 870). Giddens (1984) also overcame the structure-agency dualism by arguing that although agents work within structures, agents change structures as well. However, Farjoun *et al.* (2015) point out that Giddens ends up *dissolving* structure and agency, while pragmatism allows for the two to be distinct yet related. For the field of local government studies, pragmatism emphasizes the importance of both theory and practice (Shields 2004; Whetsell and Shields 2011). Unlike the positivist stance of theory guiding (and thus being above) practice, pragmatism sees the two interacting and guiding each other.

This links to the second theme of pragmatism – recursiveness. Pragmatism sees the world as processes, and thus there is no truly independent event. An event is always linked to a prior event and so on and so forth (Farjoun *et al.* 2015). This is what Dewey called the "reflexive arc" (1896/1998) that links cause and effect in iterative cycles (Salem and Shields 2011). Shields (1996) argued this fits well with the iterative processes within public administration. Salem and Shields (2011) applied this lens of iterative processes to suggest one explanation of why austerity may become widespread after the recession:

> Legislatures cut budgets (often citing government waste), and executive agencies then struggle to provide the same services. Administrators make adjustments and demonstrate that their agencies could do as much with less. Ironically, demonstrating "more with less" may feed further calls for reduced taxes, privatization, and further budget reductions. The cycle begins again…Each recursive loop leads to greater tightening of the processes, removing more and more slack public administrators could use for other goals. (p. 127)

Scholars have noted hints of pragmatism in public administration and public finance theories before (Snider 2000; Shields 2008; Stever 2000). Charles Lindblom (1959)'s theory of muddling through in public decision-making and Herbert Simon (1957)'s bounded rationality/satisficing model in which decision-makers choose a satisfactory and sufficient choice, rather than the ideal choice are some examples. Recently, Nelson (2012) used the bounded rationality model to explain local government responses to fiscal crises in sixteen municipalities. However, Simon (1946) emphasized the fact-value and theory-practice split by arguing that the existing principles of public administration were mere proverbs.

Bartle and Shields (2013) specifically call for a pragmatism lens in the study of public finance as many existing theories of public finance have been normative and based on assumptions that do not match reality. For example, Musgrave's (1959) suggestion for the division of responsibilities among different branches of government does not align with reality. This dissertation shows that the assumptions of an autonomous local government responding to the preferences of a citizenry who make rational choices about tax and service bundles does not hold in the post-Great Recession world of shifting structural constraints (e.g. state-local relationships, government-business relationships, government-citizen relationships). Again, there have been traces of pragmatism in public finance. Walker (1930) wrote:

> To understand municipal budget making it is necessary to visualize this tremendous pressure that is being exerted from all sides - the pressure of organized interests, or ambitious department heads, of civic groups, of official prejudices, of the political potency of a low tax rate, even of public opinion where not represented by any of the above. The final budget will be the resultant of these forces and not the outcome of a dispassionate evaluation of the various functions. (p. 29, 47-48)

The austerity urbanism view denies local agency, while progressive planning and cutback management theories do not pay enough attention to structural constraints. Pragmatic municipalism argues structures and agents shape and are shaped by each other in a "recursive loop." While local governments are “creatures of the state,” they are not entirely shaped by pressures from state governments. They are focused on problem-solving, for example the problem of shrinking resources and need to maintain or increase services, and exercise their agency within structural constraints.

Bounding Local Government Agency

Based on previous literature, I focus on three factors that shape the boundaries of local government agency: state policy, demography, and economy. This section reviews empirical studies that show how these factors shape local government behaviors.

State Policy. In a multilevel governance system, state policy is an important contextual factor. Dillon’s Treatise in 1872 defined cities as “creatures of the state,” completely subject to state authority. Frug and Barron (2008) go as far to say there is no such thing as local autonomy. Local choices are always shaped by state policies that affect inter-local relationships and public-private relationships.

States can impose further fiscal burdens on cities through policies that restrict local tax raising power (e.g. tax and expenditure limitations or TELs). TELs have been used as political tools to show governments are trying to promote economic growth. However, Deller *et al.* (2012) found that TELs imposed on local governments do not promote state economic growth, and in fact, have a weak negative impact. Based on a study of TELs in the 1970s and 1980s, Joyce and Mullins (1991) found local TELs are often accompanied by increased state aid to localities and increased state expenditures. Thus, states may offset the effect of revenue decrease at the local level.

Fiscal federalism argues that higher-level governments, either federal or state, should play a role in equalization and redistribution (Oates and Schwab 1991). However, the austerity policies in the aftermath of the Great Recession have included states pushing down fiscal burdens to the local level (Peck 2014), and some argue that cities have experienced decreased authority in the past decade at the hands of their state governments (Bowman and Kearney 2012). Based on participant observation in Wisconsin municipalities from 2007 to 2011, Cramer (2014) showed how Wisconsin Governor Scott Walker was able to use the rhetoric of blaming cities and unions to push his controversial budget measures. These budget measures included ending collective bargaining rights and increasing employee contributions for health and pension benefits.

Managerial theories from public administration also emphasize the role of state policy, particularly in the form of mandates. Downs and Rocke (1984) discuss three theories of budgetary decision-making in response to declining real revenue: bureaucratic process theory, interest group politics theory, and managerial theory. Bureaucratic process theory argues that responses to fiscal stress will follow incrementalism (Lindblom 1959; Wildavsky 1964): small changes on the margin. Schick (1983) applied this response to budgetary contraction, and called it "decrementalism," which entails across-the-board cuts. Interest group politics theory says the response is a function of distribution of power among internal and external actors. Managerial theory says mandatory or uncontrollable expenditures shape the outcomes as government managers try to cope with the "rising cost of operating a permanent bureaucracy and maintaining current service levels in the face of inflation and structural change (e.g., change in demographics or industrial base)" (Downs and Rocke 1984, p. 340). Using longitudinal data from Pittsburgh (1943-1976) and San Diego (1949-1978), Downs and Rocke (1984) find support for the managerial theory that emphasizes the "relative controllability" of expenditure categories. Morgan and Pammer (1988) and Pammer (1990) also report unstructured responses during retrenchment processes; however, they consistently find that the city manager or administrator's perception of the fiscal situation is an important factor in these decisions.[3]

A recent study by Nelson (2012) supports these arguments about crisis behavior. This study examined sixteen US municipalities selected through a process of stratified random sampling from four regions in the US. Based on document analyses and interviews, Nelson (2012) found that local governments' behavior between 2007 and 2011 was strategic and that they do not blindly follow a set of neoliberal proscriptions (i.e. cutting and privatizing services). Instead, she found that local government managers follow a bounded rationality model; they adhere to a rational sequence of decisions in the early stages, but as the economic situation gets worse, their behaviors become less predictable and more divergent. Local responses were very similar in the beginning of the Recession; trying to increase revenue through fee increases, federal grants, and drawing from reserves, while cutting costs through

[3] Local government managers may be in the best position to assess local situations, but based on a survey of local government officials in Wisconsin, Maher and Deller (2007, 2011) found no statistical relationship between officials' perceptions of fiscal stress and empirical measures of fiscal stress. Whether this is a shortcoming of existing empirical measures, limitations of local officials' knowledge, or strategic behavior in answering such questions is unclear.

hiring freezes. However, as the level of stress increased, local responses started to diverge depending on state government restrictions (e.g. tax limitations) and interest group involvement.

Regulation theory and state rescaling theory emphasize broader shifts in the roles and responsibilities in a multilevel governance system. Jessop (1993) argues that there was a shift from the Keynesian Welfare State to a Schumpetarian Workfare State since the 1970s. This Schumpetarian Workfare State focuses on competitiveness rather than welfare as the pressures of globalization create winners and losers in the global market. Jessop (1992) writes about the hollowing out of the state that leads to powers being passed upward to supranational bodies while other powers are devolved down in a process Swyngedouw (1992) has called “glocalization.”

State rescaling theory focuses on this change in the location of nation state power and authority. State rescaling theory argues that these processes will lead to a more diverse landscape at the local level. Under the Fordist period (1950s-1960s), Brenner (2004) argues spatial Keynesianism, which is the central state’s effort to direct resources to poorer regions or places was widespread. Both Brenner (2004) and Jessop (2003) suggest that globalization has transformed the state to be more competitive, and now the state is more interested in enhancing the developmental capacity of select places. Since they want to make sure these regions and places are competitive in the international market, they will pick the most promising places, rather than places with the most need. However, Cox (2009) questions the extent to which this transformation can be applied to the US where spatial Keynesianism was never that strong.

State rescaling theory says whether localities follow neoliberal policies must be empirically determined (Peck *et al.* 2009), and predicts outcomes will be more complex as localities use both vertical (changing scope of services) and horizontal (linking with non-state actors) policy-related activities (Büchs 2009). Lobao *et al.* (2014) found pressures from state and federal governments and competition with other local governments explain the use of business attraction policies, privatization, and levels of social service provision, and Xu and Warner (2015) find the relationship between state policies and local employment growth vary by region. Since institutional capacity and context vary by locality, inequality among places may increase.

Demography. Demography has significant implications for local stress. Recently, scholars have examined how demography affects local stress in the context of "shrinking cities" or "declining cities" (Hollander 2011). For example, the problem of vacant land can be the result of a city that is losing population (Ganning and Tighe 2014). Bowman and Pagano (2000) found that population loss is correlated with more abandoned structures. They argue that population and a city's inability to expand its political boundary to capture growing regions explains the rise in vacant land or abandoned structures, rather than simply regional or economic conditions. Manville and Kuhlmann (2016) examine cities that lost population between 1980 and 2010, and show a vicious cycle of population loss leading to increased needs and decreased fiscal capacity.

In addition to overall population, the population structure matters. For example, elderly and children have higher service needs and can increase local expenditure burdens (Wallace 2012). Other demographic factors such as poverty, unemployment, and racial characteristics also have implications for local expenditures and are spread out unequally across space. Suburbs have traditionally enjoyed higher income and lower poverty while urban core and rural areas have had higher poverty. However, recently, the growth of nonwhite population in the suburbs outpaced that of the core urban areas between 2000 and 2010 (Frey 2011) and the suburbs have the largest and fastest growing poor population (Kneebone and Berube 2013). Rural places have consistently had lower resources due to the physical distance from centers of economic activity (Partridge and Rickman 2008). Austerity policies imposed after the Great Recession can exacerbate these already existing inequalities since they are particularly harmful to the poor and children (Donald *et al.* 2014).

Overall, the US is becoming older and more diverse. The suburbs are becoming poorer, while some urban cities are shrinking, and rural places remain poor. Some see these demographic trends as an exciting opportunity (e.g. Ehrenhalt 2012; Frey 2015), while others preach caution about the potential outcomes (e.g. Lichter 2013). On the ground, there is more variety in demographic trends. For example, while the total US population is growing and aging, places like Detroit, Cleveland, and Buffalo are shrinking, and places like Salt Lake City and San Bernardino have a larger child population than elderly as a percentage of total population. Poverty rates are growing faster in the suburbs as a whole, but in upstate New York, poverty rates continued to grow faster in the inner cities (Bacheller 2015). These unequal demographic trends at the local level signal unequal stress for localities.

What can cities do in response to demographic pressures that signal increased need? Cities can either increase their capacity to respond to needs, decrease the level of need, or ignore these signals. Clavel (2013) identified progressive cities, such as Berkeley, Burlington, Cleveland, Hartford, and Santa Monica, that adopted redistributive policies to respond to need. However, these progressive cities remain the exception, rather than the norm. More often, cities try to attract wealth, capital, and businesses (Hackworth 2013; Harvey 1989; Peck *et al.* 2009; Peterson 1981) to increase their fiscal capacity, while simultaneously trying to exclude people with high need through zoning or other political tools. An example is "municipal underbounding" (Aiken 1987): municipalities trying to exclude populations with high need or low incomes from being incorporated into the jurisdiction so that they are excluded from local services and elections. Lichter *et al.* (2007) found evidence of municipal underbounding along white-black racial lines among rural towns in the South. While wealthier cities have this option of keeping out the poor, declining cities do not.

Economy. The local economy affects the local tax base and fiscal capacity. In the 2008 Recession, the housing market was particularly important. In several places where foreclosure stress was high, municipal fiscal stress followed (e.g. places in Nevada and Florida; Justice and Scorsone 2013). Scholars have pointed out that foreclosures not only lead to financial, psychological, and social instability for families (Ross and Squires 2011), but also to lower property values (Leonard and Murdoch 2009; Lin et al. 2009) and higher crime rates (Raleigh and Galster 2015). For cities, this means less revenue or higher tax effort (since they need to increase the tax rate) and increased expenditure pressures due to increased community need.

Regime theory does not specifically address local government responses to fiscal stress, but gives implications for local government behavior. This theory still recognizes the agency of local governments, but expands its scope to include the role of other local actors in local governance. Regime theory starts from the premise that there is a division of labor between the market and the state (Elkin 1987), which leads to fragmentation of power. Local governments have legitimacy and policy-making authority, while market actors have the capital to generate jobs, tax revenue, and finance public projects. Thus, local governments cannot govern the city alone. Stone (1989) describes the regimes as "informal arrangements by which public bodies and private interests function together in order to be able to make and carry out governing decisions" (p. 6). He writes that local governments pursue these alliances to increase their "capacity to act" (p. 229). While Stone (2005) recognizes that "in the US…, business enjoys ready-made advantages as a willing and able participant in priority agendas" (p. 315), regime theory does not limit the definition of private actors to business actors. Private actors may also include neighborhood organizations.

A more specific version of regime theory that focuses on the role of business actors is the growth machine theory. Logan and Molotch (1987) argued that land-based elites or place entrepreneurs drive local decisions. These entrepreneurs want to maximize the exchange value of land while residents want to maximize use value. A growth machine is formed when the interests of place entrepreneurs (for profit) and local governments (for revenue) converge on the shared goal of growth. These decisions are presented to the public as being beneficial for everyone. However, Logan and Molotch (1987) argue that the outcomes often harm the majority of residents in the area while bringing economic profits to a few land-based elites. A contemporary example is the 2005 Kelo decision. In this Supreme Court case, the City of New London used its eminent domain power to acquire private property so that Pfizer, a large pharmaceutical company, could build a plant. The City argued that the use of eminent domain was justified because the project qualified as an economic development project that serves a public purpose (i.e. creating jobs, increasing city revenue, and revitalizing the area). Susette Kelo and other property owners sued the City, arguing that the Pfizer project does not serve a public purpose. The Supreme Court sided with the City. The use of eminent domain for growth is not new, but the Kelo Decision signifies a shift in the meaning of public goods. The definition of public good was broader, encompassing economic, social and environmental aspects as well as public use, but in the Kelo decision, it was mostly about economic gains.

Local governments pursuing growth has a long history, and given the potential benefits to the local government this pursuit may intensify during times of fiscal stress. Peterson (1981) drew attention to the environmental constraints in which cities operate and argued that cities try to advance their interests by pursuing developmental policies to attract business. The underlying assumption is that developmental policies allow cities to maintain jobs, capital investment, and tax revenue. Cities will compete for upper income taxpayers, who are supposedly more mobile and benefit less from local spending. More recently, Kemmet (2003) found that fiscal stress reinforced the growth machine in California as cities continued to pursue pro-growth policies, even when citizens did not support them.

However, this traditional role of local governments pursuing growth may be changing. Xu and Warner (2015) found local government efforts (defined as the ratio of locally raised revenue to per capita income) had a positive impact on employment growth in the 2001 Recession, but not in the 2008 Recession. They hypothesize that as state mandates force local governments to do more redistribution, they are left with less resources for economic development. Another study by Xu and Warner (2016) on US county areas between 2002 and 2007 also indicates that redistribution spending may be crowding out economic development spending as local government expenditures under devolution are partly driven by local need, rather than solely growth as Peterson (1981) argued.

Summary

During the 1970s and 1980s when local governments experienced fiscal stress, scholars viewed local governments as progressive leaders who prioritize redistribution (Clavel 2013), growth machines that prioritize economic growth (Logan and Molotch 1987), or cutback managers who prioritize survival of the organization (Levine 1978, 1979). Recently, scholars have seen local governments as austerity machines that cut services and prioritize budgets over community needs (Peck 2012, 2014). Using a lens of pragmatism, I argue local governments follow pragmatic municipalism, balancing community needs and fiscal pressures, to maintain their role as service providers (Kim and Warner 2016). My theory of pragmatic municipalism combines previous theories to recognize both local government agency and its structural constraints. Table 1 presents a summary of these views.

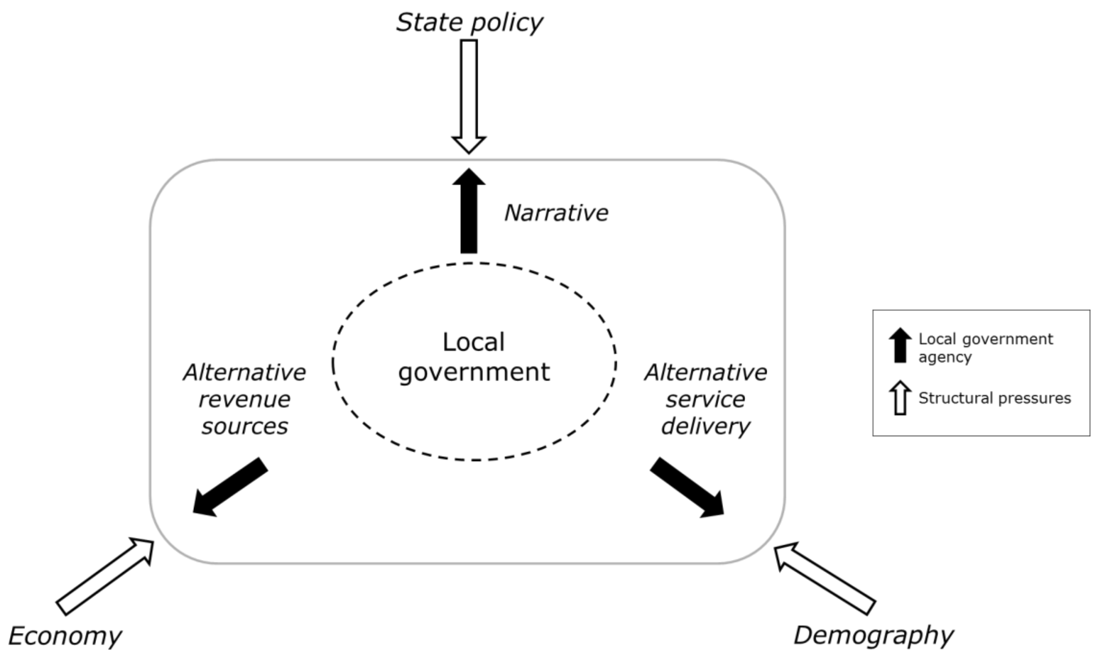
Table 1. Theoretical Frameworks of Local Government Responses to Fiscal Stress

	Responses
Cutback management	Local government manager will choose strategic, rational responses that ensure survival of organization.
Regime theory & growth machine	Local government will try to make coalitions with non-government actors, especially business leaders, and pursue economic growth.
Austerity urbanism	Local governments will privatize and cut services and staff.
State rescaling	Local government responses will vary from place to place, depending on local context and institutional characteristics
Progressive cities	Local governments will respond to local needs and take on progressive roles (e.g. redistributive spending).
Pragmatic municipalism	Local governments use alternative revenue sources and service delivery methods (privatization and cooperation) to meet community needs.

Previous works highlight the importance of state policy, demography, and economy in shaping local government responses (Lobao and Adua 2011; Xu and Warner 2015, 2016; Rodríguez-Pose *et al.* 2009). In my dissertation project, I explore how these factors shape local government choices in delivering services and raising revenues, and the potential for local government agency. Figure 3 is a visual representation of my broad research framework.

State policy, demography, and economy are the structural factors that bound the space for local government choices. These structural pressures and the capacity to push back shape the space for local government choices. As the sources of structural pressures and local capacity can change, the space for local choices will differ across places and across time. Previous theories that emphasize structure (e.g. state rescaling) have focused on these factors separately, while previous theories that emphasize agency (e.g. progressive cities or cutback management) have assumed too much power for local governments or managers.

Figure 3. Research Framework: Structural Constraints and Local Government Agency



I explore the potential for local government agency in terms of alternative revenue sources, alternative service delivery, and narratives. As the structural forces of a recession linked to a housing market decline shrink the main tax base for local governments (i.e. property taxes) and increase service needs, local governments can search for alternative revenues in charges to substitute for the lost revenue. This corresponds to the strategic behaviors that regime theory (Stone 1989) and growth machine theory (Logan and Molotch 1987) predict. They can also use alternative service delivery methods to decrease the cost of service delivery. This corresponds to the strategic behaviors that cutback management theories (Levine 1978) and austerity urbanism theories (Peck 2014) predict. And lastly, they can use narratives to push back against political pressures from higher levels of government. This corresponds to the potential for better communication between local governments and citizens that communicative planning theories envision in progressive cities (Clavel 2013; Sager 2002).

I advance a theory of pragmatic municipalism that explores this dynamic interaction between structural constraints and local agency. The first paper finds local governments use alternative revenue sources and alternative service delivery (e.g. privatization, cooperation) to maintain services under fiscal and economic stress. The second paper focuses on alternative revenue sources, charges and fees, and compares them to the use of property taxes – a revenue source that theories of fiscal federalism have recommended for local governments. I find that the reliance on property tax is higher in places with more capacity, and that the use of charges is limited by structural constraints, such as growth pressures and urbanity. The third paper explores how politics constrain local governments and the importance of narratives in pushing back against these constraints.

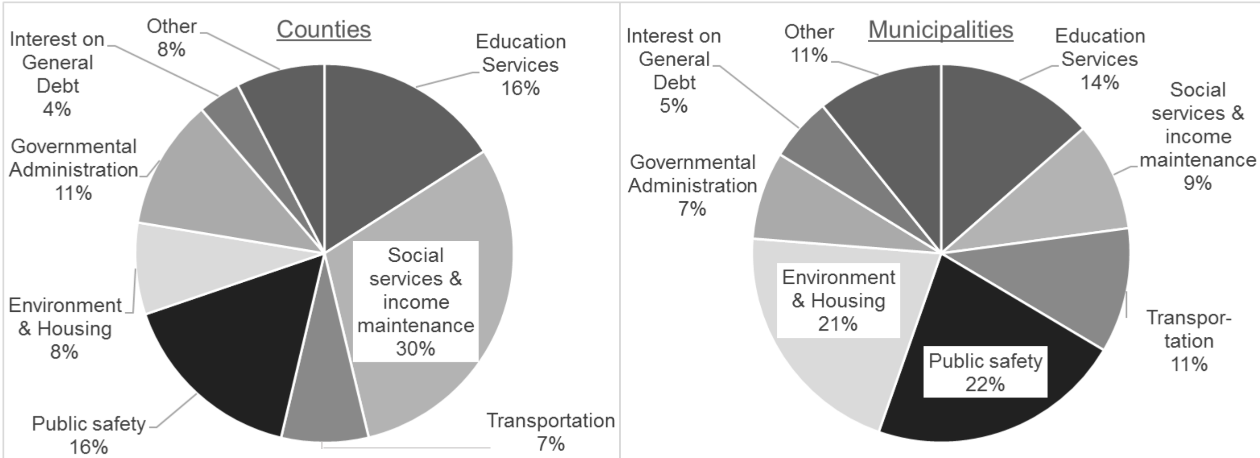
In sum, the three papers in this dissertation show that while local governments do exercise agency, the structural forces largely overpower local agency. Structural constraints limit both the use of alternative service delivery and alternative revenue sources. Narratives, in particular, are actually used by state governments to further constrain local government choices to push back against increasing structural constraints.

Research Design

Unit of Study: General-Purpose Local Governments

My unit of study is general-purpose local governments (counties, cities, villages, towns) as they deliver a variety of services we use on a daily basis. However, there are differences among general-purpose local governments, and I acknowledge these differences in my studies. For example, counties play a direct role in redistribution through social services (see Figure 4), while municipalities deliver public safety services and various quality-of-life services related to environment and housing. The first and second papers restrict analyses to municipalities. The third paper includes counties and municipalities, and notes different political and fiscal pressures by government type.

Figure 4. Distribution of Local Government Expenditures by Government Type, 2012



Data source: 2012 Census of Governments
Note: Expenditures are total general direct expenditures. Social services and income maintenance include public welfare, hospitals, health, employment security administration, and veterans' services. Environment and housing includes natural resources, parks and recreation, housing and community development, sewerage, and solid waste management. Public safety includes police, fire, correction, and protective inspection and regulation. Transportation includes highways, airports, parking facilities, and sea and inland port facilities. Education services include elementary and secondary education, other, and libraries. Governmental administration includes financial administration, judicial and legal, general public buildings, and other governmental administration. Other includes miscellaneous commercial activities and other and un-allocable expenditures.

Mixed Methods

I use a pragmatism framework for my methodology, as well as theory, and thus use mixed methods across the three papers. Tashakkori and Teddlie (2003) define pragmatism as "a deconstructive paradigm that debunks concepts such as 'truth' and 'reality' and focuses instead on 'what works' as the truth regarding the research questions under investigation" (p. 713). The questions that the first and second paper address are about widespread local government behaviors and describing how various demographic, economic, and fiscal factors are related to local services and revenue structures. I use regression models with national data to answer these questions. The third paper addresses the question of politics, which is often implicit and difficult to quantify. Political pressures are also inherently contextual. I use a case study that allows deep understandings of contemporary phenomena within a real-life context (Yin 2009).

Overview: Three-Papers Format

This dissertation project follows a three-paper format. The first paper is a national study on local government service provision and delivery. The second paper is a national study on local government finance (revenue structures). The third paper is a case study of New York State focusing on the politics of local governance. The first paper posits a theory of pragmatic municipalism to describe local government behaviors in a post-recession context – using innovations in service delivery and revenues to maintain services. The second paper explores two of the most important own-source revenues for local governments – property taxes and charges – and how state policy, demography, and economy shape dependence on these two revenue sources. The third paper uses a case study of New York State to examine how political narratives exert pressures on local governments, restraining their choices for raising revenues and adjusting expenditures.

Conclusion

Local governments have played a major role in American democracy as a space to learn about local needs (Dewey 1954; Dryzek 2000; Pateman 1970) and as agents who can respond to those needs (Tiebout 1956; Oates 1972). However, local governments face a complex set of constraints from state policies, demography, and economy. The few municipal bankruptcies after the Great Recession highlighted these constraints and raised concerns about austerity responses at the local level. The three papers in this dissertation show local governments practice pragmatic municipalism and continue to exercise agency through service delivery and revenue innovations. However, this is a short term strategy that local governments have used to maintain their role as service providers. Given the power of structural constraints, this may not be a sustainable strategy in the long term. In a world of shifting state-local relations, this dissertation suggests the assumptions of more efficiency and transparency in a federal system may no longer hold.

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CHAPTER 2

PRAGMATIC MUNICIPALISM: LOCAL GOVERNMENT SERVICE DELIVERY AFTER THE GREAT RECESSION [4]

Abstract
Since the Great Recession, some argue local governments have become "austerity machines" that cut and privatize services and undermine unions. We conducted a national survey of US municipalities in 2012 to examine how service provision level and delivery methods are related to local stress and capacity, controlling for community need and place characteristics. We find local governments are balancing the pressures of stress with community needs. They use alternative revenue sources and service delivery methods (privatization and cooperation) to maintain services. Unionization is not a barrier to innovation. Further, we find ethnically diverse suburbs are providing more services than other suburbs, thus acting more like metro core cities. We find the Great Recession has not dramatically shifted local government behavior to a "new normal" of fiscal austerity. Instead, we find municipalities practicing "pragmatic municipalism" to maintain their public role.

Introduction

Local governments provide a wide range of services that people depend on daily and in times of need. Thus, local government choices about services have

[4] An earlier version of this chapter has been published: Kim, Yunji and Warner, Mildred E. 2016. "Pragmatic Municipalism: Local Government Service Delivery After the Great Recession." *Public Administration* 94(3): 789-805. The main difference is this chapter includes the results of logistic regressions and a discussion of effect sizes (see Appendix 2).

important implications for community quality of life. Detroit is an extreme case of how local government choices in the wake of economic shocks can harm its residents. Few local governments have declared bankruptcy, but there is reason to worry about how local governments are coping with the economic shocks of the Great Recession. Local governments have weak own-source revenue structures (heavy reliance on property taxes) and face expenditure pressures from growing service demands (Pagano and Johnston 2000; Joyce and Pattison 2010; Pollitt 2010). The American Recovery and Reinvestment Act (ARRA) provided short-lived support to local governments (Johnson 2009), and some public finance scholars forecast a permanent, growing gap between revenues and expenditures (Ward and Dadayan 2009). Given these constraints, this paper studies how local governments are providing and delivering services after the Great Recession.

Using case studies of distressed cities, political geographers have articulated a new theory of "austerity urbanism" (Peck 2012, 2014; Donald *et al.* 2014), arguing local governments are undermining public service delivery, citizen wellbeing, and social equity (Glasmeier and Lee-Chuvala 2011; Richardson 2011; Donald *et al.* 2014). This theory sees little possibility of local governments pushing back against the pressures to cut or privatize services. In public administration, scholars have also argued that the Great Recession has pushed local governments to adopt a "new normal" of cutting services rather than raising revenues (Pandey 2010; Scorsone and Plerhoples 2010; Martin *et al.* 2012).

Empirical work on US local government behavior after the Great Recession is still scant, and limited to studies with small samples (e.g. Skidmore and Scorsone

2011; Nelson 2012; Peck 2012; Donald *et al.* 2014) or time frames that may not fully capture the impacts of the Recession (e.g. Lobao and Adua 2011; Lobao *et al.* 2014). Given the time lag between public finance and market pressures, 2012 is a crucial moment to examine local government behavior. We conducted a national survey of US municipalities in 2012 to provide a comprehensive picture of service delivery in the aftermath of the Great Recession. We find local governments are practicing "pragmatic municipalism" (a term we use to describe local government behaviors that balance community needs and fiscal pressures), looking to diverse revenue sources and alternative delivery methods to maintain service provision.

Public Services After the Great Recession

Local Government Responses to Fiscal Stress

The public management literature on local government responses to fiscal stress builds on Charles Levine's (1978, 1979) work on cutback management and argues local governments make step-by-step cuts to manage fiscal stress (Levine 1978; Wolman 1983). However, Downs and Rocke (1984) found local governments are severely limited by mandatory or uncontrollable expenditures, arguing government managers try to cope with the "rising cost of operating a permanent bureaucracy and maintaining current service levels in the face of inflation and structural change (e.g. change in demographic or industrial base)" (p. 340). Pagano (1988) found local governments to be more resilient; able to adapt to their environment through cost-shifting mechanisms (e.g. user fees; special assessments; sharing capital costs with developers and other governments). Meanwhile, Bartle (1996) and Pammer (1990) reported unstructured responses during retrenchment processes, supporting the "garbage can model" (Cohen *et al.* 1972) that assumes organizational decisions are haphazard outcomes.

In the 1980s, Wolman (1983) found service cuts are usually last resorts because they threaten the environmental stability of local governments, but Scorsone and Plerhoples (2010) identified a new era of cutback management that emerged in the early 2000s. In this new era, local governments relied more on budget cuts and restructuring, rather than tax increases. In a study from the 1990s, Pagano and Johnston (2000) projected service cuts in local governments due to structural problems of weak own-source revenues and poorly targeted intergovernmental aid. Martin *et al.* (2012) suggest service cuts will become part of the "new normal" for many local governments in post-2008 Recession times. They foresee local governments with fewer resources and smaller workforces having to make significant reforms in service delivery.

Some scholars argue these changes signify a neoliberal transformation of local governments into austerity machines (Donald *et al.* 2014) or spaces of austerity urbanism (Peck 2012). The austerity machine refers to a coalition of business and financial interests, local government, and state and national government actors who use austerity measures – often bypassing democratic processes – to decrease the level of public services and public employment (Donald *et al.* 2014). They do so by directly cutting local government aid, limiting revenue-raising capacity, or reducing and privatizing services (Peck 2012). Some examples are Detroit's unelected emergency administrators restructuring public employment terms and privatizing public assets, and the activities of the American Legislative Exchange Council (ALEC) and the Tea Party to rewrite state legislation to limit local government power (see Peck 2014).

In a comparative study of the US and Europe, Warner and Clifton (2014) found local governments are not simply shedding services (“hollowing out”; more common in Europe), but using market tools such as developer impact fees and Business Improvement Districts to “ride the wave” of marketization (more common in the US), meeting the demands of fiscal stress without service cuts. Nelson (2012) studied sixteen US municipalities from four regions in the US and found they followed a bounded rationality model; they adhere to a rational sequence of decisions in the early stages, but as the economic situation gets worse, their behaviors become less predictable and more divergent. Cepiku *et al.* (2016) studied six local governments in Italy, and found a variety of responses depending on political and managerial capacity and community relations. In contrast to austerity urbanism theory, which predicts increases in private sector power after the Recession, they did not find private sector empowerment in these localities. In fact, they found local managers renegotiated better contracts with private contractors and strengthened contractor monitoring.

Pragmatic Management

Local governments often turn to alternative service delivery as a means to address fiscal stress. In a study of Wisconsin cities and villages, Maher and Deller (2007) found contracting out was one of the most popular responses to fiscal stress. Bel and Fageda (2007) reviewed thirty empirical studies of local government privatization[5], and found fiscal stress associated with more privatization of services. For places under pressure to cut costs, contracting out can be a more pragmatic response than eliminating services. By pragmatic, we mean balancing service needs and fiscal needs with a focus on problem-solving. Service elimination risks resident complaints, making it a less pragmatic choice.

Whether contracting out achieves cost savings is unclear. Empirical studies in the US and other countries have not found strong or consistent support for the claim that privatization leads to cost savings (Hodge 2000; Bel *et al.* 2010b). European studies of inter-municipal cooperation are more focused on cost savings than US studies (Bel and Warner 2015), and recent studies highlight the importance of context and contracting relations in the US (Bel and Warner 2016). For example, Zafra-Gómez *et al.* (2013) found inter-municipal cooperation, not privatization, offers cost-savings in waste management services among Spanish municipalities. A follow up study found alternative delivery methods decrease efficiency during the period before the Great Recession, but improved efficiency afterward (Pérez-López *et al.* 2015). In a review of studies in the US, Holzer and Fry (2011) found little evidence that cooperation leads to cost savings.

Previous literature has found local governments are pragmatic and consider a wide range of issues for service delivery decisions (Warner and Hebdon 2001; Bel and Fageda 2007; Hebdon and Jalette 2008; Hefetz *et al.* 2012). Local government

[5] Privatization can mean either service shedding or contracting with for-profit organizations. In the US context, the term has been used to refer to the latter (Savas 1989). Following this convention, we use the term privatization to mean service delivery by contracting with for-profit organizations.

managers recognize differences in the strengths and weaknesses of various delivery methods and use them strategically. For example, Girth *et al.* (2012) found managers recognize competition is low in public service markets and often turn to inter-municipal contracts instead of privatization. Managers choose mixed service delivery or inter-municipal cooperation over privatization for ease of monitoring, lower transaction costs (Rodrigues *et al.* 2012), and already existing trust between public organizations (Bel *et al.* 2013; Hefetz *et al.* 2014a).

Privatization and cooperation have different drivers. While motivators of privatization decisions are largely cost concerns, motivators for inter-municipal cooperation are broader, including strengthening regional relations and regional integration (Warner 2011). The transaction costs literature predicts that contracting out decisions depend on service characteristics, such as asset specificity and service measurability (Levin and Tadelis 2010), as well as market competition, level of public interest in service delivery process, and place characteristics (Hefetz and Warner 2012). Service type may also influence provision decisions. For example, public safety and public works are considered essential and many health and human services are mandated. During times of stress, non-essential services (e.g. parks and recreation, cultural programs) may be cut first (Bern and Stiefel 1993).

Capacity, defined as fiscal and managerial resources that the organization has access to, matters for responses to fiscal stress. In a 2008 survey of 1,756 US counties, Lobao and Adua (2011) found those with greater capacity (larger, professionalized, and unionized) adopt austerity measures first. Pallesen (2004) found similar results in Denmark. In a follow up study, Lobao *et al.* (2014) found local government capacity and external pressures (i.e. from state and federal governments, and competition with other local governments), rather than class interests (e.g. businesses, unions) and political-ideological context, explain use of business attraction policies, privatization, and levels of social service provision.

Unions have been a counterforce to austerity measures in Europe through public protests (Warner and Clifton 2014), and in Canada through internal opposition (Hebdon 2006) or suggesting alternatives to privatization (Jalette and Hebdon 2012). In the US, most large-scale quantitative studies find no effect of unionization on privatization (Warner and Hebdon 2001; Zullo 2009) or a counterintuitive effect of more service cuts (Lobao and Adua 2011) or more privatization (Lobao *et al.* 2014). However, Davis (2010) found unionization increases public service motivation – "an individual's predisposition to respond to motives grounded uniquely in public service institutions and organizations" (Perry and Wise 1990, p. 368) – and Lobao *et al.* (2014) found social services are more likely to be preserved in places with more public sector unionization. We expect unionization will not have an effect on level of privatization or inter-municipal cooperation if these are pragmatic decisions made by public managers.

Fiscal stress has led to the search for alternative revenue sources. Developer impact fees, user fees, sales taxes, hotel taxes, and tax increment financing have become popular, especially in fast growing markets (Weber 2010; Kim and Warner 2015). Some scholars see use of these financial tools as acquiescence to a neoliberal ethos that increases fiscal burdens to the household and restricts access to services based on ability to pay (Peck 2012, 2014). On the other hand, diversifying revenues reduces tax effort (defined as tax revenue divided by total personal income; Hendrick 2002), helps localities get around tax constraints (Mullins and Joyce 1996), and allows municipalities to avoid reducing services (Warner and Clifton 2014). Whether these alternative revenue sources help local governments provide services is important given the pressures on local government finance after the Great Recession.

Need and Place Characteristics

Local governments operate within the boundaries of community need and place characteristics. While austerity urbanism scholars view municipalities as failing to respond to community needs, pragmatic municipalism views municipal managers as attempting to balance the two. For example, contracting out is not uniform across local governments by size, metropolitan location, or wealth (Joassart-Marcelli and Musso 2005; Hefetz *et al.* 2012). Larger places tend to use more privatization, while smaller places use more cooperation to achieve cost savings (Maher and Deller 2007; Plata-Díaz *et al*. 2014; Zafra-Gómez *et al.* 2014). This may be a pragmatic choice for small places that lack a competitive market of service providers (Warner and Hefetz 2003; Maher and Deller 2007; Mohr *et al.* 2010; Hefetz *et al.* 2012). Cooperation is an increasingly popular reform because it can promote cost savings while keeping the service public (Holzer and Fry 2011). Recent empirical work has found it to be the preferred alternative when services are complex or community heterogeneity is high (Girth *et al.* 2012; Hefetz and Warner 2012).

Private service providers are largely driven by profit and scholars have found lower competition among private providers for social welfare services because these services tend to be less profitable (Johnston and Girth 2012). Scholars also have found less privatization in places with higher poverty and lower income, as these areas are less attractive to private firms (Warner and Hefetz 2003; Mohr *et al.* 2010; Hefetz *et al.* 2012). Demographic heterogeneity can have a similar impact as need. High levels of heterogeneity increase the complexity of service delivery and raise transaction costs (Nelson 1997; Hefetz and Warner 2012).

Suburbs in the US have been more attractive in the privatization market (Warner and Hefetz 2002; Joassart-Marceli and Musso 2005; Hebdon and Jalette 2008; Hefetz *et al.* 2012) due to their small size, higher income, and lower poverty. Metro core communities have higher poverty rates and provide more services than suburban localities. However, an important shift is now occurring with nonwhite and poor populations growing faster in suburbs than in metro core cities between 2000 and 2010 (Frey 2015). As suburbs become more diverse, they face similar challenges as metro core[6] communities, but lack the broad service array and institutional structure to meet them. Using 2000 US County Business Patterns and 2000 US Census Data, Murphy and Wallace (2010) found that suburban poor neighborhoods have fewer social service organizations, especially mobility enhancing organizations that provide education and employment services.

Both rural and metro core local governments have historically faced greater levels of mismatch between service needs and revenues. Metro core and rural governments deliver more services directly via public employees, but both increased

[6] We use “metro core” to refer to principal cities in metropolitan areas (or “central cities”).

their use of market delivery between 1992 and 2007 (Hefetz *et al.* 2012). However, they still exhibit higher direct public service delivery than suburbs. Rural areas have used cooperation as an alternative when they are unable to find competitive private contractors (Warner 2006; Mohr *et al.* 2010).

Regional differences in the US show the Northeast and Midwest have a more fragmented local government structure, a history of strong unionization, and a more pro-government ideology (Warner 2013). The West and South typically have less fragmentation and larger governments, and much of the population growth has been in these regions (Kim and Warner 2015). Fragmentation may create more potential for inter-municipal cooperation (Holzer and Fry 2011), and privatization is easier to implement in new and growing services (Hefetz and Warner 2004). These can lead to regional differences in service delivery.

Building on previous literature on drivers of local government service delivery, we test a theory of pragmatic municipalism whereby local governments use alternative service delivery and revenue diversification to maintain services in the aftermath of the Great Recession. We posit this pragmatic perspective (Boin *et al.* 2005; Hefetz *et al.* 2014b; Farjoun *et al.* 2015) as an alternative to the austerity urbanism perspective (Peck 2012, 2014; Donald *et al.* 2014). Table 2 provides a summary of these two alternative views.

Table 2. Comparison of Austerity Urbanism and Pragmatic Municipalism

Austerity Urbanism	Pragmatic Municipalism
Local government responses are political.	Local government manages political interests – balancing need, unions, and service responsibilities.
Local governments ignore community needs.	Local governments respond to community needs within constraints.
Local governments pursue more privatization.	Local governments pursue both privatization and cooperation.
Local governments pursue more user fees.	Local governments pursue both user fees and a wider range of alternative revenue sources.
Management is anti-union.	Local governments manage unions and explore the possibility of collaborative management.

Data and Model

We model service delivery in relation to levels of stress (defined as decline in local economy and low levels of organizational resources), government capacity, community needs, and place characteristics. Our dataset of 1,580 municipalities comes from a national survey of local government service delivery we conducted with the International City/County Management Association in 2012. Our sample frame includes all municipalities with population over 2,500. Our response rate was 23 percent and evenly balanced across all population size categories and across geographic regions (see Homsy and Warner 2014 for full survey details). Most municipalities in the US are small to mid-sized. One strength of our study is its ability to capture the full range of municipality sizes in the US (rural municipalities are somewhat underrepresented, chi square = 172 df =2, 24% in sample, 37% in universe). We merged our survey data with the 2005-2009 and 2008-2012 rolling averages from the American Community Survey (ACS), the 2010 US Census, and the 2007 Census of Governments (COG). 2012 is a meaningful time to study local governments, as public finance scholars have shown there is a lag between shocks in the market and their impact on public finance that typically ranges from 18 months to several years (Pagano *et al.* 2012).

Our survey asks US local government managers whether they currently deliver specific public services, how they deliver these services, and other factors related to service delivery (e.g. unionization rates, other revenue sources, etc.). The survey covers 76 services, including public safety, public works, utilities, human services (especially for children, elderly, and the poor), recreation and culture, and administrative support services. For each of the 76 services, respondents (i.e. the local government manager or chief administrative officer) can check whether they currently provide the service, no longer provide it, or have never provided it. For services currently provided by the government, respondents are asked to choose all relevant delivery methods: public employees entirely ("direct public"), public employees in part; contract with private for profit ("privatization"), another government or authority ("cooperation"), private nonprofit, franchise/concessions, subsidies, and volunteers.

Our dependent variables are ratios that measure the level of service provision and the three most commonly used delivery methods—direct public, privatization, and cooperation—that account for 88 percent of provision in 2012. Provision is a proportion of services provided out of total possible 76 services on the survey and delivery method variables are proportions of services delivered via each method out of the total number of services provided. We find that direct public is the most common delivery method accounting for 49 percent of service provision on average, followed by cooperation (22%) and privatization (17%). A breakdown by place characteristics shows that metro core municipalities have the highest level of provision (42 services), followed by suburbs (36 services) and rural municipalities (35 services). Direct public delivery is most common in rural municipalities (55% of total services delivered), while cooperation (23%) and privatization (18%) are more common in suburbs (see Table 3). Our independent and control variables are described below.

Stress: Local governments under severe stress may shed services (Pagano and Johnston 2000; Martin *et al.* 2012). We use the number of services a local government no longer provides (2012 survey) as a measure of cutbacks in our service delivery method models. We do not include this in the provision model as this would be a tautology: the more services shed, the fewer services provided. Based on previous works (Lobao and Adua 2011; Wolman 1983) and our theory of pragmatic municipalism that local governments try to maintain services, we do not expect service elimination to be widespread. The descriptive statistics support this; on average, about two services are no longer provided (see Table 3).

The unemployment rate is used to capture both the stress local governments may face from a population with lower ability to pay taxes, and the demand for more services that help the unemployed. Unemployment is highest in metro core areas (10%), followed by rural areas (9.2%).

Declining property values may contribute to local government fiscal stress. We calculate the percentage decrease in home value for each municipality using rolling averages from the ACS. The absolute difference between median home value in 2008-2012 and 2005-2009 is divided by the median home value in 2005-2009 (all adjusted for inflation), and then multiplied by 100. Places where median home value increased or remained the same have a value of zero for this variable. Home value decrease was most severe in the metro core (11.2%) and suburbs (11.8%). We also include prior levels of local government debt per capita (2007 COG), which were largest in the metro core.

Capacity: We measure both fiscal and managerial sources of capacity. For fiscal capacity, we use state intergovernmental aid to localities per capita (2007 COG) because state aid can lower revenue burdens on cities by acting as a substitute for own-source revenues (Pagano and Johnston 2000; Xu and Warner 2016). Some states specifically target their aid to places with higher needs, and in aggregate, state aid per capita to metro core cities (which have higher poverty rates) is greater than state aid per capita to suburbs (see Table 3). However, there is no clear pattern or consistency in state aid distribution (Fisher and Bristle 2012), and given same poverty rates, a city that receives higher state aid has that much more resources to use than a city that receives less state aid. We also include local government expenditure per capita (2007 COG) and median home value (2008-2012 ACS) as a proxy for property tax base (which is not available on a comparative basis at the national level). Local government expenditure per capita and state aid per capita are highest in metro core municipalities.

Table 3. Descriptive Statistics, US Municipalities

	Metro core		Suburb		Rural		Total	
	Mean	**SD**	**Mean**	**SD**	**Mean**	**SD**	**Mean**	**SD**
Services provided (#; total possible= 76) [a]	**41.8**	15.2	**36.0**	13.7	**34.8**	13.8	**36.4**	14.1
Services delivered via direct public (#) [a]	**22.1**	13.2	**16.7**	11.0	**19.1**	11.8	**17.9**	11.6
Services delivered via privatization (#) [a]	**6.2**	5.8	**6.6**	5.6	**4.7**	5.0	**6.1**	5.5
Services delivered via cooperation (#) [a]	**8.0**	8.5	**8.3**	9.1	**6.8**	8.7	**7.9**	8.9
Services no longer provided (#; "shedding") [a]	**2.7**	4.0	**1.8**	3.5	**2.8**	4.7	**2.2**	3.9
Unemployment (%) [b]	**10.0**	3.3	**8.4**	3.9	**9.2**	4.8	**8.7**	4.1
Median home value decrease (%) [b, c]	**11.2**	11.8	**11.8**	12.3	**5.2**	7.6	**10.2**	11.6
Local government debt per capita, 2007 US $1000[d]	**2.7**	6.4	**1.4**	1.9	**1.5**	2.3	**1.6**	2.9
State aid per capita, 2007 US $1000 [d]	**.3**	.4	**.2**	.3	**.2**	.3	**.2**	.3
Local government expenditure per capita, 2007 US$1000 [d]	**1.7**	.9	**1.2**	1.0	**1.4**	1.3	**1.3**	1.1
Median home value, 2012 US $1000[b]	**217.4**	148.6	**246.9**	174.2	**134.5**	95.8	**217.1**	163.0
User fees (dummy; 1=yes) [a]	**.8**	.4	**.7**	.5	**.6**	.5	**.7**	.5
Other revenue sources (aggregate index; total possible = 12) [a]	**4.0**	2.4	**2.6**	2.0	**2.1**	1.8	**2.6**	2.1
Council manager [a]	**.8**	.4	**.6**	.5	**.6**	.5	**.6**	.5
Unionization (categorical) [a]	**3.1**	2.3	**2.7**	2.3	**2.0**	2.3	**2.5**	2.3
Poverty (%) [b]	**18.5**	8.3	**11.1**	8.0	**19.0**	9.0	**13.8**	9.1
Population under age 18 (%) [b]	**22.6**	4.4	**24.4**	5.3	**23.5**	4.9	**24.0**	5.2
Population over age 75 (%) [b]	**6.5**	2.9	**6.9**	3.7	**8.3**	3.2	**7.2**	3.5
Ln(population) [e]	**11.3**	.98	**9.4**	1.0	**8.8**	.68	**9.6**	1.3
Nonwhite population (%) [b]	**27.7**	14.9	**16.5**	15.5	**15.4**	17.0	**17.1**	16.0
Sample size (valid N)	178		1,029		373		1,580	

Data source: **[a]** 2012 ICMA Alternative Service Delivery Survey; **[b]** 2008-2012 American Community Survey; **[c]** 2005-2009 American Community Survey; **[d]** 2007 US Census of Governments; **[e]** 2010 US Census.

Note: The unionization is measured as: 0=none, 1=less than 10%, 2 = 10% -29%, 4=30%-40%, 5=50% or more.

Our survey explored the extent to which local governments are using new revenue sources to meet their fiscal demands. Previously, this was not possible to test as there were no data on local government use of alternative revenue sources. Our survey collected this information for the first time and we test whether use of a broader array of alternative revenue sources is associated with more service provision as our theory of pragmatic municipalism suggests.

We asked which of thirteen mechanisms the local government uses to finance service delivery and found the following responses: 72% report charging user fees, 48% use development review fees, 40% have hotel occupancy taxes, 35% use tax increment financing, 35% charge local impact fees or developer exactions, 19% have taxes dedicated to specific services, 14% have Business Improvement Districts, 14% sell government assets, 11% collect mortgage or property transfer fees, 8% have public private partnership (P3) financing for infrastructure, 8% have private home owner associations, and 5% have tax base sharing. Respondents were asked to check all mechanisms they use. User fees are the most popular alternative revenue source that directly inhibits access to services. Thus, we include a dummy variable for user fees, separate from the other alternative revenue sources. The remaining alternative revenue sources were aggregated into an "other revenue sources" index (total possible = 12). User fees and other alternative revenue sources are most common in the metro core, followed by suburbs.

For organizational capacity, we use a dummy variable that indicates whether the local government has a council-manager form. Previous studies find council-manager forms linked with more innovation in service delivery as these are professional managers who have more capacity to contract out and monitor these contracts (Lobao and Adua 2011; Nelson and Svara 2011; Lobao *et al.* 2014; Hefetz *et al.* 2014b; Carr 2015). Based on these studies, we expect council-manager forms to be associated with higher use of alternative delivery methods.

Previous studies on unionization have relied on case studies (Hebdon 2006), state laws regarding collective bargaining (Zullo 2009), or limited their analysis to counties (Lobao *et al.* 2014). Our study collected information from municipalities on actual levels of public sector unionization, similar to the procedure used by Jalette and Hebdon (2012) among Canadian municipalities. We asked whether employees are covered by collective bargaining agreements and if so, what proportion are covered. Categorical answers for the proportion of unionization range from none, less than 10%, 10% - 29%, 30% - 49%, to 50% or more. Of the 1,580 municipalities in our sample, 52% have a unionization rate of 50% or more, 31% do not have any unionization, and 17% have unionization rates between 10% and 50%. Based on the mixed results from previous studies, we do not expect unionization to have a significant effect on service delivery if pragmatic municipalism is being practiced.

Need: We control for need by poverty rate, percent of population less than 18 years old, and percent of population older than 75 (all 2008-2012 ACS). Children and elderly make greater demands on local government services (Edwards 2010), and thus communities with a higher percentage of dependent population will be under pressure to maintain service levels (Warner *et al.* 2016). Despite recent changes in suburban demographics (Frey 2015), poverty levels are still higher in metro core and rural areas than suburbs. If cities are pursuing austerity urbanism, they will provide fewer services despite higher need. In contrast, if cities are following pragmatic municipalism, we expect need to be associated with more service provision.

Place Characteristics: We control for population (2010 US Census), nonwhite population (2008-2012 ACS), and metro status. We coded principal cities within metropolitan statistical areas as metro core, and the remainder of metropolitan statistical areas as suburban, using the 2010 US Census place definitions according to the Office of Management and Budget (OMB) 2000 standards (No. 08-01 Bulletin) and 2010 standards (No. 13-01 Bulletin). By distinguishing principal cities, we have built a more comprehensive measure of suburbs than OMB's measure of outlying counties, which leaves many suburbs in the metro core category. All other places are coded as rural. We expect metro core governments to provide more services, and suburbs to provide fewer services and use higher levels of privatization. We control for racially diverse suburbs with an interaction term of percent nonwhite population times suburb dummy and expect them to behave more like metro core cities than traditional suburbs. We also include regional controls, and expect higher provision levels, public delivery, and cooperation in the Northeast and Midwest, and higher privatization levels in the West and South.

We run four models; one on level of service provision, and three on delivery methods (direct public delivery, privatization, and inter-municipal cooperation). Our unit of analysis is the local government and we examine information on service delivery behavior as an aggregate of all 76 services. The dependent variables are the proportion of total services provided or delivered by each alternative out of the total possible number of services, and range from 0 to 1. We can see our dependent variables as binary responses (to provide or not to provide; to use select delivery method or not), and thus use probit regressions.

Results: Local Government Service Provision And Delivery

Table 4 shows the results for all models (i.e. provision, direct public, privatization, cooperation).[7] Our core variables of interest regarding local stress show that local governments with greater decrease in home values and more prior debt have lower levels of service provision. This suggests some hollowing out as a result of fiscal stress. In terms of delivery methods, places with higher unemployment, greater home value decrease, and greater prior debt have lower rates of public delivery, but more privatization and cooperation. This suggests a pragmatic municipal response of using alternative service delivery to maintain services.

These findings are consistent with previous studies that found a link between fiscal stress and privatization (Bel and Fageda 2007) and cooperation (Joassart-Marcelli and Musso 2005). Local governments are using both privatization and cooperation to cope with stress. Meanwhile, places that are shedding more services use more public delivery and less privatization or cooperation. These places are less able or willing to innovate by contracting out. Thus, our models show evidence of governments responding to local stress by using alternative delivery methods as a means to maintain service delivery.

[7] See Appendix 2 for Logistic regression results and a discussion of effect sizes.

Table 4. Probit Regression Results: Service Delivery across US Municipalities, 2012

	Provision	Direct public	Privatization	Cooperation
Stress				
Shedding		0.021***	-0.008***	-0.028***
Unemployment (%)	-0.002	-0.009***	0.008***	0.006**
Home value decrease (%)	-0.002***	-0.002***	0.002***	0.003***
Local government debt per capita (2007 US $1000)	-0.005**	-0.014***	0.012***	0.006*
Capacity				
State aid per capita (2007 US$1000)	0.059***	-0.044*	0.029	0.006
Local government expenditure per capita (2007 US$1000)	0.048***	0.047***	-0.035***	-0.055***
Median home value (2012 US $1000)	-0.158E-6***	-0.363E-6***	0.313E-6***	0.098E-6*
User fees	0.128***	0.019	-0.019	0.031
Other revenue sources	0.036***	-0.038***	0.032***	0.024***
Council manager	-0.020*	-0.000	0.073***	-0.027*
Unionization	0.009***	-0.003	0.005	-0.009**
Need				
Poverty (%)	-0.001	0.006***	-0.005***	-0.005***
Population under age 18 (%)	-0.000	0.004**	0.002	-0.005***
Population over age 75 (%)	0.004***	-0.004*	-0.003	0.005**
Place characteristics				
Ln (population)	0.064***	0.071***	-0.012	-0.100***
Nonwhite population (%)	-0.001**	-0.004***	0.002*	0.004***
Suburb	-0.037	-0.118***	0.191***	0.036
Suburb*nonwhite	0.003***	0.002**	-0.003**	-0.001
Rural	-0.005	0.052*	0.062*	-0.080**
South & West	0.049***	-0.028*	-0.081***	0.189***
Intercept	-0.868***	-0.530***	-1.180***	0.141
Pearson goodness of fit statistics	χ^2 (1560) = 14,466 p = 0.000	χ^2 (1559) = 16,143 p = 0.000	χ^2 (1559) = 7,350 p = 0.000	χ^2 (1559) = 14,821 p = 0.000

Source: Authors' analysis of 2012 ICMA Alternative Service Delivery Survey; 2007 Census of Governments; 2005-2009, 2008-2012 American Community Survey.
Note: *p<.05, **p<.01 ***p<.001 Values reported are coefficients of probit model. N = 1,580 municipalities.

Regarding capacity, we find places with greater median home value provide fewer services, use less public delivery, and use more privatization and cooperation. This suggests alternative delivery methods may be easier to implement in places with greater fiscal capacity. These results support our theory of pragmatic municipalism that localities use a variety of alternative revenue sources to maintain service delivery. Although user fees and privatization have been criticized as evidence of neoliberal restructuring (Peck 2012), we find user fees are not linked to more privatization. By contrast, use of other revenue sources is associated with less public delivery and more privatization and cooperation. Some of these revenue sources transfer service provision responsibility to the private actor and can reduce service delivery pressures on the local government.

Our results show unionization rates are positively associated with provision levels. This suggests the possibility of collaborative management with unions. However, unionization is linked to less cooperation and this may reflect difficulty in structuring sharing agreements between municipalities with different union contracts. Unionization does not have a significant effect on level of public delivery or privatization. Local government decisions seem to be pragmatic, rather than driven by union pressure.

Local government responses differ by type of need. Local governments with larger elderly population have higher provision levels, suggesting partial support for pragmatic municipalism. However, the size of the child population and poverty rates are not associated with a difference in provision levels. Places with larger elderly population use less direct public delivery and more cooperation. Services for the elderly are typically provided via cooperation by regional area offices on aging (Warner *et al.* 2016). These findings imply limits of privatization and cooperation as methods to address high levels of need. Both alternatives require a willing partner (for-profit contractor or neighboring municipality), and high levels of need in the form of poverty and children (who lack voting power) can be unattractive to potential partners.

We examined how place characteristics affect service delivery. Larger municipalities show higher levels of provision, more direct public delivery, and lower cooperation levels. This is consistent with prior literature that finds larger places use more direct public delivery (Hefetz *et al*. 2012) and have more complex service portfolios (Hebdon and Jalette 2008; Zullo 2009; Bel and Warner 2016).

Places with larger minority population deliver fewer services and use less public delivery and more privatization and cooperation. Suburbs, compared to metro core areas, are associated with less direct public delivery and more privatization, as expected. Our measure of ethnically diverse suburbs (the suburb and nonwhite population interaction term) shows diverse suburbs provide more services, use more direct public delivery, and less privatization. These ethnically diverse suburbs behave differently from other suburbs and act more like metro core cities. Rural places show more direct public delivery, more privatization, and less cooperation, compared to metro core areas.

The South and West have higher provision and cooperation and lower direct public delivery and privatization rates, compared to the Northeast and Midwest. We had expected the opposite due to more fragmentation and higher unionization in the

Northeast and Midwest. However, these results mirror those found by Hebdon and Jallete (2008) in Canada where more conservative provinces (e.g. Alberta) showed less privatization. The South and West also have larger municipalities (in population) and more poverty (Kim and Warner 2015), and prior research has found privatization is lower in such higher cost markets (Hefetz *et al.* 2012).

We also ran separate models for non-essential services (parks and recreation, cultural and arts programs). Our broader results regarding pragmatic municipalism remain unchanged, but we found this set of nine non-essential services are less responsive to stress, capacity, or need. Citizens often prefer these services, making it difficult for managers to cut them in times of stress. Among service delivery alternatives, only privatization is higher when stress is higher – suggesting these services may be more likely to be privatized when communities face stress (see Appendix 1).

Discussion: Pragmatic Municipalism as Response to Local Stress

Local governments are using a variety of delivery methods to respond to stress in the aftermath of the Great Recession. Our results show austerity urbanism, which predicts service cuts, privatization, and increased user fees, is too narrow to describe local government behavior. Instead, we find support for our theory of pragmatic municipalism, which emphasizes the role of public managers. Local governments are doing much more than simply hollowing out - cutting services or privatizing. Municipalities under more stress use both more privatization and more cooperation. Scholars have identified inter-municipal cooperation as a viable alternative to privatization in places that lack competitive markets (Bel *et al.* 2010a; Mohr *et al.* 2010; Hefetz and Warner 2012) and for services where regional coordination is required (Holzer and Fry 2011; Bel and Warner 2015). Our results suggest local governments are well aware of the variety of options they have, and are using both strategies.

We find local governments' use of alternative revenue sources is linked to maintaining services. While some argue these alternative revenue sources are evidence of the erosion of public values (Peck 2012), our results show their use is linked to higher service provision levels. User fees, in particular, are not linked to more privatization. However, broader use of alternative finances is linked to innovation in service delivery. We cannot assess the regressivity of these alternative revenue sources or their effects on service quality with our data. Given that revenue diversification has been an increasing trend (Hendrick 2002) and fees are an attractive tool for local governments in the "new normal" (Martin *et al.* 2012), this is an area that needs more study.

Unions have been targets of austerity (Peck 2012), and austerity urbanism sees management as anti-union. However, we find unionization linked to higher provision levels, which signals the possibility of collaborative management. Unionization does not have a significant effect on rates of public delivery or privatization, supporting our theory that pragmatic municipalism is a managerial project, not a political one.

Scholars in the past found local government responses to be unstructured (Pammer 1990; Bartle 1996). We argue local governments are strategic and use a variety of delivery methods and revenue sources that fit their context. In places with high need, such as more poverty and larger child population, public delivery is more common. This implies local governments are aware of the limits to privatization and cooperation in higher need communities. Direct public delivery and cooperation are the only delivery methods that show higher rates in places with greater need. By contrast, affluent places with higher median home values provide fewer services, use less public delivery, and more privatization and cooperation.

Geographic context matters. Previous studies have found suburbs are associated with less provision, less direct public delivery, and more privatization (Hebdon and Jalette 2008; Hefetz *et al.* 2012). Our results support these findings. However, we also find suburbs are no longer homogeneous. Suburbs with greater nonwhite population provide more services, use more direct public delivery, and less privatization. Our results suggest ethnically diverse suburbs are recognizing the needs of a diverse population and responding to them with strategies that differ from traditional suburbs. Lower privatization in diverse suburbs is particularly surprising given that suburbs have traditionally been considered preferred markets for privatization. However, as these diverse suburbs assume the characteristics of small cities, they begin to face similar demographic and fiscal challenges to metro core cities and pursue similar delivery strategies.

Conclusion

While fiscal stress since the Great Recession may have created a “new normal” for local governments (Martin *et al.* 2012), we do not find support for austerity urbanism as argued by some political geographers (Peck 2012, 2014; Donald *et al.*

2014). The austerity argument is based primarily on case studies, such as Detroit, which are not typical of most US cities. Our study looked at a national sample of US municipalities in 2012 and we find local government responses are both nuanced and pragmatic. Public administration scholars recognize local governments are more diverse and pragmatic in their response (Scorsone and Plerhoples 2010; Nelson 2012; Warner and Clifton 2014; Farjoun *et al.* 2015; Cepiku *et al.* 2016), and our work confirms this view.

We find US local governments are using service delivery alternatives and alternative revenue sources to maintain service delivery during times of stress. While our results show cities are not simply following a neoliberal austerity agenda, neither do we find them to be progressive centers, as service provision is lower in places with greater stress. Instead, what we see is a pragmatic municipalism that seeks to maintain service delivery and innovate within the confines of fiscal pressures. Whether these pragmatic approaches are robust to deepening local stress, only time will tell.

APPENDIX 1. Probit Regression Results for Parks and Recreation Services and Cultural and Arts Programs

	Provision	**Direct public**	**Privatization**	**Cooperation**
Stress				
Shedding		.021***	.003	-.020***
Unemployment (%)	-.015***	-.004	.023**	.007
Home value decrease (%)	.000	.001	.006**	.001
Local government debt per capita (2007 US$1000)	.001	-.020**	-.000	.013*
Capacity				
State aid per capita (2007 US$1000)	-.030	-.024	-.065	-.051
Local government expenditure per capita (2007 US$1000)	.087***	.035	.022	-.073**
Median home value (2012 US$1000)	-.048E-6	-.541E-6***	.577E-6***	-.115E-6
User fees	.188***	.116**	.045	-.053
Other revenue sources	.030***	-.043***	.040**	.040***
Council manager	-.105***	.036	.148**	-.004
Unionization	-.010	.006	-.028*	-.001
Need				
Poverty (%)	.002	-.004	-.010*	-.001
Population under age 18 (%)	-.002	-.003	-.001	-.007
Population over age 75 (%)	.008*	-.005	-.006	.001
Place characteristics				
Ln (population)	.197***	.062**	.119***	-.115***
Nonwhite population (%)	-.000	-.004*	-.002	.010***
Suburb	.035	-.016	.336**	.225*
Suburb*nonwhite	.003*	.004*	-.004	-.006**
Rural	.131*	.043	.206	.083
South & West	.185***	.017	.007	.039
Intercept	-2.011***	-.451	-3.289***	-.13
Pearson goodness of fit statistics	χ^2 (1560) = 3,603 p = .000	χ^2 (1481) = 4,608 p = .000	χ^2 (1480) = 2,525 p = .000	χ^2 (1480) = 3,675 p = .000

Source: Authors' analysis of 2012 ICMA Alternative Service Delivery Survey; 2007 Census of Governments 2007; 2005-2009, 2008-2012 American Community Survey.
Note: *p<.05, **p<.01 ***p<.001 Values reported are coefficients of probit model. N = 1,580 municipalities for provision model. 78 places, which do not provide any parks and recreation or cultural and arts programs, are dropped from the delivery method models.

APPENDIX 2. Logistic Regression Results and Effect Size Interpretations (odds ratios)

	Provision	**Direct public**	**Privatization**	**Cooperation**
Stress				
Shedding		1.036***	.986***	.947***
Unemployment (%)	.996	.985***	1.015***	1.010**
Home value decrease (%)	.997***	.996***	1.004***	1.004***
Local government debt per capita (2007 US $1000)	.992**	.978***	1.021***	1.010*
Capacity				
State aid per capita (2007 US$1000)	1.099***	.931*	1.053	1.008
Local government expenditure per capita (2007 US$1000)	1.080***	1.079***	.940***	.908***
Median home value (2012 US $1000)	1.000***	1.000***	1.000***	1.000*
User fees	1.228***	1.031	.968	1.060*
Other revenue sources	1.060***	.942***	1.059***	1.040***
Council manager	0.969*	1.000	1.142***	.954*
Unionization	1.015***	.995	1.009	.985**
Need				
Poverty (%)	.999	1.010***	.991***	.991***
Population under age 18 (%)	.999	1.007**	1.003	.991***
Population over age 75 (%)	1.007***	.993*	.995	1.009**
Place characteristics				
Ln (population)	1.107***	1.121***	.980	.843***
Nonwhite population (%)	.998**	.994***	1.003*	1.007***
Suburb	.942	.826***	1.420***	1.078
Suburb*nonwhite	1.004***	1.004**	.995**	.998
Rural	.991	1.085*	1.123*	.880**
South & West	1.082***	.955*	.868***	1.398***
Intercept	.249***	.427***	.136***	1.331
Pearson goodness of fit statistics	χ^2 (1560) = 14,467 p = .000	χ^2 (1559) = 16,143 p = .000	χ^2 (1559) = 7,349 p = .000	χ^2 (1559) = 14,812 p = .000

Source: Authors' analysis of 2012 ICMA Alternative Service Delivery Survey; 2007 Census of Governments; 2005-2009, 2008-2012 American Community Survey.
Note: *p<.05, **p<.01 ***p<.001 Values reported are odds ratios from logistic models. N = 1,580 municipalities.

For ease of interpretation, I use the results of logistic regressions to discuss the effect sizes of key variables. In general, the variables with the largest effect sizes across all models are the capacity and place variables. In terms of provision, user fees have the largest effect. The use of user fees increases the odds of providing a service by 23%. Place characteristics are the main drivers of delivery methods. Public delivery is largely driven by population. A 1% increase in population is associated with a 12% increase in the odds of a municipality using public delivery. The odds of privatizing a service is 42% higher in a suburban municipality, compared to an urban municipality, while the odds of delivering a service via cooperation is 40% higher in a municipality in the South or West regions, compared to those in the Northeast or Midwest. This is consistent with prior literature that finds larger places use more direct public delivery (Hefetz *et al*. 2012) and that suburbs are more likely to use privatization (Warner and Hefetz 2002; Joassart-Marceli and Musso 2005; Hebdon and Jalette 2008; Hefetz *et al.* 2012).

The core variables of interest regarding local stress have small effect sizes. For example, a $1000 increase in prior debt per capita lowers the odds of providing a service by 0.8%. Holding all variables at the average value, an urban municipality in the Northeast or Midwest with a council-manager has a 50% chance of providing any service. A similar municipality with $10,000 more debt per capita has a 48% chance of providing any service. This is in line with our expectations that service cuts would be unlikely. In terms of delivery methods, service shedding has the largest effect size among the stress variables. For every additional service no longer provided, the odds of delivering a service via public delivery increase by 3.6% and the odds of delivering a service via privatization and cooperation decrease by 1.4% and 5.3%, respectively. So for places shedding services, use of alternative service delivery is less likely. Need variables also have small effect sizes. A 1 percentage point increase in poverty is associated with a 0.9% decrease in the odds of delivering a service via cooperation and a 0.9% decrease in the odds of delivering a service via privatization. Likewise, places facing more need are less likely to pursue alternative service delivery.

As mentioned, service shedding is rare so these effects will only have noticeable impacts in the extreme cases. For example, an urban municipality in the Northeast or Midwest that charges user fees, has a council-manager, and average values for all other variables has a 56% chance of using public delivery, 13% chance of using privatization, and 18% chance of using cooperation to deliver any service. Descriptive statistics show, on average, municipalities deliver approximately 50% of services via public delivery, 17% via privatization, and 22% of services via cooperation (out of 36 services provided; see Table 3). Using Flint, MI as an extreme case with a 40% poverty rate that reported 10 services are no longer provided, the predicted probabilities of delivering a service via public delivery, privatization, and cooperation are 64%, 13%, and 8.6%, respectively. These predicted values are higher than those actually reported by Flint, MI in the survey. Flint, MI reported delivering 55% of its services via public delivery, 9% via privatization, and 9% via cooperation (out of 22 services provided) – even lower rates of alternative service delivery than predicted by the model. Overall, stressed municipalities are less likely to use alternative service delivery, and places with severe stress like Flint, MI have much lower chances of using these methods.

Although the effect sizes of stress and need variables are small, the findings have important implications for the strength of pragmatic municipalism as a response to fiscal stress. The vast majority of places are maintaining the number of services they provide with alternative delivery methods, but municipalities with extreme poverty or stress are less likely to use these alternative delivery mechanisms. This study focused on identifying general responses across local governments, but future studies could identify the additional constraints that municipalities with extreme levels of stress or need face and how they are responding.

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CHAPTER 3

CITY REVENUE STRUCTURES AFTER THE GREAT RECESSION

Abstract

Property taxes have been the most important own-source revenue for local governments, and normative theories of public finance highlight its strengths – broad-base and stability. However, historical trends show that charges have been the main revenue source for cities since the late 1970s, and that their importance is increasing after the Great Recession. Using 2012 Census of Governments data for 2,396 cities, this paper explores how state policy, demography, and local context shapes local revenue structures. Regression results show property tax dependence is linked to higher state aid and home values, while charges dependence is linked to higher poverty and home value drops. Charges may be a useful tool for cities with high stress, but political pressures and urban context constrain this choice. Moreover, the narrow base, volatility, and potential regressivity of charges raise questions about their effects on community life and fiscal sustainability. Without higher-level efforts for spatial redistribution, the different revenue structures among cities may exacerbate interjurisdictional inequalities.

Introduction

The Great Recession has put public budgets in the spotlight (Keeley and Love 2010). A narrative of wasteful public spending is widespread (Peck 2014) and anti-tax sentiments are high, as evidenced by the Tea Party movement. In a decentralized system of governance, locally raised revenues play an important role. Locally raised revenues imply more local control over how much local governments tax and spend and can potentially mean more efficiency and accountability.

How local governments raise own-source revenues has implications for community life and fiscal sustainability. Property taxes have been the most important own-source revenue for local governments, and normative theories of public finance highlight the strengths of this tax (e.g. stable, broad-based, and efficient; Alm *et al.* 2011; Musgrave 1983). Yet, recent work suggests property taxes alone are inadequate for meeting the needs of local governments (Bartle *et al.* 2011). The Government Finance Officers Association has recommended revenue diversification since the 1990s (GFOA 1998) and scholars note local governments with a heavy reliance on one source of revenue may be particularly vulnerable to fiscal stress (Pagano and Johnston 2000).

In the aftermath of the Great Recession, scholars note charges and fees are becoming a popular source of revenue for local governments (Langley 2016; Pagano 2012). US Census of Governments (COG) data show growth in charges and fees for cities between 2007 and 2012 (6.8 billion in 2009 dollars) outpaced growth in property taxes (5.3 billion in 2009 dollars).[8] Charges and fees are a way to bring in more revenues while tying the benefit of services to payments, but scholars warn charging users can raise equity issues as it can restrict marginalized groups from accessing services (Peck 2012).

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[8] This paper uses a broad definition of charges and fees that includes current charges, utility revenues, special assessments, and other license taxes.

This is not to say property taxes are not regressive or exclusionary. School quality is capitalized in home values (Nguyen-Hoang and Yinger 2011), and people who cannot afford to pay high property taxes can be excluded from access to higher quality schools. However, in cities with diverse households with diverse property tax bills, once someone becomes part of that community this person can use services that are financed by the general revenue. In the case of services with charges, even when the person is part of the community, this person faces an additional barrier to accessing the service.

Given the context of devolution, this paper asks how cities' dependence on property taxes and charges and fees differ by state policy, demography, housing market, and place characteristics. Property taxes and charges have different strengths and weaknesses, which can lead to different impacts on residents and the future of the municipal budget. Regression results from 2,396 US cities with a minimum population of 10,000 in metropolitan areas show property tax dependence is higher in cities with more capacity (greater state aid and home values), while charges dependence is higher in cities with more stress (higher poverty and metro core cities with home value drops). Charges may be a promising tool for cities under stress, but there are structural barriers to the use of charges and the narrow base and instability of this revenue source raise concerns of fiscal sustainability. The remainder of the paper is structured as follows. The next section reviews previous literature on state rescaling, potential sources of city stress and capacity, and link these to local revenue structures. This is followed by a description of data and methodology. Regression results and a discussion of key findings follow, and the paper concludes with policy implications and directions for future studies.

Literature Review

How do sources of city stress and capacity shape city revenue structures? This paper uses broad definitions of city stress (pressures of high service needs) and capacity (sources of revenue). In a multilevel governance system, state policies exert significant pressures on local government expenditures and revenues, but how localities respond to pressures from above depends on local context. This section reviews previous literature on devolution, sources of local stress and capacity, and how they are related to local revenues.

Devolution and State Rescaling

Localities have always been "creatures of the state" subject to state law (Frug and Barron 2008). However, scholars noted sharp increases in state to local devolution in the 1990s (Nathan 1996). Political geographers warned devolution may harm equity and social justice (Brenner 2004). Their argument is as central governments transfer the responsibility of service provision to lower levels of government they also no longer follow a spatial Keynesian approach: directing central resources to places with more need. This means places with low ability to raise revenues and high levels of service need are unable to provide services that their residents need.

Recently, Peck (2012) argued state governments are pushing fiscal stress down to the local level and forcing cities to engage in austerity urbanism. Austerity generally implies cutting back, but Peck (2012) defines austerity urbanism as eliminating or privatizing services and adopting more regressive revenue sources, such as user fees and charges. These changes often bypass local democratic processes as states interfere through emergency managers (Loh 2016). State intervention is still rare across the US; 19 states have laws allowing them to intervene when local governments are under fiscal stress (Pew Charitable Trusts 2013). Nonetheless, scholars noted the increase in state intervention after the Great Recession (Hinkley 2015; Anderson 2012). Lobao and Adua (2011) found diversity in local austerity and Cox (2009) argues spatial Keynesianism was never as strong in the US as Europe and emphasizes differences across states: "the USA has never had one welfare state, rather, it has had 50 of them" (p. 114).

Empirical evidence on how state policy affects local finance is mixed. Xu and Warner (2016) found the role of state policy (decentralization and state aid) has different effects on local fiscal effort (locally raised revenue per capita/per capita income) across county areas. Using 2002 and 2007 COG data, they found the dominant relationship between decentralization and local effort is complementary (positive). In other words, local governments that shoulder a greater share of the state and local expenditure burden have higher local effort. However, in some places, this relationship was negative. For state aid, they also found a complementary (positive) relationship, those with higher state aid exhibited higher local effort. Based on national survey data of cities and counties in the 1990s, Pagano and Johnston (2000) also found higher intergovernmental aid is associated with higher revenue burdens for both cities and counties.

Earlier research has found this can lead to vicious and virtuous cycles as local governments with more capacity receive more aid and those with less capacity receive less (Warner and Pratt 2005). These outcomes will depend on how state aid is structured (e.g. competitive grants, matching grants). While some states explicitly use an equalization or needs factor (e.g. per capita income, per capita property value) in deciding aid distribution, there is no clear pattern or consistency in state aid distribution and little consideration for costs of local services (Fisher and Bristle 2012). How cities respond to these pressures from the state level will depend on local context.

Local Context: Demography, Housing Market, Place Characteristics

At the local level, demography, housing market, and place characteristics shape city stress and capacity. Who lives in the city matters for local fiscal conditions, both because of the level of need and ability to pay. On the expenditure side, localities may have to spend more because people in poverty have higher need for public services (Pack 1998). On the revenue side, this may imply a smaller tax base to draw from. While studies of local government effort found local effort was lower in areas with higher poverty in the 1980s (Warner and Pratt 2005), studies in the 2000s find effort is higher in areas with higher need (Xu and Warner 2016). This could be a result of devolution mandating social welfare expenditures at the local level, regardless of fiscal capacity.

Aging is another demographic factor with significant implications for public expenditures (Wolf and Amirkhanyan 2010). At the state and local levels, per capita spending increases sharply after age 75, reflecting costs of nursing home care and other services for elderly (Edwards 2010). Children also require more services from local governments (Warner and Morken 2013). Based on data from California counties, MaCurdy and Nechyba (2001) found higher proportion of young (age 20 and below) are linked to more intergovernmental aid and lower tax revenues, while proportion of elderly (65 and above) did not affect revenue structures. The authors link these results to expenditure needs; the largest expenditure need for the young is education, and states provide more support for this category than other local expenditure needs. More recent studies show mixed results. Some find higher effort in places with more children and lower effort in places with more elderly (Xu and Warner 2016), while others find no relationship between elderly population and resource expansion strategies (e.g. increasing user fees; Lobao and Adua 2011).

Another source of city stress is the housing market. In several places where foreclosure stress was high, municipal fiscal stress followed (e.g. places in Nevada and Florida; Justice and Scorsone 2013). Scholars have pointed out foreclosures not only lead to financial, psychological, and social instability for families (Ross and Squires 2011), but also to lower property values (Lin *et al.* 2009). For cities, this means less revenue or higher tax effort (since they need to increase the tax rate) and increased expenditure pressures due to increased community need. Cities may experience both demographic and housing market stress. Some scholars have found foreclosures were highest in suburbs with higher poverty (Schildt *et al.* 2013). This may lead cities to search for alternative revenue sources, such as user fees.

Patterns of demographic stress and housing market stress are not spread out equally across space. Traditionally, suburbs have enjoyed higher income and lower poverty while inner cities have had higher poverty. A study by the Brookings Institute shows poor people living in inner cities are four times as likely to live in concentrated poverty as their suburban counterparts (Kneebone *et al.* 2011). Using Detroit and San Diego as examples, Peck (2012) cautions austerity urbanism is most severe in urban core cities, rather than the suburbs or rural places, where minorities and other marginalized populations are concentrated. His argument is social services are easy targets of austerity urbanism and urban core cities tend to have higher levels of these services. This can increase the gap between cities with strong growth pressures and cities with weaker growth prospects and higher need. Ross *et al.* (2015) found, while surveys indicate most cities suffered substantial revenue loss after the Great Recession, the 35 largest cities in the US were relatively stable, relying on their property taxes and deficit spending (because they have more net assets). Patterns of housing market stress are unclear, and thus the spatial distribution of local revenue structures is difficult to predict. Some found the foreclosure crisis was an inner city phenomenon (Immergluck 2010), while others have argued it was a suburban phenomenon (Lucy 2010). This may reflect the limitations of existing metro status categories. While suburbs as a whole have lower levels of need than cities in the metro core, scholars have identified emerging trends of poverty and nonwhite population growing faster in the suburbs (Frey 2015).

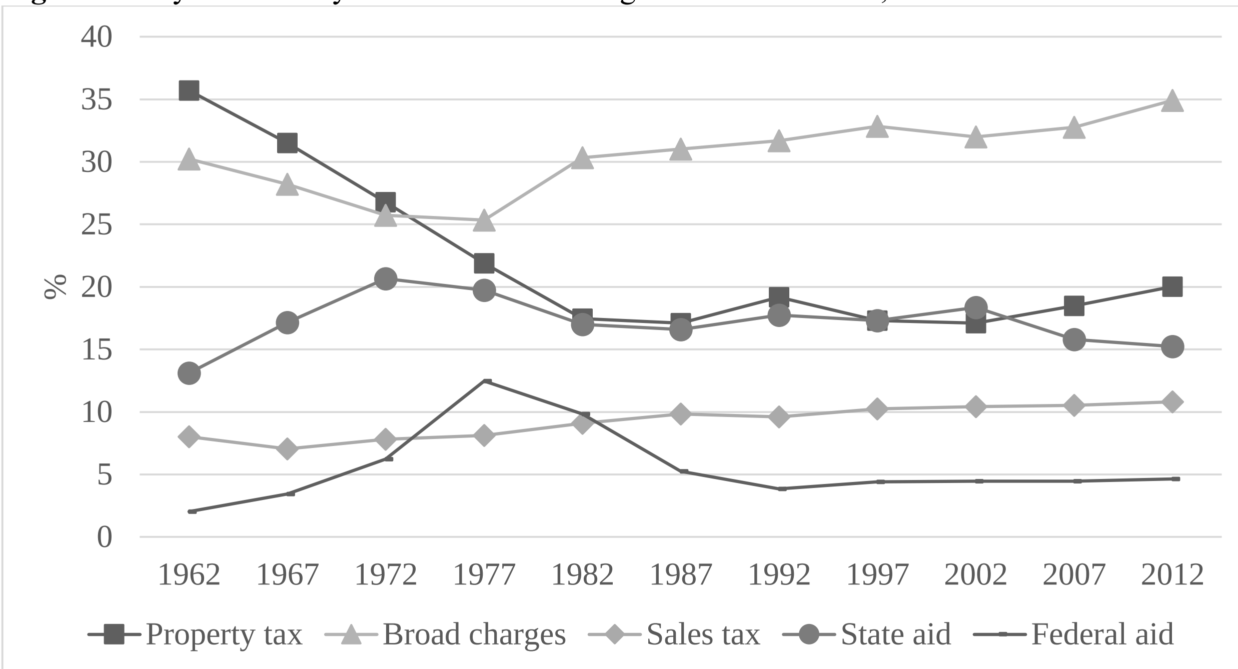
Local Revenues

Theories of fiscal federalism make normative statements about local revenue sources, such as local governments should prefer property taxes over sales or income tax due to its stable, broad, and immobile base (Musgrave 1983; Peterson 1981). However, these theories do not explain the trend of local revenue diversification, specifically the decreasing reliance on property taxes and increasing reliance on other sources of revenue (Krane *et al.* 2004). Empirical studies on local government revenue choices have focused on why local governments choose either the property tax or the income tax (Blackley and DeBoer 1987; Sjoquist 1981), even though income taxes at the local level are rare.[9] Overall, these studies find property tax dependence is higher in places where tax exporting is more likely (Blackley and Deboer 1987). Studies have also examined the role of politics in tax base choices. Using a median voter model, Sjoquist (1981) examined the use of property taxes among the 45 largest US cities and found property tax reliance is higher in places with higher median income and more owner-occupied housing.

Theoretically, the property tax has characteristics that make it an ideal source of local revenue: broad base, stability, and efficiency (Sjoquist and Stephenson 2010). Focusing on four states with severe housing market boom-bust cycles (Nevada, Florida, Arizona, California) and four states with less pronounced cycles (New York, Minnesota, Georgia, Colorado), Lutz *et al.* (2011) found local property tax revenues were fairly resilient to drops in housing price declines. Meanwhile, Scorsone and Plerhoples (2010) point out localities are less willing to raise taxes as a way to respond to fiscal stress since the early 2000s. Even before the most recent recession, Pagano and Johnston (2000) found property tax dependence is linked to slower growth in total revenue, which limits the locality's capacity to build up reserves.

[9] As of 2011, 4,943 jurisdictions in 17 states imposed a local income tax. Pennsylvania had the most number of jurisdictions imposing an income tax (2,961) (Henchman and Sapia 2011).

Figure 5. City Revenue by Source as a Percentage of Total Revenue, 1962-2012



Data source*:* US Census Bureau, Census of Governments Historical Data.
Note: Broad charges refer to current charges, utility revenues, special assessments, and other license taxes.

Historical Census of Governments Finance data show property tax dependence has decreased and charges dependence has increased among cities (see Figure 5). In 1962, property taxes were 35% of total revenue among cities. By 2012, this figure dropped to 19%. There are two potential reasons for this trend. First, the tax and expenditure limitations (TELs) movement that began in the late 1970s limited local authority over property taxes (Shadbegian 1999). Second, state aid to cities increased dramatically between 1962 (20 billion in 2009 constant dollars) and 1977 (56 billion in 2009 constant dollars), which allowed cities to decrease their dependence on property taxes. Reliance on property taxes and state aid were roughly equal throughout the late 1980s and 1990s. However, state aid to cities dropped by 11 billion (in constant 2009 dollars) between 2002 and 2012, and property taxes remain the second largest source of total revenue.

As TELs restricted property taxes, reliance on charges outpaced that of property taxes in the late 1970s (see Figure 5), and has remained the largest source of revenue for cities (34% of total revenue in 2012). Bartle *et al.* (2011) argue that the long-term decline in property taxes means charges are the only promising source of revenue for local governments. Using the Lincoln Institute of Land Policy's Fiscally Standardized Cities (FisC) databases, Langley (2016) found cities that were more reliant on property tax and user charges fared better after the Great Recession. Charges are a broad category of revenues collected in exchange for a service. They range from fees for utilities (e.g. electric, gas, water), general services (e.g. sewerage, solid waste management), and use of public space (e.g. parks and recreation, parking facilities), to regulatory and administrative fees (e.g. licenses, building permits, developer fees, impact fees). In some places, local governments have increased fees for services that residents have little choice over consuming, such as fire protection or ambulance services. These fees are "non-traditional" (Sjoquist and Stoycheva 2012), but increasing (Pagano 2012). Census of Governments data report these in a broad category of "other charges (Census of Governments code A89)," thus information on these fees is limited. According to the International City/County Management Association (ICMA)'s 2009 State of the Profession survey (2,214 city and county responses), 41% of respondents charge for ambulance/EMS and 6 % charge for fire protection.

Charges have several strengths. First, charges allow those who do not use the service to not pay for it, enhancing horizontal equity (or "benefits principle"). Second, charges can reduce demand for the charge-financed service, thereby reducing expenditures (Sun and Jung 2012). This can have pro-social and pro-environmental impacts as well. For example, garbage tag fees incentivize residents to reduce trash and recycle (Dijkgraaf and Gradus 2004). However, charges may be unpopular among politicians and bureaucrats due to their rigidity (Sjoquist and Stoycheva 2012); in many places, user fees must be used for a specific service, rather than being lumped into the general fund. The user control over how much services to consume and pay for implies less control over revenue collected by cities, compared to property taxes. Residents can always decrease or terminate the use of these services or leave the municipality, while it is more difficult to consume less housing or move a house. This raises questions about fiscal sustainability - ability to raise enough revenues to meet expenditure needs in the long term. Charges are also more invisible and less noticeable than property taxes. This may be a benefit to cities that need to raise revenues with minimum political costs, but may also lead to less accountability of city governments.

Another limitation of charges is their potential regressivity, but actual regressivity is difficult to estimate. On the one hand, the type of service will determine the regressivity of the fee. For example, a municipal golf course is a service lower income residents are less likely to use. Meanwhile, a flat fee ignores ability to pay. A progressive fee plan is a potential solution, but there is little information on how fees are structured across cities. Again, the International City/County Management Association (ICMA)'s 2009 State of the Profession survey provides some information.

Respondents were asked, “For services that are fee-based, how are they accessed by people who cannot afford the fee?” Among 1,725 places that charge user fees, 29% have a waiver of fee, 18% have a sliding scale, and 5% offer vouchers. If the user fee is a flat fee for all users, then the cost of the service is a larger proportion of income for low-income users. Martinez-Vasquez (2015) concedes charges could be regressive, but points out the elimination of charges based on the argument of regressivity could end up hurting the poor even more as the shortage in revenues could lead to elimination of the service. The poor generally have lower ability to switch to private service delivery options. He emphasizes that subnational governments are not appropriate for doing much redistribution and likens the regressivity of charges to the regressivity of food expenses. He warns, “Requiring subnational governments to set the fee levels below the actual costs of provision imposes an unfunded mandate and it can easily lead to poor provision of services” (p. 370).

Indeed, scholars recognize that revenue diversification can be a source of strength and capacity for localities, especially during times of fiscal stress (Shamsub and Akoto 2004). It can lower tax effort (Hendrick 2004), provide an effective way to operate under TELs (Mullins and Joyce 1996), and allow cities to maintain services in times of austerity by bringing in supplemental revenues through developer fees or impact fees (Warner and Clifton 2014). [10] This does not mean developer fees or impact

[10] The question of who pays for impact fees (i.e. who bears the tax burden) will depend on the wider economic context (Dresch and Sheffrin 1997). Some possibilities are developers through lower profits and renters and homeowners if developers pass the costs down in the form of higher rents and prices. This paper limits its discussion to the impact fee’s role as an alternative source of revenue for local governments.

fees are not regressive, but they are alternative revenue sources that do not directly restrict the use of a service to those who pay. However, even when we view charges as a practical source of revenue, there are concerns for inequality among cities. In a case study of Tax Increment Financing in Chicago from 1996 to 2007, Weber (2010) found use of such alternative revenue sources is higher in places that have growth pressures. If alternative revenue sources are an effective tool for managing stress, they may be limited to places that are already doing well.

Despite the variation in property taxes and charges dependence, few studies have looked at how these differ by place. An exception is Jung and Bae (2011) who examine charges dependence among counties between 1972 and 2002. They found demography and political institutions matter. In detail, denser counties with higher median household income have higher charges dependence. They explain richer counties may have higher demands for services that can be financed with charges. Charges dependence was also higher in counties with potentially binding local TELs and less federal and state aid. Similarly, Shadbegian (1999) found counties with TELs shift their revenue structures away from property taxes to charges and fees. However, counties under more stringent TELs (defined as limiting annual property tax growth to less than 5%) were unable to shift to more reliance on charges and fees. This may be due to political signals that TELs send – anti-tax sentiments are high. Netzer (1992) examined charges dependence of state and local governments (i.e. aggregating state and local revenues) and found higher income is associated with lower charges dependence. Netzer explains the reason for this is unclear, but one possibility is the income elasticity for collective goods (financed by taxes) is higher than for utility and transportation services (more likely to be financed by charges). Thus, governments with higher income are more willing to finance collective goods with general taxes than user charges. This paper explores how state and local context shape city revenue structures after the Great Recession and expands the scope of analysis to all cities in metropolitan areas.

Data and Methodology

The analysis uses data on local government finances, demography, housing market, and place characteristics from 2012 Census of Governments (COG), 2005-2009 and 2010-2014 American Community Survey (ACS),[11] and 2000 and 2010 Census. The unit of analysis is cities in metropolitan areas with a minimum population of 10,000. After merging COG, ACS, and Census data, the final dataset has 2,396 cities (632 metro core, 1,764 suburban). Variable descriptions and descriptive statistics by metro status (Table 5) are presented below.

Revenue structure. Dependent variables are property tax and charges and fees as a percentage of own-source revenue (total revenue less intergovernmental revenue; 2012 COG). Increasing revenue diversity is a broad trend (Sjoquist and Stoycheva 2012), but state context matters. According to the 2012 COG, property taxes were 25% of total own-source revenues for cities, but this figure ranged from 4% in Oklahoma to 75% in Connecticut.

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[11] The American Community Survey reports five-year rolling averages.

Table 5. Descriptive Statistics by Metro Status

	Metro core		Suburb		Total	
	Mean	**SD**	**Mean**	**SD**	**Mean**	**SD**
Dependent Variables						
Property tax dependence (%)[a]	26.4	17.6	33.7	20.8	31.8	20.2
Broad charges dependence (%)[a]	44.7	18.1	37.4	18.9	39.3	19.0
Narrow charges dependence (%)[a]	23.4	11.3	19.8	11.2	20.7	11.3
State Policy						
State aid per capita ($1000)[a]	.309	.521	.193	.322	.223	.388
State decentralization (%)[a]	54.1	6.5	55.3	5.73	55.0	6.0
Tax and expenditure limitations (TELs) stringency	17.8	8.9	18.4	8.5	18.2	8.6
Demography						
Poverty (%)[d]	20.2	8.3	13.2	8.2	15.1	8.8
Population under age 18 (%)[d]	22.6	4.4	24.7	5.0	24.2	4.9
Population over age 65 (%)[d]	13.4	4.9	13.3	5.0	13.3	5.0
Housing Market						
Ln median home value[d]	12.0	.565	12.2	.579	12.1	.580
Median home value growth (%)[d, e]	-11.7	14.6	-16.3	13.9	-15.1	14.2
Place Characteristics						
Ln population[b]	11.3	.973	10.1	.659	10.4	.913
Population growth (%)[b, c]	12.9	39.2	31.0	128	26.3	112
Housing unit growth (in thousands)[d, e]	1.56	6.12	.675	1.42	.909	3.39
Controls						
Property tax per capita ($1000)[a]	.490	.510	.453	.437	.463	.458
Charges per capita ($1000)[a]	.999	1.03	.580	.694	.690	.817
N	632		1,764		2,396	

Data source: [a] 2012 US Census of Governments; [b] 2010 US Census; [c] 2000 US Census; [d] 2010-2014 American Community Survey; [e] 2005-2009 American Community Survey.

Note: Property tax and charges dependence are measured as percentage of own source revenue (total revenue – intergovernmental revenue). Broad charges refer to current charges, utility revenues, special assessments, and other license taxes. Narrow charges refer to current charges only. State decentralization is the ratio of total local expenditures to total state and local expenditures converted to percentages. See Wen and Xu (2015) for more details on TELs stringency index. All financial variables are in 2012 constant dollars. N=2,396 cities in metropolitan areas with population 10,000 or more.

This study uses a broad definition of charges to include charges to individual users as well as developer fees by combining current charges, utility revenues (water, electricity, gas, transit), special assessments, and other license taxes. Categories under current charges include education, hospitals, highways, airports, parking facilities, sea and inland port facilities, natural resources, parks and recreation, housing and community development, sewerage, solid waste management, and “other.” For cities in 2012, electric power and water supply revenues were the largest category of charges (23% and 19% of total charges and fees, respectively), followed by sewerage (17%) and “other” charges (8%). Examples of “other” charges include ambulance service fees, alarm permits, fire response charges, and library fees (Sjoquist and Stoycheva 2012). These are generally non-traditional services for user fees, and have been a source of controversy in the aftermath of the Great Recession (Pagano 2012). One problem is not all cities own municipal utilities, which are the largest source of charges. In order to tease out the difference between these broader charges and narrower charges, this paper models dependence on two types of charges: "broad charges" (current charges, utility revenues, special assessments, and other license taxes) and "narrow charges" (current charges only).

Broad charges dependence varies across states, with the lowest dependence in Connecticut (18% of own-source revenue for cities) and highest dependence in Wyoming (75%). The national figure for cities was 43%. Property tax dependence is higher among suburbs, while broad and narrow charges dependence is higher in the metro core cities (see Table 5).

State policy. This study explores three ways state policy can affect cities. First, states can directly provide state aid to municipalities. Even though total state aid to cities has been declining since 2002, as of 2012, it remained the third largest source of total revenue for cities (15%). The models use state aid per capita to capture state assistance. Although previous studies have found a complementary relationship between state aid and local effort (Pagano and Johnston 2000; Xu and Warner 2016), it is unclear how property tax dependence is linked to state aid. Meanwhile, previous studies on charges dependence (Jung and Bae 2011) imply charges dependence will be lower in cities with more state aid. Descriptive statistics show state aid per capita is higher in metro core cities.

Second, states can decentralize expenditure responsibilities to the local level through mandates or simply not delivering certain services, thereby indirectly pushing the responsibility to localities. There is no comprehensive dataset on the size of state mandates across the nation. Following previous studies (e.g. Mullins and Joyce 1996; Shamsub and Akoto 2004; Wallis and Oates 1988; Warner 2001; Xu and Warner 2016), this study uses the ratio of local expenditure to total state and local government expenditures as a proxy for fiscal decentralization. This measure will be higher in places where localities are shouldering more of the total state and local expenditure. Property taxes and charges are more stable sources of revenue than sales tax or income tax (which only some states allow; see footnote 9). Thus, property tax dependence and charges dependence may be higher in cities with more decentralization.

Third, states can restrict local ability to raise revenues through TELs. Wen and Xu (2015) measured TELs stringency for each state based on the methodology of

Mullins and Cox (1995) and data from the Lincoln Institute of Land Policy's Significant Features of the Property Tax database on tax limits. A state fixed effect can also control for state policy. However, the TELs stringency index gives more information on *how* state policy matters. The index reflects the magnitude of the limit, override provisions, and exclusions. The magnitude of the limit refers to the size of rate limits or maximum amount of allowable increase. Override provisions range from requiring approval by the electorate, governing body, or a third party (e.g. state board or court). Exclusions are items that are exempt from the TEL. Examples include debt service, new construction, emergency, capital outlay, etc. Each level of magnitude, override provisions, and exclusions are assigned a numeric score based on the stringency of each item to create sub-indices (higher number means greater stringency). The sub-indices are added to create a total stringency index. This index takes into account the different legislation applied to different types of local governments (i.e. counties, municipalities, school districts). This paper uses the municipalities index. The index ranges from 0 (Connecticut, New Hampshire, Vermont) to 36.5 (Colorado). California (30.5), Michigan (30.5), and Arizona (28) were also ranked high on this index. Based on previous studies on the impact of TELs (Joyce and Mullins 1991; Maher and Deller 2013), property tax dependence may be lower and charges dependence higher in cities with more stringent TELs.

Demography. Demographic stress is captured by poverty rates, percentage population under age 18 ("child population"), and percentage population over age 65 ("elderly population") (all 2010-2014 ACS). Higher service needs for children and elders create special challenges for local governments (Edwards 2010; Warner and

Morken 2013; Wolf and Amirkhanyan 2010). If state rescaling pressures due to devolution have created an austerity urbanism form of governance that requires localities to prioritize fiscal discipline over community need (Peck 2012), cities with more poverty, elderly, and children may have higher charges dependence. In the case of child population, higher dependence on property taxes may reflect the high reliance on local property taxes for school funding (Kenyon 2007).

Housing Market. Property taxes remain an important source of local revenues. Housing market capacity is captured by median home values (ACS 2010-2014). Growth in home values can signal a city has become more desirable to live in, while drops in home values can signal fiscal stress since localities will have a reduced property tax base. The change in median home value is calculated by subtracting the median home value in 2005-2009 ("period 1") from the value in 2010-2014 ("period 2") and converting this number to a percentage of the original home value in period 1. All values are adjusted for inflation to 2012 dollars. A negative value indicates drops in median home values ("housing bust"). Positive values indicate median home value increases between the two periods. To capture the diversity of housing bust stress in suburbs, the models also include an interaction term for suburbs and home value change. Housing bust was more severe in suburbs (16.3% drop in median home values) than metro core cities (11.7% drop).

Cities with strong housing markets (higher home values, growth in home values) may rely more on property taxes, because property taxes are stable sources of revenue. Cities with strong housing markets have little incentive to search for new revenue sources. In contrast, cities with declines in home values may have higher charges dependence, because they must search for alternative sources of revenue.

Place characteristics. One purpose of this paper is to explore how the urban context shapes stress and revenue structures. Previous studies have shown there are urban and suburban differences in levels of need (Dalaker 2001). Using the 2010 US Census place definitions according to the Office of Management and Budget's 2000 standards (No. 08-01 Bulletin) and 2010 standards (No. 13-01 Bulletin), this paper created a metro status variable classifying principal cities in metropolitan statistical areas as metro core and the remainder of metropolitan statistical areas as suburbs. A dummy for metro core cities is added to see differences across metro status.

The log of total population is included to control for size (2010 Census). The models have two measures of growth. The first is percentage population change (2000, 2010 Census) to capture the impact of growth in size. The second is growth in housing units (2010-2014, 2005-2009 ACS) as a proxy for development pressures. This variable is created by subtracting the number of total housing units in 2005-2009 ("period 1") from total housing units in 2010-2014 ("period 2"). A large and positive number indicates more housing construction between the two periods. Previous literature identifying cities strategically use charges and fees (Warner and Clifton 2014) indicate charges dependence will be higher in cities with more population growth and housing unit growth. Population growth was larger in the suburbs, while housing unit growth was larger in the metro core.

Controls. Property tax dependence and charges dependence are shaped by other factors, such as a consolidated city-county structure, having a dependent school district, and other revenue sources available to the city. Dummy variables for consolidated city-county governments, dependent school district, and other revenue sources (sales tax, income tax) were included to control for these effects. For the consolidated city-county variable, a list of consolidated city-county governments was obtained from the National League of Cities (NLC n.d.). A recent comprehensive list of dependent school districts is not available. City expenditures on elementary and secondary education were used as a proxy. Cities with any expenditures in this category were coded as having a dependent school district. Sales tax and income tax dummy variables were coded in the same manner to control for a city's use of these revenue sources. [12] In contrast to sales or income tax, all cities use property taxes and charges. Charges per capita is included as a control variable in the property tax dependence model and property tax revenue per capita in the charges dependence model.

Results: City Stress and Revenue Structure

Using ordinary least squares (OLS) regressions,[13] this study examines how state policy, demography, housing market, and place characteristics are related to

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[12] In a model of revenue structure, controlling for other revenue sources is important. However, these control variables potentially create a mathematical problem because state aid, property taxes, charges, sales tax, and income tax are the majority of city revenues (they should add up to nearly 100%). This study uses dummy variables and percent of own-source revenue as the dependent variables to minimize the mathematical problem.

[13] The dependent variables are proportions, which raises concerns about using an OLS model, but the majority of dependent variables were between 20 and 80 (64% of property tax dependence; 80% of broad charges dependence). Furthermore, the results

property tax and charges dependence. State policy was measured in three ways: state aid, decentralization, and TELs stringency. Property tax dependence is linked to more state support and less constraints (see Table 6). A $1000 increase in state aid per capita is related to 7.5% increase in property tax dependence. This may be a reflection of education as the largest category of state aid to cities and heavy reliance on property taxes for education funding. TELs stringency is related to less dependence on property taxes, and reflects how most TELs target property taxes. Surprisingly, broad charges dependence is also lower in cities with more stringent TELs. Cities may be responding to the political pressures of residents' aversion to taxes (signaled by the stringency of TELs), as well as pressures from the state level to shrink revenues overall. Meanwhile, the narrower category of current charges dependence has no statistical relationship to TELs stringency. These are smaller categories of charges that may be truly independent of any political constraints (easier to hide). Instead, narrow charges dependence is lower in cities with high rates of decentralization. State decentralization reflects real expenditure burdens on localities, and the volatility of current charges might make these revenue tools unattractive for localities with significant expenditure responsibilities.

In terms of demography, charges (both broad and narrow) dependence is higher in cities with more poverty. A 1% increase in poverty is related to .23% increase in dependence on broad charges and .1% increase on narrow charges. Camden, NJ is a city with high poverty and high levels of fiscal stress that has an

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of tobit regression models are very similar to OLS results (see Appendix 3). The paper uses OLS results for ease of interpretation.

“average” dependence on broad charges (39.3%). Using Camden as an example, a 1% increase in poverty translates to $161,000 increase in broad charges revenue and $70,000 increase in narrow charges. Property tax dependence is lower in cities with higher percentage of child population. Property taxes are the main revenue source for school funding, but property tax dependence does not seem to reflect the need for school funding (at least, as measured by number of school-age children). Elderly population is not related to property tax dependence. In contrast, broad charges dependence is higher in cities with a higher percentage of child and elderly population. A 1% increase in the percentage of child population is associated with a .32% increase in charges dependence, while a 1% increase in the percentage of elderly population is associated with a .27% increase in charges dependence. Again, using Camden, NJ as an example, this translates to a $225,000 increase in charges with a 1% increase in child population and $190,000 increase in charges with a 1% increase in elderly population. This provides some support for the concerns of austerity urbanism scholars that fees are more common in places with more need. On the other hand, this shows the possibility of charges and fees as viable sources of revenue for cities with high need. However, cities with more concentration of children and elderly population do not rely more on narrow charges.

Table 6. OLS Regression Results for Revenue Dependence of US Cities, 2012

	Property tax dependence as % of own source revenue	Broad charges dependence as % of own source revenue	Narrow charges dependence as % of own source revenue
State Policy			
State aid per capita ($1000)	7.520***	.413	1.549
State decentralization (%)	.130	-.108	-.134**
Tax and expenditure limitations (TELs) stringency	-.589***	-.210***	.036
Demography			
Poverty (%)	.046	.229***	.102**
Population under age 18 (%)	-.307***	.317**	-.024
Population over age 65 (%)	-.155	.265**	.049
Housing Market			
Ln median home value	11.105***	-2.948**	-2.038***
Median home value growth (%)	-.108*	-.107*	-.128***
Suburb*Median home value growth	-.064	.152**	.116**
Place Characteristics			
Metro core (1=yes)	-.292	3.925**	1.033
Ln population	-1.737***	.017	.185
Population growth (%)	-.006*	.002	-.001
Housing unit growth (in thousands)	-.272**	.238*	.083
Controls			
Consolidated city-county (1=yes)	7.159	4.349	2.454
Dependent school district (1=yes)	9.088***	-2.879	-5.580***
Sales tax (1=yes)	-11.284***	-1.702	-1.580*
Income tax (1=yes)	-15.006***	-10.993***	-2.388**
Charges per capita ($1000)	-9.721***		
Property tax per capita ($1000)		-11.421***	-3.957***
Intercept	-58.485***	77.077***	51.268***
Adjusted R^2	.444	.173	.100

Source: Author's analysis of 2012 US Census of Governments; 2005-2009, 2010-2014 American Community Survey; 2000, 2010 US Census.

Note: *p<.05, **p<.01, ***p<.001. Values reported are OLS coefficients. N=2,396 cities (632 metro core, 1,764 suburban) in metropolitan areas with population 10,000 or more. Own source revenue is defined as total revenue less intergovernmental revenue. Broad charges refer to current charges, utility revenue, special assessments, and other license taxes. Narrow charges refer to current charges only. All financial variables are in 2012 constant dollars. See Wen and Xu (2015) for more details on TELs stringency index.

Higher median home values are linked to higher property tax dependence and lower charges dependence (both broad and narrow). A 1% increase in median home values is associated with .11% increase in property tax dependence and a .03% decrease in broad charges dependence and .02% decrease in narrow charges. For Camden, NJ, this translates to a $77,000 increase in property taxes and decreases of $21,000 and $14,000 in broad charges and narrow charges, respectively. This may reflect pragmatic management decisions by cities; cities with higher home values can apply a low tax rate on this stable, broad tax base and still raise enough revenue, without having to adopt a system of charges. Growth in home values is linked to lower property tax dependence. Cities with home value growth may also experience an overall growth in the local economy, leading to increases in other revenue sources (e.g. sales tax) and allowing them to rely less on property taxes. Urban context matters for the effect of home value growth on charges dependence. In metro cores cities, growth in home values is linked to less dependence on broad charges and decline in home values is associated with higher dependence on broad charges. Metro core cities with home value drops can rely on broad charges as alternative sources of revenue. In contrast, suburban cities with home value drops rely less on broad charges. Meanwhile, median home value growth is linked to less dependence on narrow charges, in both metro core and suburban cities. In other words, home value drops are linked to more dependence on narrow charges across all cities. Thus, narrow charges (rather than broad charges) seem to be a more promising tool for cities with housing busts, but suburbs are still using these tools to a lesser degree than metro core cities.

Place characteristics show broad charges dependence is higher among metro core cities. On average, cities in the metro core have 3.9% higher dependence on broad charges, compared to cities in the suburbs. This may reflect user fees in cities with more urban services subject to charges. However, narrow charges dependence does not differ by metro status. Growth pressures were measured with population growth and housing unit growth. Cities with population growth and housing unit growth are less dependent on property taxes. These growing cities may also have growing economies that bring in other sources of revenue. Housing unit growth is linked to higher dependence on broad charges. This may reflect developer fees or impact fees in cities or increased utility revenues with more growth pressures.

The models included control variables that may shape city revenue structures. City-county consolidations were not associated with property tax or charges dependence, while dependent school districts were linked to higher property tax dependence, reflecting property taxes as the main source of revenue for schools. On average, cities with dependent school districts have 9% higher property tax dependence than cities without dependent school districts. Cities with dependent school districts have lower dependence on narrow charges. Ability to diversify revenue sources matters. Access to sales tax is related to lower property tax dependence and lower dependence on narrow charges. Cities with income taxes have 15% lower property tax dependence and 11% lower charges dependence. Use of income tax also lowers current charges dependence by 2%. Given the limitations of property taxes and equity concerns of charges and fees, the income tax can be a promising revenue tool that allows localities to more accurately tax ability to pay.

Discussion

Cities have relied on property taxes and charges as their main source of revenues. However, reliance on property tax and charges differs by levels of stress and capacity. First, property tax dependence is higher in high capacity cities with greater median home values and state aid. These findings echo the normative claims of fiscal federalism that property taxes are the best sources of local revenue (e.g. Musgrave 1983). This implies a virtuous cycle for cities with higher property tax dependence – cities that already have more state aid per capita and higher home values. The Great Recession highlighted property tax dependence as a source of strength and stability for cities (Alm *et al.* 2011). If so, these cities – which are already enjoying local capacity and low demographic stress – will continue to be resilient to economic downturns in the future.

Second, charges dependence is higher in cities with more poverty and lower home values. This shows the potential for cities with high stress and inadequate property tax base to use charges to maintain services. However, concerns for equity remain. If these charges are user fees, this revenue structure can further restrict service provision to marginalized segments of the city. Not only is this a problem from the consumer's point of view (i.e. residents who cannot access these services), but this is also a problem for local government revenues. User fees restrict services to those who can pay. Fewer users can mean lower demand for services, but given that many charges are linked to services with high sunk costs (e.g. water, electricity, sewer, library), there may be limits on reducing service levels. Meanwhile, with fewer users, the decline in total revenue is certain. The result can be a vicious cycle of lower revenues leading to even more reliance on fees, exacerbating demographic stress. User fees can certainly be designed in a progressive way, for example, to have lower fees for low-income residents. However, if one purpose of charges is to raise enough revenue to cover the costs of the service (Martinez-Vazquez 2015), this may be difficult for stressed cities.

Third, there are differences in the results of the broad charges and narrow charges models that highlight political, spatial, and economic barriers to the various charges and fees. Even though most TELs restrict property taxes, cities under more stringent TELs also have lower broad charges dependence. This is in line with the findings of Shadbegian (1999) for counties. Although cities have been using charges for a long time, the political pressures from residents and state governments matter. More studies are needed on these political barriers to charges and how cities address them. Broad charges require urban services that can be financed on an enterprise basis and growth pressures that attract developers. These conditions are not available in all cities. For example, while metro core cities with decline in home values are relying more on charges, suburbs with home value declines are not. Whether the lower reliance on charges is due to lower development pressures or greater resistance to fees by residents or local officials is unclear from this study. More research on stressed suburbs and their revenue strategies is necessary. Meanwhile, narrow charges seem to be more resistant to political pressures from the state or residents, but they remain a small percentage of own source revenues (20.7%). It is unlikely that narrow charges will be able to make up for any substantial shortfalls in property taxes or state aid.

Comparing the models, the property tax model performs better (adjusted R^2=.44) than the charges models (adjusted R^2=.17 and .10 for broad charges and narrow charges, respectively). Given the large body of research on property taxes, elements of model structure are common and the findings of this study are in line with earlier studies (Alm *et al.* 2011; Bartle *et al.* 2011; Blackley and Deboer 1987; Joyce and Mullins 1991). In contrast, studies on charges are still scant even though they have been the largest revenue source for cities since the late 1970s. Charges are a broader category of revenue that includes both fees to users and developers, but Census of Governments data do not differentiate these two types of charges in detail. Given the national trend of increasing reliance on charges, future studies should develop better models for analyzing charges and data sources that can differentiate user and developer charges.

Conclusion

How local governments raise revenues matters for community needs and fiscal sustainability. Traditional theories of public finance argue local governments should primarily use property taxes. However, national trends show charges have been the main revenue source for cities since the late 1970s and are becoming more popular. This study found cities with high capacity and low stress are following the prescriptions and relying more on property taxes. However, property tax dependence – celebrated for its broad base and stability – does not show promise for stressed cities. Instead, cities under stress are relying more on charges. Thus, charges can be a useful tool for cities with weak property tax bases and high need, but the use of this tool is restricted by structural barriers that cities have little control over. Furthermore, charges are more volatile than property taxes and have a narrower base. In the event of another recession, cities with a high reliance on charges may be vulnerable to fiscal stress. Absent increased assistance from higher levels of government for spatial redistribution, inequality among cities that collect enough revenues with property taxes, cities that can and do use charges, and those unable to use charges will increase.

APPENDIX 3. Tobit Regression Results for Revenue Dependence of US Cities, 2012

	Property tax dependence as % of own source revenue	**Broad charges dependence as % of own source revenue**	**Narrow charges dependence as % of own source revenue**
State Policy			
State aid per capita ($1000)	7.515***	.411	1.550
State decentralization (%)	.129	-.109	-.133**
Tax and expenditure limitations (TELs) stringency	-.590***	-.210***	.036
Demography			
Poverty (%)	.044	.228***	.102**
Population under age 18 (%)	-.306***	.318***	-.024
Population over age 65 (%)	-.155	.265**	.049
Housing Market			
Ln median home value	11.092***	-2.953**	-2.036***
Median home value growth (%)	-.108*	-.107*	-.128***
Suburb*Median home value growth	-.064	.152**	.116**
Place Characteristics			
Metro core (1=yes)	-.316	3.913**	1.040
Ln population	-1.717***	.027	.181
Population growth (%)	-.006*	.002	-.001
Housing unit growth (in thousands)	-.272**	.238*	.083
Controls			
Consolidated city-county (1=yes)	7.136	4.340	2.458
Dependent school district (1=yes)	9.077***	-2.878	-5.580***
Sales tax (1=yes)	-11.279***	-1.701	-1.580*
Income tax (1=yes)	-15.015***	-11.000***	-2.385**
Charges per capita ($1000)	-9.723***		
Property tax per capita ($1000)		-11.429***	-3.953***
Intercept	-58.456***	77.074***	51.269***
Log-Likelihood	-9890.384	-10209.270	-9079.804

Source: Author's analysis of 2012 US Census of Governments; 2005-2009, 2010-2014 American Community Survey; 2000, 2010 US Census.

Note: *p<.05, **p<.01, ***p<.001. Values reported are tobit coefficients. N=2,396 cities (632 metro core, 1,764 suburban) in metropolitan areas with population 10,000 or more. Own source revenue is defined as total revenue less intergovernmental revenue. Broad charges refer to current charges, utility revenue, special assessments, and other license taxes. Narrow charges fer to current charges only. All financial variables are in 2012 constant dollars. See Wen and Xu (2015) for more details on TELs stringency index.

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CHAPTER 4

LIMITS OF FISCAL FEDERALISM: HOW POLITICAL NARRATIVES ERODE FISCAL SUSTAINABILITY IN UPSTATE NEW YORK

Abstract

Local governments can be efficient under fiscal federalism, but can they achieve fiscal sustainability? Using a case study of Upstate New York, this paper argues the political and fiscal incentives in the current federal system encourage local governments to maintain services without adequate revenues. A narrative of inefficient local governments allows the State and citizens to exert pressures that *de facto* eliminate local government choices to raise revenues through property taxes or charges. The consequences are expenditure cuts across the board and lack of long-term planning. Counter-narratives are weak as the State can claim lowering taxes without service cuts, and citizens believe they can enjoy the same services with lower taxes. Local officials see the erosion of fiscal sustainability, but face political and fiscal barriers for collective action. More balance of power in state-local relationships and a narrative that better connects local taxes and local services are necessary.

Introduction

Fiscal stress among local governments is a widespread concern after the Great Recession (Levine *et al.* 2013; Pagano 2013). The limits on raising own-source revenues and the position of local governments at the bottom of the federal hierarchy mean fiscal stress may be structural and chronic for local governments (Pagano and Johnston 2000; Osborne and Hutchinson 2005). However, local governments are responsible for delivering many services, because theories of fiscal federalism predict that when local governments compete with each other they can deliver residents the services they want at the lowest cost (Tiebout 1956; Oates 1972). Can local governments do this over time, especially during recessions and afterwards?

This paper answers this question by examining how politics (often implicit) shape local government choices in Upstate New York. Using a lens of narratives, this paper shows how pressures from the State and citizens constrain revenue-raising options and expenditure cuts, threatening fiscal sustainability. The paper begins with a review of previous literature on fiscal federalism and narratives to build the argument that fiscal federalism may not deliver fiscal sustainability. A brief background of the case and details of methodology follow. The next section describes the narrative of inefficient local governments in New York, its consequences, and why a counter-narrative is unlikely to emerge. The paper concludes with a discussion of the limits of fiscal federalism and policy implications.

Fiscal Federalism and Narratives

Theories of fiscal federalism show the possibility of more productive efficiency (producing goods and services at lowest cost) and allocative efficiency (producing goods and services that meet resident demands) in a decentralized system in which local governments compete with each other (Tiebout 1956; Oates 1972). However, they are no strangers to the potential dangers of decentralization (Prud'Homme 1995). Rather than trusting that public officials will "do what is best for the public," scholars have suggested institutional safeguards against these dangers.

One example is the use of tax and expenditure limitations (TELs) to keep the size of local budgets in line with citizen preferences (i.e. the Leviathan problem; Brennan and Buchanan 1979). However, TELs also have implications for state-local relationships. The earliest TELs, including California's Proposition 13, were referendums initiated by citizens, but the majority of TELs since 1978 have been initiated by state legislatures (Berman 2003). Today, 47 states restrict local revenues, expenditures, or both in some way (Mullins 2010). In general, studies find TELs do not shrink the overall size of state and local governments, shift local revenue structures towards non-property tax revenues, and increase local reliance on state aid (Mullins 2004; Shadbegian 1998). The outcome for fiscal sustainability – defined as "the ability of governments to meet existing program commitments with existing resources not only in current terms but into the future" (Ward and Dadayan 2009, p.456) – may be more promising.[14] In a national study of TELs stringency and municipal financial conditions, Maher and Deller (2013) found TELs may force localities to build up reserves and control debt, improving fiscal management.

Another potential danger in a federal system is the soft budget constraint (Kornai 1986) that incentivizes local governments to spend beyond their capacity because they believe the state or federal government will bail them out (Goodspeed 2002; Rodden *et al.* 2003). One solution is state governments imposing rules that force

[14] Some scholars have used the term "dynamic efficiency" to describe the balance between current and future consumption (e.g. Andrews and Entwistle 2013; Ghemawat and Ricart I Costa 1993). However, the dominant use and interpretation of "efficiency" has been focused on productive efficiency or maximizing output per unit of input (Rutgers and van der Meer 2010). To avoid confusion, this paper uses the term fiscal sustainability rather than dynamic efficiency.

fiscal discipline, such as constitutional limits on local government debt and balanced-budget requirements (Oates 2005). The underlying assumption is localities will not practice such discipline voluntarily, and researchers have focused on the role of state governments to prevent local fiscal crises after the Great Recession (e.g. Coe 2008; Pew Charitable Trusts 2013; Sapotichne *et al.* 2015). Emergency managers, state receiverships, and financial control boards are popular measures that could potentially improve fiscal sustainability by forcing structural changes, but raise concerns about the loss of democratic procedures (Anderson 2012).

A third danger in a decentralized system in which local governments compete for capital is underprovision of public goods (Oates 1972; Zodrow and Mieszkowski 1986). Mandates are one way to solve this problem, but they also have been the source of contention between state and local governments (Zimmerman 2012). Over half of the states have adopted constitutional amendments or statutes for mandate relief (Zimmerman 2012), such as requiring cost estimates or some level of reimbursements, but states can always ignore these and localities have few options for recourse (Berman 2003). Using a public choice framework, Zelinsky (1993) explains unfunded mandates are the results of poorly monitored state legislators who spread the costs of services with concentrated benefits across the state. He argues unfunded mandates require structural solutions, rather than technical solutions on the margins to legislative processes.

This explanation of unfunded mandates is in line with the legislative view (Peterson 1995) or competitive view (Nicholson-Crotty and Theobald 2010) of federalism – each level of government tries to shift costs to other levels and claim credit for delivering benefits to voters. Empirical studies show states cutting expenditures and state aid when under fiscal stress, thereby indirectly pushing service responsibility to local governments (Jimenez 2009; Reschovsky 2004). Using survey data on cities and counties in the 1990s, Pagano and Johnston (2000) cautioned local governments may be unable to maintain or expand services when devolutionary pressures overlap with recessions. Although national studies after the Great Recession find service shedding among local governments is limited (Lobao and Adua 2011; Kim and Warner 2016), Peck (2014) has argued state governments are pushing blame for any fiscal failures (in addition to actual fiscal stress) to the local level. Furthermore, Hinkley (2015) found narratives of local mismanagement as the cause of fiscal crises justified state intervention in the form of structural adjustment (rather than state assistance) in Detroit, Dallas, Philadelphia, and San Jose.

A focus on politics illuminates the power of narratives and framing. Narratives and frames shape our decisions on which issues are worthy of further consideration and their solutions (Lakoff 2004; Stone 2012). This paper uses a broad definition of narratives and framing to refer to a chronological account of political issues with characters and normative claims. Frames shape citizens' attitudes on a variety of issues (Chong and Druckman 2007), including those on public spending (Jacoby 2000). While some works have studied the power of presidents in framing (e.g. Druckman and Holmes 2004; Neustadt 1990), there is less work on how states or local governments use framing. An "austerity narrative" (Blyth 2013) after the Great Recession may explain the dominant expenditure-cutting responses in the public sector, rather than tax increases (Scorsone and Plerhoples 2010). A single issue can have multiple narratives and frames, and what makes a narrative more or less powerful is a topic that needs further study (Chong and Druckman 2007). In crisis studies, scholars find agents that communicate proactively (rather than simply reacting) are able to advance their frames more effectively (Boin *et al.* 2009; Ulmer *et al.* 2007).

When narratives interact with cognitive limits or biases, the outcomes in public finance may not be as rational as previous theories predict (McCaffery and Slemrod 2006). For example, Lowery (1998) argues citizens often have insufficient or incorrect information that lead to preference errors in decentralized governance systems. Using online experiments, McCaffery and Baron (2003) find participants are unable to integrate multiple components of a tax system ("disaggregation bias") and show different preferences for tax systems depending on whether the change in tax rates are stated in dollars or percent terms ("framing effect"). People also have a present bias (i.e. discounting the future "too much") that makes it difficult to save for the future (Laibson *et al.* 1998), and furthermore, people tend to treat future selves as others (Pronin *et al.* 2008).

Given these biases, one can expect citizens to 1) struggle with understanding the tax-services bundle provided by different governments in a federal system (Lyons *et al.* 1992); 2) prefer lower taxes today over public service benefits in the future; and 3) consistently underestimate the cost of services (Glaser and Denhardt 1999; Winter and Mouritzen 2001). Lastly, people are unlikely to notice marginal changes in services as the slow change moves the cognitive baseline for what is "normal" (also known as a "creeping normalcy" effect; Diamond 2005).

Under a fiscal federalism structure wherein states have incentives to push down costs to localities and citizens have incentives to push costs to the future, the burden of these choices may land on local governments. Using a case study of Upstate New York, this paper shows how a narrative of inefficient local governments exerts political pressures that *de facto* eliminate the choices that local governments have for fiscal sustainability.

Case Background

New York State (NYS) has many elements that scholars have pointed to as structural issues in urban governance. With the exception of New York City, large parts of Upstate New York have declining industries, decaying infrastructure, outmigration of the middle class, and concentrated poverty (Bacheller 2015). Home to 1,600 local governments (57 counties, 62 cities, 552 villages, 929 towns; 2012 COG), NYS is a high taxing and high spending state, as well as a highly decentralized state. According to the 2012 Census of Governments data, NYS ranks first in local revenues and expenditures per capita ($6,962 and $7,710, respectively) and second in local expenditures as a percentage of total state-wide public expenditures[15] (49%).

NYS also has high property taxes. According to a Tax Policy Center report, NYS ranks 10th in the nation for property taxes as a percentage of home values over the 2007-2011 period (Harris and Moore 2013; 1.51percent). Governor Andrew Cuomo (first elected in 2010, re-elected in 2014) chose this issue as the centerpiece of

[15] Total state-wide public expenditures are aggregate expenditures of general-purpose local governments, special districts, school districts, and state government.

his policy platform. Under Governor Cuomo, the NYS legislature adopted a property tax levy limit in 2011 ("tax cap"; 2011 Laws of New York Chapter 97). Initially adopted as a temporary measure, the tax cap was extended for another four years in 2015. The tax cap has commonly been described as limiting the property tax levy of all local governments and school districts outside New York City to 2% or the rate of inflation, whichever is lower. In practice, the tax cap is calculated for each local government based on a lengthy two-step process (see Appendix 4). Since 2014, the allowable levy growth factor has been less than 2% due to low inflation rates. In 2016 the growth factor was 0.73% for counties, cities, and towns and 0.12% for villages (OSC 2016).

In addition to the tax cap, the Legislature passed a Property Tax Freeze Credit Law (2014 Laws of New York Chapter 59 Part FF) that rewards residents of local governments that stay under the tax cap and submit a Government Efficiency Plan (GEP). The GEP should demonstrate how the locality plans to achieve 1% savings in property tax levy through cooperation agreements, shared services, mergers, and efficiencies for the next three years. Any reforms implemented before the tax cap are ineligible. In effect, this penalizes localities that are early adopters of cost-saving innovations. If the GEP is approved by the NYS Division of Budget and the locality abides by the tax cap, the residents of that locality receive a check from the State that is tied to the amount of property tax savings.

Methodology

Case studies offer in-depth inquiries of contemporary phenomena within a real-life context (Yin 2009). This study uses data from a variety of sources: focus group interviews; observations (see Appendix 5); interviews with state-wide local association leaders, legal experts, community leaders, and scholars; Office of State Comptroller ("Comptroller") local government finance data and reports; media reports; and secondary survey data. Data from five focus groups held between September 2015 and February 2016 with 83 local government officials in Upstate New York (see Table 7) are the main focus of this paper. Approximately 2/3 of focus group participants were middle-aged white males, while the remaining 1/3 were females. Most participants were elected officials – county executives, county legislators, city mayors, village mayors, town supervisors – but some were administrative personnel, such as budget and finance directors, human resources commissioners, and finance commissioners. Approximately 1/4 of focus group participants mentioned they had more than ten years of experience in local government.

The study used purposive sampling to cover all general purpose local government types (county, city, town, village) and regions within the State. Three of the four focus groups were held at annual meetings of state-wide associations, representing county officials (New York State Association of Counties; NYSAC), town officials (Association of Towns of the State of New York; AOT), and city and village officials (New York Conference of Mayors; NYCOM). The research team also made an effort to cover regions that represent the variety across NYS – one in the western region (Erie County) and another in the Hudson Valley (Dutchess County).

The focus groups were semi-structured round-table discussions and approximately 60 minutes in length. The following three questions guided the discussions:

1) What are the main causes of fiscal challenges for your government?

2) How has your government responded to revenue challenges?

3) What are some changes your government has made in service delivery to address fiscal challenges?

Table 7. New York State Focus Group Details

Location	Date	Participants	ID
• Lake Placid, New York	Sept. 21, 2015	9 county representatives from New York State Association of Counties (NYSAC)	NYSAC
• Amherst, New York	Sept. 24, 2015	42 village, town, county, and state representatives from across Erie County	Erie
• Poughkeepsie, New York	Sept. 28, 2015	14 village, town, and county representatives from across Dutchess County	Dutchess
• Albany, New York	Nov. 16, 2015	8 village and city officials from New York Conference of Mayors (NYCOM)	NYCOM
• New York, New York	Feb. 15, 2016	10 town officials from Association of Towns of the State of New York (AOT)	AOT

Note: The Amherst, New York focus group was conducted as part of a workshop course. Researchers trained a group of graduate students who conducted seven parallel focus groups at the same time. The ID is used to identify direct quote sources in the results section.

Moderators (two researchers) posed these questions and limited their comments to follow-up or clarification questions. All focus groups were recorded and transcribed.[16] Each focus group was followed by a debrief meeting of researchers to discuss key findings and identify any modifications for the next focus group. Based on these preliminary analyses, an interim report focusing on the drivers of fiscal challenges was published online (Anjum *et al.* 2015). These preliminary findings have been triangulated with feedback from research directors and members of local government associations.

The analysis combined the manual coding process in a grounded approach (Strauss and Corbin 1998) and Friese (2014)'s "notice-collect-think" approach. First, manual coding with repetitive readings of transcripts was used to identify key themes. This was followed by a combination of inductive and deductive coding (focusing on the three guiding questions) in ATLAS.ti. Responses by government type were noted, but the main focus was identifying common themes across all focus groups and government types. Focus group findings were triangulated with additional data sources mentioned above. The next three sections describe the narrative of inefficient local governments in NYS, its consequences for local fiscal sustainability, and the barriers to creating a counter-narrative.

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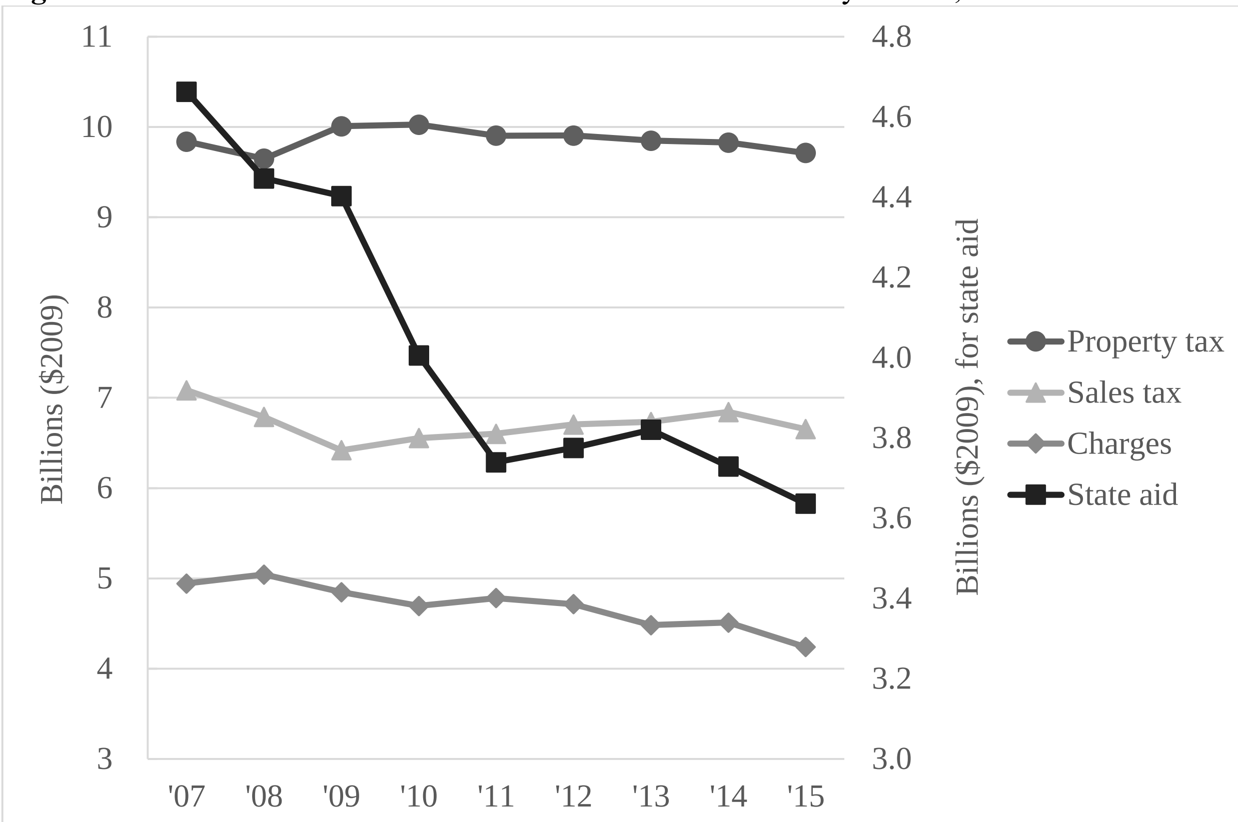
[16] The data for the Amherst, New York focus group are from detailed notes of research assistants who moderated each of the seven concurrent focus groups.

The Blame Game

In the focus groups, local officials described an “anti-local government” narrative that blames local governments for high tax burdens in NYS. One official summarized it as follows: “…the Governor's perspective [] is *you're* the problem, *you're* the reason our taxes are going up” (Dutchess). The State uses two arguments in this narrative: 1) local property taxes are too high and 2) there are too many local governments. When the State adopted the tax cap, Governor Cuomo released a video (available at www.reforminggovernment.ny.gov) in which he states local property taxes in NYS are “simply out of control” and that the tax cap is about “putting you and your neighbors back in control of your community’s spending.” In the same video, Cuomo argues there are over 10,500 local governments in NYS that are “wasteful and very, very expensive.”

The quantitative data do not support this narrative. Local government finance data from the Comptroller show property tax revenues have been flat between 2007 and 2015, even before the tax cap (see Figure 6). Sales tax and charges – the other major own-source revenues – have also remained relatively flat, while state aid decreased by $1 billion (in real terms). As for the number of local governments, the 2012 Census of Governments shows 3,453 local governments (1,600 general-purpose local governments, 1,174 special districts, and 679 independent school districts; including New York City) in NYS. The State ranks 27th in number of local governments adjusted for populations (307 local governments per million residents, excluding NYC).

Figure 6. New York State Local Government Revenues Trends by Source, 2007-2015



Data source: New York State Office of State Comptroller, Local Government Data.
Note: Figures are aggregate revenues of all general-purpose local governments (counties, cities, towns, villages) in New York State, excluding New York City. All figures have been adjusted for inflation.

The mismatch in numbers may be an issue of defining local governments. Governor Cuomo is counting the approximately 6,900 town-only special districts across the State, which is misleading. Most town special districts were established under Articles 12 and 12-A of the New York State Town Law (1932 Laws of New York Chapter 634), and are governed by the town board. These districts were authorized by the State when population growth in the suburbs were increasing, and there were insufficient tax bases and voter support for urban services, such as water and sewer. By limiting payment to service users, the special districts allowed towns to provide services to residents who wanted them (OSC 2007). Regardless, Cuomo continued to use this narrative of local government waste and inefficiency during his 2014 reelection campaign.

The video with misleading figures on the number of local governments and trends of property taxes are posted on a website titled, "Cap NY Property Taxes – A Citizen's Guide"[17] and citizens seem to echo this narrative. A 2015 survey of registered voters shows 73% of respondents agree that the tax cap has kept school and local taxes down (Siena Institute 2015). Even before the tax cap, a 2011 survey of residents found 54% of respondents think there are too many local governments (Dyson Foundation 2011) and another 2011 survey found 73% of respondents supported Governor Cuomo's proposed tax cap (Blakely-Armitage and Kay 2011).

While the State has crafted a strong narrative of local government inefficiency, the communications between the State and local governments have been cloudier. Local officials were confused about the State's intention as the State presented service sharing and local restructuring (consolidations and dissolutions) as the best solutions for the high property tax problem. However, local governments in NYS have a long history of sharing services and New York residents have not supported local restructuring. A 2013 survey of local governments in Upstate New York found the average length of shared service agreements was 18 years (Homsy *et al.* 2013) and according to the Division of Local Government Services (in the Department of State)

[17] Governor Cuomo launched this website in November 2011 as a component of his CitizenConnects website. The website can be accessed at http://reforminggovernment.ny.gov/reforminggovernment/guide-to-the-property-tax.

data there have been 47 successful dissolutions between 1900 and 2012. Arguing that the low dissolution rates are due to procedural complications, the State Legislature adopted the “New N.Y. Government Reorganization and Citizen Empowerment Act” (General Municipal Law Article 17-A) in 2009 to make consolidation and dissolution procedures easier. Under this new law, there have been 11 successful dissolutions (out of 34 votes).

Notwithstanding these histories, the State created various grants and programs to encourage local governments to share services and consolidate. One example is the Municipal Restructuring Fund established in the 2015-16 state budget to “stimulate permanent property tax reductions resulting from shared services and consolidations between local governments” (DOS 2016). According to a report from NYCOM (2016), of the $150 million set aside for this fund, there was $0 spent in 2015 due to low interest and insufficient time for localities to apply.

Kicking the Can Down the Road

The short-term consequences of this narrative were timid revenue responses and expenditure cuts on the margins due to pressures from the State and citizens. Local officials lamented, “we're really just kinda kicking the can down the road” (Dutchess).

On the revenue side, local governments have two options: raise property taxes and/or raise charges and fees.[18] Proponents of the tax cap point to the override option

[18] Other options include debt and use of reserve funds, but focus group participants did not mention these as a dominant response to fiscal stress. The New York State Constitution limits the amount of debt local governments can have, and the

– requiring a 60% vote of the governing board (i.e. 3 out of 5 members) – that is easy in principle. In practice, local officials noted the widespread narrative of local government inefficiency makes this choice politically difficult. Figures from the Comptroller reflect local governments' reluctance to attempt overrides. The proportion of local governments planning to override the tax cap decreased from 30% in 2013 to 18% in 2015 (OSC 2016). When a state senator pointed to the override option, a local official asked, "what's he [the Governor] going to do *then*?" (Erie). Local officials were wary of punishments – both political (override attempts support the Governor's rhetoric of wasteful local governments) and fiscal (further cuts in state aid).

The political pressures from citizens were also strong. When asked whether overriding the tax cap was an option, local officials answered, "If you don't want a job" (Dutchess). A town supervisor emphasized, "We have never passed a cap. We will *never* pass the cap" (AOT). Participants noted the powerful combination of the tax cap and the tax freeze check, which is a visual reminder for residents on whether their local governments stayed under the cap. One participant explained, "You go over the cap, and it's like you've just taken people's first child" (NYCOM), while another noted the political shrewdness of the program: "It's an excellent PR scheme. It's marketed beautifully. This tax freeze with this rebate, you have an override, you don't get your…at the end of the day $28 rebate" (NYCOM). According to the New York

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Comptroller's data show total outstanding debt for local governments decreased from $22.5 billion in 2011 to $21.1 billion in 2015 (in 2009 dollars). The use of reserve funds seems to be an option that has already been exhausted. According to Comptroller data in 2013, 93% of counties, 69% of cities, 49% of towns, and 54% of villages had low fund balances (defined as a fund balance less than 10% of expenditures; OSC 2015).

Department of Taxation and Finance data, the highest average check was $471 in Scarsdale (the richest municipality in the Lower Hudson Valley region with high home values), while 138 upstate districts had an average check of less than $25 (Empire Center 2015). Others have called the tax freeze check a "bribe" and "political gimmick," noting the money has to come from somewhere (i.e. tax sources) and the administrative burden of sending individualized checks to each homeowner is significant.

Given the political limits on property taxes, local officials were searching for revenues through fees and charges. However, there were also barriers to these revenue sources from both the State and citizens. One official noted:

> My sense is any fees[19] that have been approved by home rule legislation in the past will not likely be approved by home rule request in this administration with this legislature. We've basically seen the door slammed down shut and tight on any requests for what other municipalities have done in the past. (NYCOM)

[19] This discussion was specifically about fees for birth and death certificates. The statutory fee that local governments can charge for vital records has been equal to that of what the State Department of Health charges. However, in 2003, the State increased its fee to $30 without a corresponding increase for localities. Since then, the State Legislature has allowed four counties and one city to increase their fees (NYCOM "Stop the Taxshift" website). Individual municipalities have asked the State for permission to increase these fees (e.g. City of Albany, City of Amsterdam), but the Legislature has not passed these bills.

Local officials were reading messages from the State Legislature that they should not be raising more revenues – whether this be through property taxes, other taxes, or fees – and there was uncertainty about whether local governments could use new fees. For example, the City of Rochester charges user fees for snow plowing, salting, and cleaning streets and City of Ithaca has a storm water fee. When moderators mentioned these examples, a local official said:

> Road maintenance is a general service that a municipality has to provide…. We can't necessarily charge a fee for a general service in New York State. However, Rochester does. For whatever reason, they've been doing it for 20, 25 years. (NYCOM)

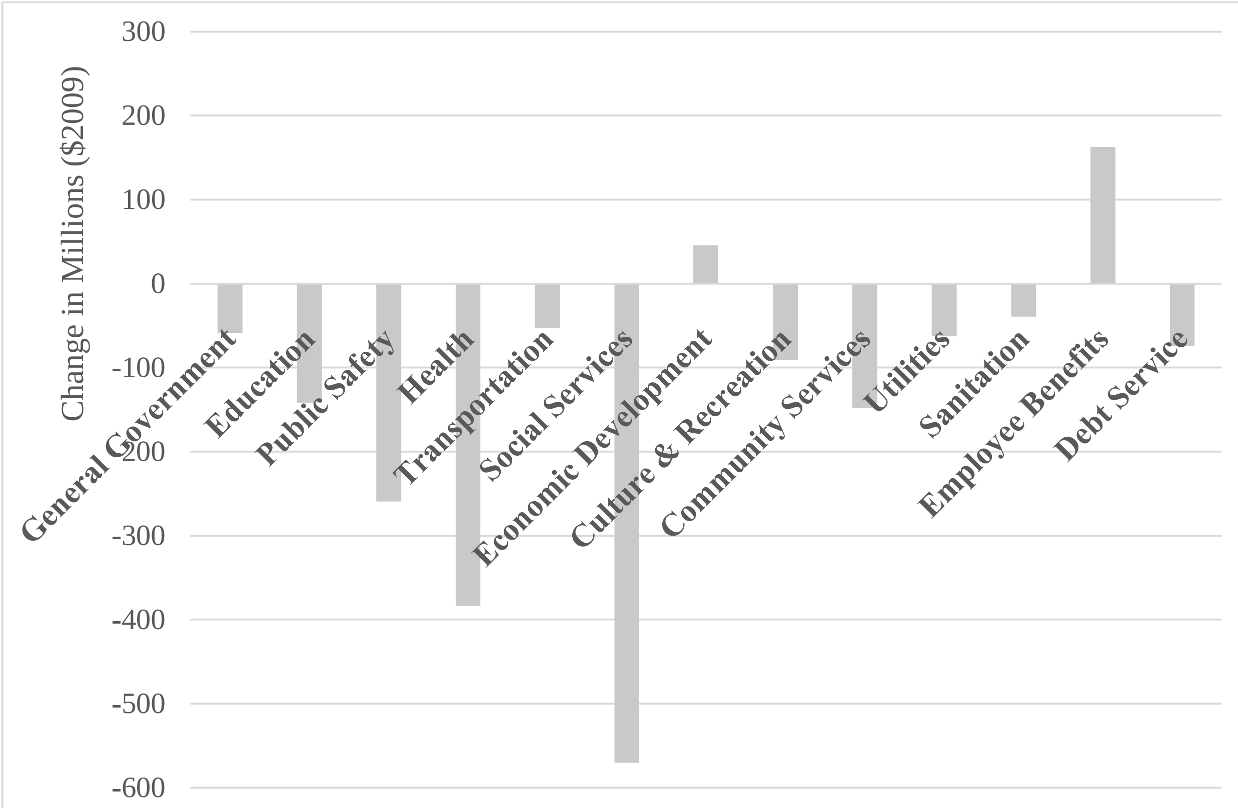
Conversations with research directors at state-wide associations confirmed local governments are allowed to institute new fees without state approval per municipal home rule (New York Municipal Home Rule Law Section 10); however, fees are strictly defined as charges for those services that benefit a specific user, rather than the general public. In the opinion of the Comptroller, any "fees" (regardless of what they are called) that are imposed to support a local government without regard for the benefits of a service user, is a tax. Any new taxes require state approval as the power of taxation belongs to the State per Article XVI of the State Constitution. A 1994 opinion of the Comptroller states that local governments should not charge a fee for snow removal (OSC 1994). However, research directors of local government associations confirmed some municipalities do so.

On the citizen side, unwillingness to pay for services was widespread. One official explained, “I get more concern every year if we raise our tipping fee at the dump five dollars. I will get more calls on that than I will a percent on the whole budget” (NYSAC). Another official explained:

> People want these things and whenever you increase the use of [fees], it's a nuisance tax almost. Yesterday I didn't have to pay for this…Now I have to pay to use this park or I have to pay to use my library or whatever it is. (NYSAC)

Expenditure responses were similarly timid in that local officials were cutting with caution due to legal and political barriers. Comptroller’s data show local expenditures have decreased in most categories (see Figure 7), with the largest expenditure cuts in social services, health, and public safety. The large increase in employee benefits reflects the strong union protections in NYS from the Taylor Law and Triborough Amendment. The Taylor Law grants public employees the right to organize, elect union representatives, and collectively bargain with employers. The Law prohibits unionized workers from going on strike, and in turn the Triborough Amendment requires that the terms of the old contract must be upheld until a new contract is negotiated in the case of an impasse.

Figure 7. Changes in New York State Local Government Expenditures by Category, 2011 to 2015



Data source: New York State Office of State Comptroller, Local Government Data.
Note: Figures are dollar changes in aggregate expenditures (adjusted for inflation) of all general purpose local governments (counties, cities, towns, villages) in New York State, excluding New York City

Local officials emphasized they had not eliminated services yet, and have focused on cutting down personnel costs. One official explained, “We've ended up downsizing staff. We have created more work for several employees over the last several years in order to compensate. Are our savings significant? Not really” (AOT). According to the NYS Department of Labor data, Upstate New York lost 18,200 local government jobs between 2011 and 2015 (6% drop). One official noted, “We were cutting people in 2010…. We were doing all these things. I'm sure you guys [other local officials] were all too. It's not just me…. We were doing all these things ahead of time" (AOT). Indeed, the NYS Department of Labor data show local government employment in Upstate New York started declining in 2010, and decreased by 27,500 jobs (9% drop) between 2009 and 2015.

In sum, local officials described operating in a "crisis mode," rather than a long-term planning mode. Focus group participants used phrases like, "hit the wall" (NYCOM), "waiting for the other shoe to drop" (Dutchess), "nowhere to go" (NYCOM), and "reached the end of the road" (NYCOM) to describe their situation.

One participant used a household analogy to explain how local governments have tried to maintain service levels:

> Everyone has dug through the closet and found everything they can and looked inside the couch and pulled out all the coins and figured [out] everything we can cut back. We're at the point of starting to burn the furniture to heat the house. (NYCOM)

There is no state-wide data on service degradation, but in the absence of radical increases in productive efficiency, the $1.7 billion (2009 dollars) cut in total local expenditures should have some impacts on services. A senior planner at a regional planning board noted some communities have run citizen surveys on service quality and that in places where many residents said they used to receive more or better services, local officials pointed to the tax cap as reasons for having to cut back (*interview*).

Local officials noted they were holding on, using a "bubble gum and paper clips" (Erie) approach, but were worried about the future. One participant said, "Long range planning – you can't do it because you're putting out fires all the time" (NYSAC). Another official summarized the situation as follows:

> My point is [] you're looking at municipalities that have figured out a way in the short term, and I would offer to you that every municipality can accomplish this in the short term. But it is, in the end, the long term that we just can't sustain. (Dutchess)

Where is the Counter-Narrative?

Why is this narrative of inefficient local governments so powerful and where is the counter-narrative? During the focus groups, local officials speculated on the State's goal, ranging from eliminating villages and towns, consolidating school districts, to forming a regional governance system. Nevertheless, local officials pointed out the current pressures from the State that are pushing them to the brink of service cuts do not make sense. A long-time official noted:

> I've never seen it like this…. The attitude out of the State level towards municipalities is so negative…. I don't quite understand it, because at the end of the day, municipalities are the ones that are providing the direct services to the residents. This attitude from the State, particularly out of the Executive, is…they want to strangle out

> a lot of these municipalities as if that's the answer, but there's really no foresight as to what happens after that. (NYCOM)

As pointed out by local officials, local governments deliver many services to citizens and they interact with citizens face to face. So why are local officials unable to craft a counter-narrative? And why would the State and citizens perpetuate a narrative that can lead to fiscal crises across the state and threaten public services? This study argues the combination of this narrative and existing legal and political institutions mean there is no actor for whom the benefits of creating a counter-narrative outweigh the costs. Local governments may be the one group for which the benefits may outweigh the costs, but they are not a singular actor (which creates collective action problems) and have limited powers to create a strong counter-narrative.

The State

The State gains political and fiscal benefits from the current narrative. Politically, the State has identified a highly visible problem (large property tax bills), the cause (inefficient local governments), and can claim credit for implementing an immediate solution (the tax cap). The State also makes fiscal gains as the inefficient local government narrative allows it to continue mandating local services with little to no cost to the state budget. Focus group participants (regardless of government type) identified state mandates as one of the main drivers of fiscal challenges. However, these costs are most visible for counties and thus the remainder of this section focuses on them.

Unlike local governments, the State has an extra option for dealing with its fiscal challenges by cutting payments to local governments. County officials noted the delay in reimbursements for mandated services were quite common when the State was under fiscal stress – “When the State was in financial stress a few years ago, our reimbursements were lagging really bad” (NYSAC) – but even when the State is not under fiscal stress an official noted, “Every year, something is late and you ha[ve] to go play catch up and start screaming” (NYSAC).

Local officials noted the State’s complete control over reimbursement decisions. Prior to 2013, counties entirely funded the Early Intervention Program[20] upfront and then sought reimbursement from the State. However, as of 2016, only 80% of the promised reimbursement has been made (NYSAC and NYSCEA 2016). The State also promised to pay 40% of community college costs (New York Codes, Rules and Regulations Title 8, Chapter V, Subchapter D, s602.8), but has been providing less than 25% (NYSAC and NYSCEA 2016). A local official noted the weakness of these promises:

> There's actually a law on the books in a couple of cases that require[s] the State to pay a certain level [for mandated services]…but they're paying less than that…what happens is…if

[20] The Early Intervention Program covers a wide range of services for families with children under the age of three with disabilities. Some examples are family education and counseling, special instruction, speech pathology, occupational therapy, physical therapy, psychological services, nursing services, and nutrition services.

> they're having fiscal difficulties, then those laws on the books sort of go by the wayside. (Dutchess)

Although this cost-shifting is most visible for counties, the pressures were common across all local government types. A long-time official summarized the State behavior as follows:

> The State continues to look at this unfunded mandate thing and says, ‘Hey, this is pretty fun. We get to go out and Christmas charge on my neighbor's credit card, and we can continue to add new services and get all the credit for basically making friends with this or that special interest group out there, and we'll pin it on the local governments!’ While at the same time beating us over the head like a baby seal on the beach. (NYCOM)

As long as there is an efficient local government narrative, the State can decrease the amount of revenues it sends to local governments while avoiding making direct cuts in services. In the hierarchy of federalism, local governments have few options for legal redress. Local officials pointed out, “We’re easy targets” (Dutchess) and “We are [at] the lower end of the food chain” (Erie).

The Citizens

Citizens have strong anti-tax sentiments and a narrative of local government inefficiency can justify demands for lower taxes. As one community leader said, "When you ask someone if they want their property taxes capped, of course they're going to say yes and that they support it. Who doesn't want their property taxes to go down?" (*phone interview*). One official explained that residents "want [] reduced revenue but there is an expectation of continued service because there is this fallacy that there is a lot of waste in government" (Dutchess). Local officials try to meet these expectations, because they do not want to anger their voters. In one community, local officials asked for public input when they felt services can no longer be maintained without a tax increase. The official recalled:

> [Our] board of supervisors held a series of informational meetings starting in April through the middle of June and the goal was to talk to the constituency to see what it was they were willing to do without and what they wanted funded. But a lot of that was not happening…. They came up with all kinds of things that they thought that the board of supervisors and the other county officials had not thought of in order to keep the tax rate down. (NYSAC)

At present, local officials said they are keeping service cuts to a minimum. Therefore, citizens do not have any incentive to create a counter-narrative – the only result would be they decide to tax themselves more when there is no promise of more or better services. As one official noted, "it is difficult to override the tax cap, when you're not increasing service[s]" (Erie). Focus group participants emphasized they had not eliminated services yet, and thus any impacts on services are likely to be degradations on the margins. These degradations are hardly noticeable (and when citizens do notice, they blame local governments), while the benefits of a lower property tax bill and a tax freeze check are highly visible.

Local Governments

Local officials are in a unique position to foresee the future costs of continued expenditure cuts. However, their position in a multi-level government hierarchy severely limits their power, and collective action problems make it difficult to create a counter-narrative. Local officials seemed to recognize the State's political narrative as an environmental constraint in which they must operate. Even though most local officials agree the tax cap has exacerbated fiscal stress, they are cautious about voicing these opinions because "they [the State] might throw us [local governments] a crumb of [] money once in a while" (NYCOM).

The fiscal risks of a counter-voice are real. In 2014, the Mayor of Syracuse spoke out against the Governor, pointing out that the State's economic development programs, such as the "Buffalo Billion"[21] that focus on bringing in external businesses like SolarCity (the largest rooftop solar installer in the US), are unsustainable. The Mayor instead called for state funds for more pressing needs, such as aging infrastructure in Upstate New York. In 2014, Syracuse had a record of 391 water main

[21] Corruption charges on the distribution of the Buffalo Billion funds have led to on-going federal and state investigations. Many developers who received benefits from the Buffalo Billion were also important donors to Governor Cuomo's campaign.

breaks. The Governor fired back with comments that "upstate cities have to be stronger economically. They have to do better" and that they should "fix their own pipes" (Weaver 2015). In the following year, the Governor followed up with a $0 increase in aid to the City of Syracuse, dubbed "the Syracuse Zero."

The narrative also has a self-enforcing political power. As long as local governments maintain services with dwindling resources, this proves the State's claim that there is waste at the local level. Despite local officials' claims that they are maintaining services, it is unlikely there have not been any service degradation in light of the expenditure cuts ($1.7 billion) and personnel cuts (18,200 jobs). Meanwhile, if local governments fail to maintain services, they are likely to be the target of blame for declining services.

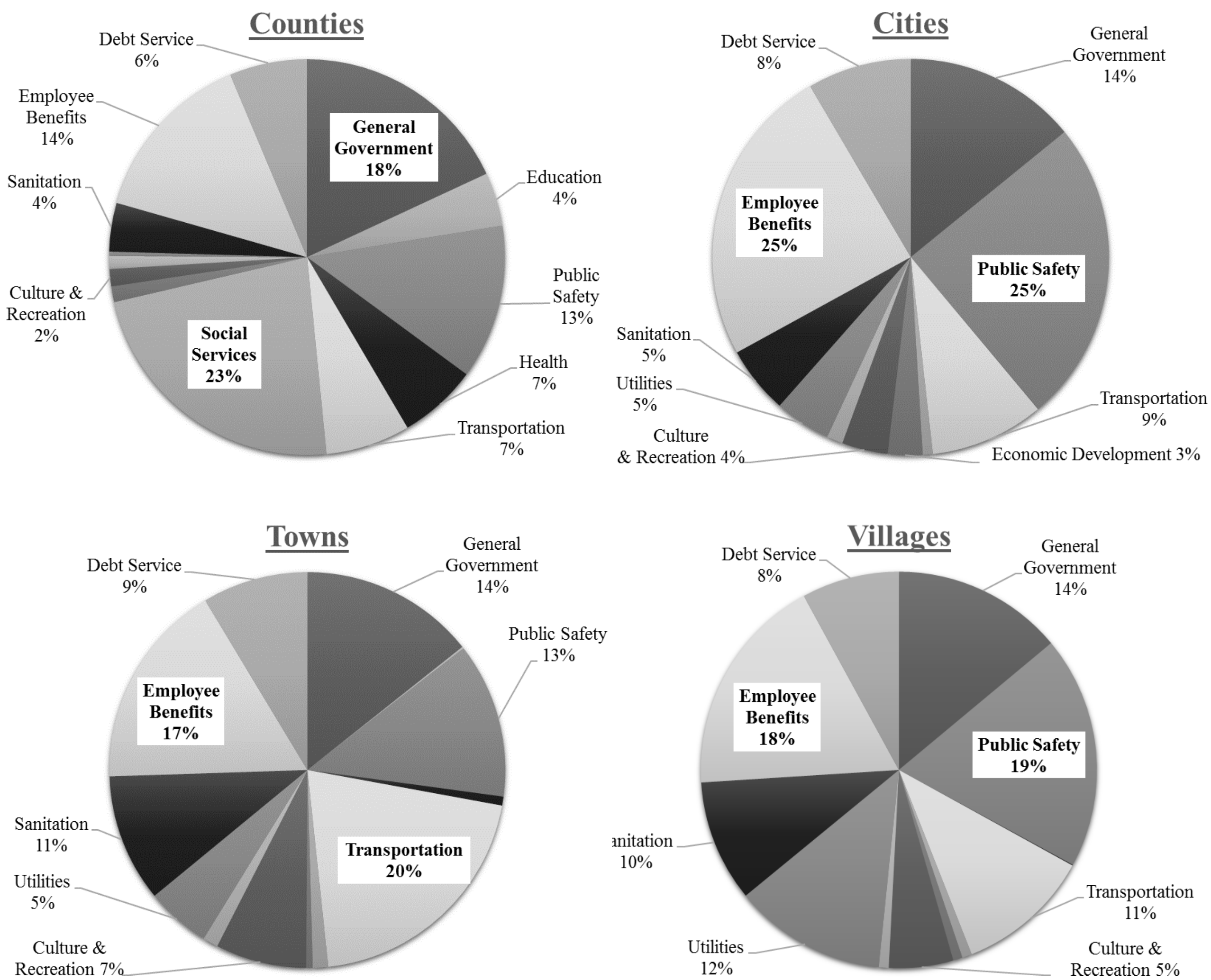
If 1,600 local governments worked together, they may be able to create a strong counter-narrative, but the heterogeneity among local governments makes this collective action difficult. The different expenditure burdens illustrate this heterogeneity (see Figure 8). For example, counties function as "arms of the state" and mostly deliver state-mandated social services. 23% of county expenditures are on social services. This means that counties have been especially effective at creating a narrative of state mandates driving county property taxes. Using the phrase, "9 for 100" the New York State Association of Counties (NYSAC) has identified nine state mandates that account for 100% of county property taxes. These mandates were Medicaid, Safety Net/TANF (Temporary Assistance for Needy Families), child welfare, preschool special education, indigent defense, probation, early intervention, youth detention, and pensions. A NYSAC report estimated the cost of these nine programs at $4.7 billion, accounting for 100% of the county property tax levy statewide (excluding New York City; NYSAC 2015).

For cities, employee benefits and public safety (police and fire) are the largest categories of expenditures (each 25%; see Figure 8). City employees are more likely to be unionized, and this enables cities to build a narrative around unions as a driver of costs. In a NYS Legislature's joint budget hearing on local governments, the Mayor of Syracuse noted these challenges:

> Pensions are by far the biggest uncontrollable cost the City is challenged with paying. The pension system is a New York State benefit. Pensions are a State controlled, State run and State authorized fund – local governments simply receive a bill. Your decisions dictate vesting, retirement eligibility, benefits and employee contributions. This is not a case where local Syracuse officials made bad decisions and we are now looking to you to help rectify the results of those decisions. (Mayor Stephanie Miner, Joint Budget Hearing, January 28, 2013)

However, unions are a strong political group in NYS and any attempts to push back against union contracts are likely to result in little benefit to cities due to the Triborough Amendment that protects any stipulations in previous contracts.

Figure 8. New York State Local Government Expenditures by Government Type, 2015



Data source: New York State Office of State Comptroller Local Government Data
Note: The two largest expenditure categories are labeled inside chart. For ease of representation, the chart pies exclude expenditure categories that are 1percent or less of total expenditures. These categories are as follows: community services (1percent), economic development (1percent), and utilities (0.3percent) for counties; social services (1percent), community services (1percent), health (0.02percent), and education (0.01percent) for cities; health (1percent), social services (1percent), community services (1percent), economic development (1percent), and education (0.14percent) for towns; social services (1percent), economic development (1percent), community services (1percent), health (0.06percent), and education (0.001percent) for villages

In comparison, villages and towns have less visible drivers of costs. Villages, similar to cities, spend most expenditures on employee benefits (18%) and public safety (19%). However, there is significant variety among villages, which makes it difficult to create a “village story.” For example, according to Comptroller data, 69 villages have populations less than 500, while 36 villages have populations over 10,000. These differences translate into a variety of service levels and unionization rates across villages. Towns spend most of their budgets on transportation (20%) and employee benefits (17%). The spending on transportation largely reflects road maintenance, and town officials noted the burden of maintaining roads because non-residents use the roads without necessarily contributing to the tax base of the towns. Both town and village officials pointed to less visible state regulations and mandates (e.g. dog licensing, data reporting requirements) that add up to significant burdens. The problem is these costs look so small on their own and make it difficult to create a strong narrative.

Another problem is the invisibility of services that local governments provide. The quality and quantity of general local services are only noticeable when they fail to meet minimum standards. For example, residents are only likely to remember local governments maintain roads when there is a pothole, but there is little personal interaction between the workers who fill the pothole and citizens. In contrast, school districts have a stronger connection to citizens and this translates into more power. Education services are a highly visible service, because they are delivered directly from a teacher to students. In 2014, Governor Cuomo tried to push a series of public education reforms tied to Common Core requirements, including linking standardized test scores to teacher evaluations. However, he had to pull back on these reform efforts after strong pushback from parents choosing to opt out of these tests (in 2015, 200,000 students opted out; Harris 2015).

The diversities among local governments create barriers to communicating with state leaders. Local officials recalled conversations with state senators in which the words “unfunded mandates” are followed by a head shake or eye roll. A state senator recalled a conversation with the Governor about mandate relief in which he said, “All the groups can’t decide which one they want. Every time I sit down with a different stakeholder they give me ten different ones and they never come to the table with the same issues” (*email correspondence*). A focus group participant summarized the difficulty of creating one voice across the 1,600 local governments: “There [are] too many parochial turf battles in local government that hurts us [when] fighting to put forth a united message…. We're not united ourselves, so to speak, in framing a positive message to the State” (NYCOM).

Local governments are also ineffective in communicating with citizens. The Governor has already introduced the problem (high taxes), the cause (inefficient local governments), and the solution (tax cap), and local officials are now simply reacting. The Governor has an advantage in that there is only one governor for the entire state. This makes his voice more powerful in that citizens and the media pay attention to his words. The Governor also has more resources that allow him to communicate more effectively. In the tax freeze checks that the State sent out to homeowners across the State in December 2016, the following note was attached to the checks:

> Dear Taxpayer,
>
> New York State is providing you with this check to reduce your local property tax burden. It represents the tax relief available to you this year under the State's Property Tax Relief and Property Tax Freeze programs. You are eligible for the check because your property is in a school district of local government that complied with the state's property tax cap.

The message is clear; the State is the main figure trying to save money for taxpayers. Meanwhile, local officials have mentioned anecdotally that they have stopped sending out hard-copy newsletters or cut back on maintaining their public websites for informing residents on local issues. These are "non-essential" and non-mandated expenditures that can be cut, but further erode communications between local officials and residents.

Moving Forward

This paper used a lens of narratives to examine how politics shape local government choices in NYS. The findings show that while local governments have the legal authority to increase revenues, the narrative of inefficient local governments constrains these choices in reality. Meanwhile, both the State and citizens expect continued services. Using a strategy of "doing more with less," local governments so far have satisfied pressures from above and below. But how long this strategy will last is unclear.

What the NYS case shows is there need not be a small government ideology for cuts in public services. Even if citizens and public officials want a rich array of services, the temptations for the State to push costs and blame down to localities and the temptations for citizens to demand lower taxes without service cuts create an environment in which localities are encouraged to adopt unsustainable choices. Local officials are in the best position to see the fallacy of maintaining or increasing services without necessary resources, but they also face significant risks when they ignore the wishes of their two masters – the State and voters.

Theories of fiscal federalism highlight the benefits of a decentralized system in which competition among local governments deliver productive and allocative efficiency. However, fiscal federalism does not guarantee – and may even erode – fiscal sustainability. On the one hand, the power differentials and incentives in the multi-level system encourage state governments to dump fiscal costs and political blame on local governments as predicted by theories of competitive federalism (Nicholson-Crotty 2010). To date, there is limited empirical evidence of how widespread this phenomenon is in state-local relationships across the US, but scholars have found some evidence in Michigan (Sapotichne *et al.* 2015), California, Illinois, New Jersey, New York, Texas, and Virginia (SBCTF 2014).

On the citizen side, scholars have already pointed out the problems of lack of mobility and full information in a decentralized system (Buchanan and Goetz 1972; Lowery 1998), but this study shows the problem of preference error (Lowery 1998) is exacerbated when state-level actors have incentives to intentionally spread misleading information. Despite how unsustainable citizen demands for services with insufficient taxes are, local officials try to meet these demands. This delivers allocative and productive efficiency, but at the cost of sustainability. Local governments know fiscal sustainability is eroding, but a system of fiscal federalism focused on competition does not solve the collective action problem. This is not to say collective action is impossible. In 2014, all of the local government associations in NYS and the New York State School Boards Association created a coalition called the Municipal Innovation Exchange (MIX) to search for solutions to fiscal challenges. However, the organization has not shown any activities after 2014 and conversations with local association leaders confirmed MIX is essentially no longer operating.

Given that local officials are the direct providers of many services who worry about long-term planning, institutional changes to make cooperation among local governments easier may be the shortest path to fiscal sustainability. This paper concludes with two recommendations. First, structural changes to state-local relationships that decrease the temptation for states to push costs down to the local level are necessary. Many states have adopted rules to limit unfunded mandates, but without local options for legal redress, these rules mean little in practice. A possibility may be giving local governments more legal authority to push back against unfunded mandates. For example, in NYS, a recent state court ruling (*Matter of County of St. Lawrence v. Shah, 136-143*) on October 27, 2016 reversed a 2015 decision by a lower court, and recognized local governments also have due process protections provided by the state and federal constitutions. The 2015 decision denied this protection, based on the argument that counties are not "persons." In other words, this decision is the first instance in NYS to affirm local governments have the right to sue the State for withholding funds that have been promised to them. Another option could be a federal law that prohibits states from passing unfunded mandates on to local governments.

Second, changes to how we talk about local finance are necessary. Although state governments have incentives to push an inefficient local government narrative, the narrative would have less power if citizens better understood the connection between local taxes and local services. Better knowledge of which cognitive biases are widespread in public finance discourses and how to ameliorate them would be useful. As the first-line communicators with citizens, local officials will play a significant role in changing the narratives that citizens tell each other. More research on how local officials communicate with citizens regarding taxes and services, the perceived challenges, and how these relate to widespread measures of fiscal conditions is necessary. As this case study shows, stories are powerful; but stories can also change. How the story of “inefficient local governments” ends will have significant implications for our future quality of life.

APPENDIX 4. Formulas for Calculating Tax Levy Limits in New York State

Step 1: Calculate the Base Tax Levy Limit
{[(Prior fiscal year tax levy + Prior year reserve offset – Reserve amount including interest earned) x Tax base growth factor*] + PILOTS receivable in the prior fiscal year – Tort exclusion amount in prior fiscal year} x Allowable levy growth factor** - PILOTS receivable in coming fiscal year + Available carryover = Base Tax Levy Limit

Step 2: Calculate Final Tax Levy Limit
Base tax levy limit + Net of Transfer of Government Function (as determined by Office of State Comptroller) + Tax levy necessary for expenditures from court orders or judgements resulting from tort actions for any amount in excess of 5percent of the total taxes levied in the prior fiscal year + Levy necessary to pay for increases to the system average actuarial contribution rate (or normal contribution rate) of pension funds over 2 percentage points = Final Tax Levy Limit

* Tax base growth factor: Based on Tax and Finance determination of "quantity change," such as new construction, newly taxable status of existing property, or measurable improvements to taxable property within the boundaries of the local government or school district.
** Allowable levy growth factor: Lesser of 1.02 or inflation factor (percent change in CPI for the 12 month period ending 6 months before the start of the coming fiscal year over the prior 12-month period), but never lower than 1.00.

Source: 2011 Laws of New York Chapter 97.
Note: PILOTS stand for payment in lieu of taxes. New York City is exempt from this limit.

APPENDIX 5. Details of Observation Data Collection

Event	Date	Location
● Municipal Innovation Exchange Summit	Apr. 25, 2014	Syracuse, NY
● Preparation meeting for Local Fiscal Stress conference with union leaders, local government association leaders, school board association leaders	Nov. 13, 2014	Albany, NY
● “Local Fiscal Stress: State Austerity Policy and Creative Local Response” Conference	Dec. 9, 2014	Saratoga Springs, NY
● “Property Taxes and New York’s Future: Solving the Fiscal Crisis of Counties” Conference	Jan. 20, 2015	New York, NY
● NYCOM Winter Legislative Meeting	Feb. 9, 2015	Albany, NY
● Erie County Association Meeting	May 28, 2015	Erie, NY

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CHAPTER 5

CONCLUSION

This dissertation project had two main goals. Empirically, this project updates the older studies of cutback management (e.g. Downs and Rocke 1984; Levine 1978; Pagano 1988; Schick 1983) with recent empirical findings on local government behavior after the Great Recession. Theoretically, this thesis advances a theory of pragmatic municipalism as a lens to study local government behavior that bridges the agency-structure divide in existing theories. Pragmatic municipalism rejects the agency-structure dualism, and instead recognizes that local governments shape and are shaped by their environments – state policy, demography, economy. Pragmatism's emphasis on problem-solving is useful for explaining local government choices on how to deliver services and how to raise revenues.

The first paper provides national empirical evidence that municipalities under more stress are using both privatization and cooperation to deliver services, rather than resorting to a political project of simply eliminating services. Regardless of what the motivations for service maintenance are (e.g. desires to protect the public interest or desires to remain in political office), the results show local governments by and large balance community needs with fiscal constraints. They exercise agency through managers who make strategic decisions about service delivery and manage union pressures in the process. The second paper shows how structure limits revenue choices among cities across the nation. Cities with strong property tax bases rely more on the stable and broad-based property tax, while cities with higher poverty and decreases in median home values rely more on charges. The third paper shows how local governments in New York State try to balance community needs within fiscal constraints and the resulting imbalance due to politics and lack of power. In a state wherein a narrative of inefficient local governments is widespread, the outcome of a tax cap that purportedly makes local governments more efficient is an imbalance between current expenditure needs and future needs, an imbalance of expenditure responsibilities and revenue-raising power between state and local governments, and an imbalance between desires for lower taxes and demands for services.

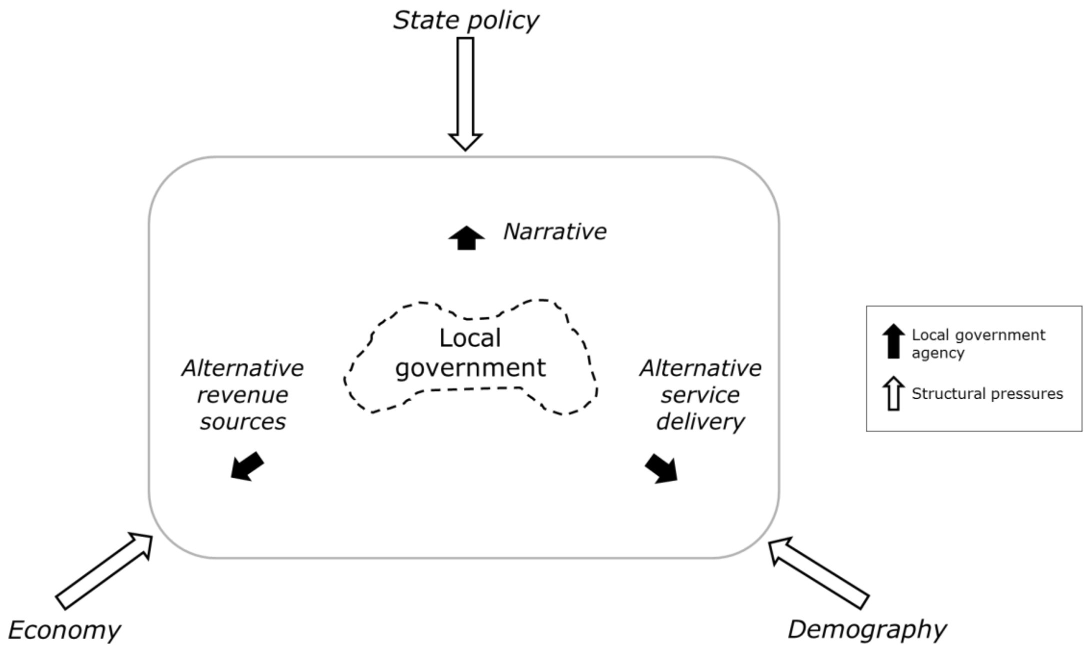
The three papers show the limits of fiscal federalism theories that assume increased transparency and responsiveness in a decentralized system of governance. Instead, today's governance system is full of confusion with plenty of miscommunication between local governments and residents that leads to less fiscal sustainability. Reflecting local governments' legal status as creatures of the state, state-local relationships have significant implications for how much confusion there is and whether local governments can try to ameliorate this confusion. There is some possibility of push back among local governments in service delivery and alternative revenue sources, but little room for progressive agency. On the expenditure side, use of alternative service delivery to maintain services is linked to capacity. On the revenue side, structural constraints for charges remain strong and thus, charges are unlikely to make up for the total loss of state aid and property taxes.

Ironically, local governments' willingness to be pragmatic and their ability to balance various pressures may be pushing them down an unsustainable path. Local governments are using service delivery and revenue innovations to meet current demands for services, but how long and how far will these strategies last? While there is a strong focus on maintaining services, the papers in this study do not find evidence for increasing services in response to growing needs or investing in future services (e.g. infrastructure). Previous works in public finance and local governments have been heavily focused on efficiency, and scholars have called for more attention on equity (e.g. Andrews and Entwistle 2010; Clavel 2013; Warner and Hefetz 2002). However, the issue of sustainability in local finance is still less studied. This narrow emphasis on efficiency also translates into practice. There has been a significant decrease in the amount of revenues that local governments receive, but the expectations citizens have for local government services do not decline, and the data show little service elimination. Using an output per unit input definition of efficiency, local governments have become more efficient in the aftermath of the Great Recession. However, local governments will not be able to deliver the same level or quality of services in the future with a continued mismatch between expenditure needs and revenues.

The papers in this dissertation also show that place matters. The use of innovation, whether on the service delivery side or the revenue side, differs by metro status, state policy, and region. If fiscal stress at the local level is indeed chronic and structural as some scholars predict (Pagano and Johnston 2000; Ward and Dadayan 2009), then localities will have to continue to use alternative service delivery and alternative revenue sources to maintain services. However, the availability of these tools is not equal across places. Wealthy localities have a wide range of options – privatization, cooperation, property tax, various charges – that they can mix and match. However, localities with high needs and low wealth are limited in their choices. State policy and urban context are structural barriers to using charges and alternative service delivery over which localities have little control. Without higher level intergovernmental aid, the localities that cannot use service delivery or revenue innovations may have to start making drastic service cutbacks as we have seen in places like Flint and Detroit.

Figure 9 is a revised version of the visual representation of my broad research framework in Chapter 1 (Figure 3). In this dissertation, I explored the potential for local government push back on the structural constraints from state policy, demography, and economy. The findings across the three papers show the space for local government choices is limited – noted by the dotted line around local government in the figure below. The use of alternative service delivery and revenue sources has allowed local governments to maintain services so far, but the ability to use these tools is constrained by structural forces, such as state policy and place characteristics. Even though the assumptions of fiscal federalism emphasize the potential for better communication between local governments and citizens, this dissertation finds narratives can actually be used by state governments to further constrain local government choices to raise revenues for service needs.

Figure 9. Research Findings: Structural Constraints and Limited Local Government Agency



Limitations & Future Research

Each paper in this dissertation has limitations that I have discussed in each chapter. In this section, I discuss the broad limitations of this dissertation project. First, the studies do not compare local government behavior over time so there is little I can say about whether these behaviors are new. The studies give insight to local government behaviors today in a context that has changed from several decades ago when the first cutback management theories emerged. My decision to focus on local government behaviors today was based on my goal to build a broad theory of local government behavior, rather than a theory that focuses on extreme cases as austerity urbanism does. This made the use of a national dataset that covers local governments of various sizes and location important.

A second limitation is while I have focused on local government choices, I have little information on the outcomes of these choices. For example, my papers show decisions on revenues, expenditures, service provision, and contracting out, but it is unclear how these affect service quality. The national survey data in Chapter 2 show service elimination is rare, and local officials' comments in Chapter 4 show that they have maintained services. However, the expenditure cuts are real and without any process innovation it is likely that service quality has changed. There is no national dataset on local service quality, and finding indicators that will be consistent across the 50 states is a challenge. This is another instance where a case study may be useful. I am designing a survey with the co-author of the first paper to collect data on service degradation in New York State. The local strategy of "doing more with less" is unsustainable and the structural barriers to using service delivery and revenue tools imply a growing divide between localities that can and localities that cannot innovate. More studies on the outcome for inter-jurisdictional inequality are necessary.

This limitation also applies to revenue innovations. Cities are increasing their reliance on charges and fees, but there is limited information on how regressive these charges are and how much they actually restrict access to essential services. Census of Governments Finance data report aggregates of these charges and fees, but do not show what services are charged for in detail. We know the use of these tools is increasing. More research on this topic can show how to use the benefits of these tools without sacrificing equity. Revenue innovations can also take the form of special districts. For example, local governments in California are increasingly relying on special districts to fund infrastructure projects (Kirkpatrick and Smith 2011) and the growth of special districts between 1972 and 2002 is linked to ability to raise own-source revenues and diversify revenue bases (Shi 2016). Future studies should explore the broader implications for governance and democracy.

I have made an effort to cover a wide variety of local governments in all three papers, but there is still limited knowledge on what rural places are doing. In fact, I have limited my analysis on revenue structures in the second paper to non-rural cities. This decision was based on the fact that rural places have low rates of revenue innovations. In general, local governments are using alternative service delivery and alternative revenue sources, but rural places face structural barriers (e.g. size, density, types of services provided) to using these tools. The low enthusiasm for charges and fees in the third paper also may be a reflection of the rurality of local governments in New York State (most of upstate New York is rural). How are local governments in rural places coping in the aftermath of the Recession? The answers will have implications for state and national politics as well. Recent media reports note the growing divide in political ideology between inner cities and the rest of the country (Kron 2012), which some suggest is driving the increasing use of preemptions by state governments to interfere in local affairs (Yee 2016).

Lastly, local governments are indeed "creatures of the state," and which state a locality belongs to matters for how local governments function. While we know that states matter, there is less knowledge about *how* states matter. The first two papers in this project have used some crude indicators of state policies – state aid, state decentralization, stringency of tax and expenditure limits – to explore how state policy matters, and the last paper shows that state-local political narratives matter. More research on how state-local relationships shape local government behaviors are necessary.

Final Thoughts

Local governments are pragmatic, but the current governance system based on fiscal federalism's assumptions of transparency and competition may not be efficient in the long term. Local governments are using a range of service delivery innovations and various charges to maintain services after the Great Recession. Despite some scholars' concerns that local governments will become austerity machines that slash public services (e.g. Donald *et al.* 2014; Peck 2014), local governments so far have been resilient, balancing the pressures from state governments as well as those from citizens.

Is this a sustainable strategy in an intergovernmental system that is restructuring? Service innovation does not necessarily lower costs and economies of scale may already be exhausted in many places. Charges and fees may increase efficiency, but there are still political and legal barriers to their use and they may not bring in adequate revenues to replace shrinking property taxes and state aid. The current federalist system of decentralized governance creates an imbalance of responsibilities and power at the local level.

State policies largely determine how much agency local governments can exercise, but most federalism studies are focused on federal-state relationships. The structural changes are happening at the state-local level and, given the variety across the 50 states, more studies on state-local relationships are needed. This dissertation aimed to address this gap in the literature, both empirically and theoretically.

Local governments have been holding on, but significant changes to local services may be just around the corner. A collective conversation about the role of local governments and the assumptions of fiscal federalism would be wise before we turn that corner.

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