

Illinois Municipalities: Changing Conditions and Policy Responses

by

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Preface

Municipal finance has undergone a substantial transformation from the relatively prosperous decade of the 1990s to significant cutbacks during the mid-2000s. In many instances, municipalities had increased services and rebuilt decaying infrastructure facilities when funds were available. The municipalities differed substantially, however, depending on location—suburbs or downstate.

In a continuing effort to understand trends in municipal finance and corresponding management practices, the Illinois Institute for Rural Affairs, Western Illinois University, and the Illinois Municipal League surveyed mayors in 2002 about management practices and issues faced. The resulting report addresses several main issues. Changes in revenues raised and spending practices are summarized to identify shifts in priorities and reliance on revenue sources. Major issues faced by Illinois municipalities are addressed along with policy responses.

Many people contributed to this project and deserve special thanks. Most important are the many municipal officials who responded to a mail survey and discussed management practices. The Illinois Municipal League mailed the questionnaires and provided supplemental information on some of the survey results. Finally, Lori A. Sutton, IIRA, tabulated much of the data and Karen Poncin, IIRA, helped prepare the manuscript for publication. As always, any errors belong to the authors.

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Executive Summary

The beginning of the new millennium has brought a variety of new financial challenges to cities across Illinois. The 2001 recession and a slow and uneven recovery created financial difficulties for many cities. Several measures enacted by the General Assembly to address state fiscal shortfalls resulted in additional financial burdens for cities. The terrorist attacks of September 11, 2001, produced greater demands for spending on municipal emergency response and homeland security. These pressures are in addition to the regular financial challenges facing cities, including maintaining infrastructures; complying with unfunded state and federal mandates; and increasing personnel costs, especially for health insurance.

To examine how cities are addressing these challenges, the Illinois Institute for Rural Affairs (IIRA) at Western Illinois University and the Illinois Municipal League (IML) surveyed cities with populations of 500 or more in 2002. Completed questionnaires were returned by 285 cities, a 57 percent response rate. Responding cities were divided into population categories based on size for additional analysis.

Financial Challenges Facing Cities

Illinois municipalities face several issues that have been created by external forces in addition to the day-to-day challenges of financing services:

- *Economic Recession and Manufacturing Job Loss*—While the recession officially ended in late 2001, and some cities have recovered financially, others face continuing high unemployment rates and financial shortfalls. Cities in rural areas, in particular, are lagging in job growth. In addition, cities with manufacturing operations that closed or are scheduled to close face financial uncertainties.
- *State Government Actions*—In recent years, state government exacerbated municipal financial problems through the enactment of initiatives designed to help the state deal with its own fiscal problems. One action, which reduced municipal revenues, discontinued the sharing of proceeds from the photoprocessing tax. Another measure, enacted in 2003, created a new fee on National Pollution Discharge Elimination System (NPDES) permits that increased municipal expenditures. While the amounts were relatively small, together these actions created shortfalls that had to be covered by city officials.
- *Environmental Mandates*—Some cities also faced the challenge of regulatory compliance of unfunded Environmental Protection Agency (EPA) mandates. Enforcement of rules on the amounts of radium and arsenic in drinking water, as well as stricter regulations on stormwater runoff, required millions of dollars of financing with little or no federal financial assistance.

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- *Declining Infrastructures*—Many cities have water, wastewater, and street systems that are in need of additional investments and upgrades. These costs are among the most expensive that cities must cover but, at the same time, provide a necessary base for economic development, thus causing infrastructure improvements to be of priority importance to city officials.
 - *Employee Benefit Costs*—Health insurance costs continue to rapidly increase, creating additional financial pressures on cities. Some employee pension costs also have increased due to state-legislated mandates. City officials face these financial pressures as they try to remain competitive with private sector employment compensation and benefit packages.

Policy Responses to Financial Stress

Most responding city officials were fairly optimistic about future economic conditions in their communities. Nearly half of responding city officials (45.8%) foresaw some businesses expanding even while others declined, and 21.1 percent reported that businesses were growing. More than one fourth of city officials (26.8%) predicted stable economic conditions without any significant future business expansions or contractions. A few respondents reported several large employers in decline, with possible reductions in employment (3.5%) or multiple employer shutdowns creating dim employment prospects (2.8%).

The survey results show that city officials take a tiered approach to financial stress, with initial policy responses having minimal impact on services, reserving more drastic measures for conditions of persistence. In response to a question inquiring about any unusual cost-cutting strategies adopted for the FY03 budget, most cities delayed replacement of equipment or vehicles (73.3%), delayed repairs and maintenance on equipment and buildings (53.4%), and/or postponed construction of new facilities (40.5%). These measures, while important for the long-term financial health of the city, are considered to be less vital to daily operations.

Personnel costs comprise a large portion of municipal budgets, and some city officials try to hold down such costs with minimal impact on existing employees. For example, 41.2 percent of cities reported postponing additions to staffs, 32.1 percent provided smaller pay increases than planned, and 27.5 percent reduced their existing workforces through attrition. All of these measures, and interfund borrowing (used by 20.6% of respondents), are designed to reduce costs until revenues recover. Policy options which have an effect on operations are used as a last resort by most cities—only 9.9 percent directly reduced services and another 9.9 percent terminated employees.

While these strategies give a general sense of how cities address financial stress, further analysis is provided on several specific policy options.

Broadening the Tax Base

Cities are increasingly relying on local sources of revenue as state and federal sources decline; however, cities are somewhat limited in their options to increase local revenues. One local source, property taxes, has statutory limits and, in one third of Illinois counties, has growth restrictions imposed by property tax caps. In 47.4 percent of cities, property tax rates declined due to assessed valuations, and only 20.3 percent of cities raised rates to meet spending needs. Some revenue-raising options available to cities include the following:

- *Home Rule Taxes*—Cities with populations of less than 25,000 can seek home rule authority through referendum. Home rule allows cities to impose an additional 1 percent sales tax and enact taxes on items such as cigarettes, alcohol, and gasoline. Nearly one fourth of cities (23.7%) plan to seek home rule authority in the near future, and nearly two thirds of them (65.2%) are doing so to seek additional revenues.
- *Hotel/Motel Taxes*—Non-home rule cities can use proceeds from a hotel/motel tax only for tourism; however, there are no restrictions on use of funds by home rule communities. More than one half of cities (50.7%) collect a hotel/motel tax, but only 26 percent of small towns do.
- *Utility Taxes*—Cities can enact a utility tax of up to 5 percent on electric and natural gas bills without referendum. Currently, 479 municipalities collect a utility tax on electricity usage, and 436 municipalities collect a tax on natural gas usage.
- *Telecommunications Taxes*—Cities can collect a tax of up to 6 percent on telecommunications services. Some cities in the survey reported using telecommunications tax revenues as a way to make up for lost photoprocessing tax revenues.

Economic Development

Municipal revenues can increase through expanded business activity. Economic development initiatives can help to stimulate business activity and increase sales taxes. The survey examined several aspects of municipal economic development efforts:

- *Structure and Financing*—In-house economic development agencies are the preferred structure in large cities (66.7%) compared with cities statewide (40.6%). Large and medium-sized cities also have a full-time director more often than small towns. Most economic development agencies are financed through either membership contributions by cities and businesses (29%) or property taxes levied by local governments (22.6%). Agency directors in large and medium-sized cities more often report to city administrators or managers, while directors in small communities frequently report to the mayor and city councils.

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- *Priorities*—While some cities still focus on attracting new businesses (38.3% on retail stores and 18.1% on manufacturing facilities), the biggest priority of most cities is on existing businesses—retaining them (62.2%), expanding them (45.2%), or revitalizing or building their downtowns (36%). Fewer cities prioritize helping start-up businesses (12.6%) or high-tech businesses (10.2%), although programs to do so could create some long-term opportunities.
 - *Incentives*—Many cities use Enterprise Zones (49%) and Tax Increment Finance (TIF) districts (45.7%) as economic development incentive tools. One-stop permitting (48.9%) and revolving loan funds (40.8%) are other commonly used incentives. Responding officials rate TIFs as the most effective incentive (38.9%), followed by 28.4 percent who rate Enterprise Zones as effective. Some large and medium-sized cities also rate sales tax sharing as being an effective development tool.

Infrastructure Maintenance Practices

While the condition of streets and water infrastructures is adequate in many cities, some face declining conditions and require significant investments to improve them. Nearly 30 percent of responding cities report that their streets and bridges need more than normal repair or major rehabilitation or repair. A similar number of cities state that their water systems are in need of more than normal or major repair. Roughly one in five cities report their wastewater systems as similarly inadequate.

Approximately 20 percent of cities face EPA mandates on drinking water and wastewater quality, and 16.3 percent are prevented from expanding because of water or wastewater compliance issues.

A number of strategies are available to help cities manage their infrastructures:

- *Capital Needs Study*—A capital needs study can better help officials plan infrastructure improvement and enable them to budget appropriately. Most cities have completed a study since 1990 (57.3%), and many of these studies have been performed since 2000 (70.3%). The number of cities that have not completed a capital needs study since 1990 (42.7%) is a cause for concern.
- *Water and Sewer Rate Restructuring*—Water and sewer rates should be set and periodically adjusted to reflect operating and capital replacement costs. Most cities (77.5%) reported that water and sewer rates are adequate despite only 43.9 percent saying that they completed a rate analysis in recent years. Many cities (45.3%) do not adjust rates on a regular basis. Nearly one fourth of cities (24.1%) adjust rates annually, often in accordance with changes in the Consumer Price Index (CPI).
- *Replacement Schedules*—Cities use replacement schedules to help plan and finance new vehicles and equipment. Nearly all large cities have replacement schedules for both vehicles and equipment compared with roughly one half in small communities, probably because fewer staff exist in small towns to manage a replacement program.

Management Strategies

City officials often use alternative management techniques to save funds and improve the quality of services. Measuring the performance of municipal services can help officials determine whether to restructure services internally or to seek other methods of service delivery.

- *Performance Measurement*—City officials can analyze the performance of services by comparing results with nearby cities or communities of similar size. One third of cities (33%) measure the performance of the services provided, with police services measured most often (87.1%). A few cities may undertake performance measurement on a comprehensive basis, yet only use the analysis for services that are targeted for restructuring.
- *Service Sharing*—The large number of local governments in Illinois with similar functions creates opportunities for sharing services. A majority of respondents (53.6%) report sharing services, and nearly three fourths (73.2%) of large cities do. Service sharing is commonly used for public safety services, such as police and fire protection, through mutual aid agreements. Most officials that use service sharing agreements rate their usage as highly effective.
- *Privatization*—Cities also commonly contract with private firms for service provision. Survey results show that 58 percent of cities privatize services to reduce costs. Garbage collection, legal and engineering services, and street maintenance are contracted most often by cities. Ambulance, water, and wastewater services also are being contracted more often. Officials contract with private firms to reduce costs and, judging by the results, are meeting that objective—89.5 percent of officials rated privatization a success.

Technology Enhancement

Technology plays an increasingly important role in municipal operations as an element of economic development strategies and through enhancing services. Nearly 60 percent of cities rate technology as important or very important as an economic development strategy. Most cities report that their local technological capacity is in good shape (43.6%) or that they are in the process of upgrading it (19.1%). Facilities are deemed as inadequate in 13.1 percent of cities.

Internet capacity is an important element of local technological upgrades. Some cities (37.6%) have achieved universal access to high-speed services, and 41.5 percent report high-speed access in some, but not all, areas of their cities. Cities are apparently making progress in bringing high speed to all residents. In only 13.2 percent of the cities is modem access the only service available.

Most cities (86.2%) have websites that are not only used as informational resources but also as tools to be used in economic development. Some economic development information available in cities includes information on utilities (44.1%), city forms (37.8%), tax rates (30.6%), and information on TIFs and Enterprise Zones (29.7%). Few officials (14.1%) believe that technology

has had a positive impact on local economic development efforts, and most (56%) did not know the extent of the impact. Better performance measurement techniques are needed to help officials discern the impact of technology on their local economic development.

Other Key Issues

The survey also examined two other issues:

1. *Public Safety*—Municipal governments have primary responsibility for first response to emergencies, and some have faced greater demands for such services since 9/11. Nearly 20 percent of cities increased their public safety budgets because of 9/11, and 50 percent increased training and mutual aid agreements with other governments. Retaining public safety personnel is not a major concern in most cities, but one fourth of small town officials (25.8%) report they could not adequately retain police and fire personnel without assistance.
2. *Local-State Relations*—Unfunded intergovernmental mandates and recent actions by state government that have negatively impacted city finances demonstrate the importance of effective dialogue and communications between city, state, and federal officials. City officials suggested several ways that state government could assist cities:
 - Provide cities with the ability to issue General Obligation bonds without referendum
 - Allow non-home rule cities the authority to spend hotel/motel tax revenues for any purpose
 - Allow cities greater quick-take powers through eminent domain for business development
 - Allow cities to share property tax revenues
 - Provide more grants for infrastructure repair

The State of Illinois Cities

The past several years have been challenging for Illinois municipalities in terms of financing services. A recession in 2001 brought job losses in many communities and created financial shortfalls because of lower tax revenues. Budget problems in state government led to several measures that negatively impacted city finances. The September 11, 2001, terrorist attacks created pressures to ramp up spending for public safety and emergency preparedness. Recurring challenges, such as unfunded mandates, rising employee benefit costs, and declining infrastructures, continue to pressure municipal budgets. While the recession is officially over, many cities are still struggling with budgetary shortfalls and other financial problems. Even so, some cities emerged from the challenges of the early 2000s relatively prosperous.

To gauge how cities fared during the early 2000s, the Illinois Institute for Rural Affairs (IIRA) at Western Illinois University, in conjunction with the Illinois Municipal League (IML), surveyed municipal officials in 2002. Questionnaires were sent to municipalities with populations of 500 or greater, and 285 of these were returned (57% response rate). Responding cities are grouped into three categories based on population:

- Small cities – less than 5,000 (77 cities)
- Medium-sized cities – 5,000 to 25,000 (158 cities)
- Large cities – greater than 25,000 (50 cities)

This report examines the survey results and explores how cities have coped with fiscal challenges during the past several years. Special attention is given to specific policies used by city officials to address financial stress and other important issues. In addition, since best practices are a useful tool for city officials to consider and adapt to their communities, examples are provided of the specific actions taken by cities as reported in the returned surveys.

Before examining the management strategies used by cities across the state, the report provides an analysis of municipal revenues and expenditures between 1992-2002 based on U.S. Census of Governments data along with a brief sketch of the issues and challenges during the early 2000s and policy responses adopted by cities.

Municipal Revenues and Expenditures 1992-2002: State Aid Improves Cities' Finances

Revenues received by Illinois municipalities on a per capita basis increased an average of 71.2 percent between 1992 and 2002 (Table 1); however, when the effects of inflation as measured by the Illinois Municipal Price Index have been removed, the increase was only 15.4 percent. Substantial differences are reported between downstate cities (8.8%) and the Chicago suburbs (18.8%) in

Table 1. Per Capita Sources of Revenue for Municipal Governments (Less than 25,000 Population)

Sources of Revenue	Downstate Illinois*			Chicago Suburbs*			Illinois*		
	1992	1997	2002	1992	1997	2002	1992	1997	2002
	Pct Change 1992-2002			Pct Change 1992-2002			Pct Change 1992-2002		
General Revenue									
Current	\$444.12	\$602.81	\$716.87	\$575.01	\$785.26	\$1,013.52	\$506.93	\$693.33	\$867.77
Constant	444.12	500.26	483.07	575.01	651.67	682.97	506.93	575.38	584.75
Intergovernmental Revenue									
Current	148.58	228.17	297.09	160.95	217.19	315.30	154.51	222.72	306.35
Constant	148.58	189.36	200.19	160.95	180.24	212.47	154.51	184.83	206.44
Federal Government									
Current	2.22	16.97	12.94	4.55	2.47	5.11	3.34	9.77	8.96
Constant	2.22	14.08	8.72	4.55	2.05	3.44	3.34	8.11	6.03
State Government									
Current	144.68	207.41	278.73	151.32	210.07	303.10	147.87	208.73	291.13
Constant	144.68	172.12	187.83	151.32	174.33	204.24	147.87	173.22	196.18
General Revenue from Own Sources									
Current	295.54	374.64	419.78	414.06	568.07	698.22	352.41	470.61	561.42
Constant	295.54	310.90	282.87	414.06	471.43	470.50	352.41	390.55	378.31
Taxes									
Current	119.57	143.82	160.03	275.23	354.08	419.33	194.26	248.14	291.93
Constant	119.57	119.35	107.83	275.23	293.84	282.56	194.26	205.92	196.72
Property Taxes									
Current	65.37	85.97	108.31	160.44	215.31	266.55	110.99	150.14	188.80
Constant	65.37	71.34	72.99	160.44	178.68	179.61	110.99	124.60	127.23
Other Taxes									
Current	54.20	57.85	51.72	114.79	138.76	152.78	83.27	98.00	103.12
Constant	54.20	48.01	34.85	114.79	115.16	102.95	83.27	81.32	69.49
Charges and Miscellaneous									
Current	175.97	230.82	259.75	138.84	213.99	278.89	158.15	222.47	269.49
Constant	175.97	191.56	175.04	138.84	177.59	187.93	158.15	184.63	181.60
Illinois Municipal									
Price Index (1992 = 100.0)	100.0	120.5	148.4	100.0	120.5	148.4	100.0	120.5	148.4

*The downstate analysis is for 931 municipalities; the Chicago-Naperville-Joliet, IL Metropolitan Statistical Area is not included in this analysis. The Chicago Suburbs analysis is for 229 municipalities in the Chicago-Naperville-Joliet, IL Metropolitan Statistical Area; the City of Chicago is not included in the analysis. The Illinois analysis is for 1,160 cities with less than 25,000 population.

Source: U.S. Bureau of the Census, 1992 and 2002 Census of Governments.

constant dollars. Larger increases in suburban cities are expected, given the economic growth in the suburbs. The amount spent by suburbs (\$1,013.52 per capita) was substantially higher than those in the downstate cities (\$716.87). The difference is explained by the higher tax base in the suburbs. Note that the municipalities included in Tables 1 and 2 are smaller than 25,000. Therefore, the relative distribution by size affects the comparison since larger cities are likely to provide more services. The average size of the suburban sample was 8,454 compared with 2,009 in the downstate cities.

The changes in revenue during this period reflect two different economic times, including the recession in 2001. Statewide, municipal revenues increased 13.5 percent in constant dollars between 1992 and 1997, a period of economic growth, but increased 1.6 percent between 1997 and 2002, a pre-recessionary period. Between 1992 and 1997, the downstate cities experienced growth of 6.8 percent in constant dollars compared with an average of 13.3 percent in the suburbs. The downstate cities were more responsive to the business cycle during the period leading to the recession, and lost an average of 3.4 percent between 1997 and 2002 compared with a 4.8 percent increase in the suburbs.

Intergovernmental Aid. A close examination of the sources of the revenue increase shows that intergovernmental aid, especially from the federal government, explains much of the increase in both downstate cities and the suburbs. Statewide, intergovernmental aid increased 33.6 percent in constant dollars but 34.7 percent in downstate cities and 32.0 percent among the suburbs. As with the changes in municipal revenues overall, definite differences exist by time period. Statewide, intergovernmental aid increased 19.6 percent between 1992 and 1997 but increased only 2.5 percent in the subsequent five-year period. Downstate cities gained 27.4 percent in the 1992 to 1997 period compared with 12.0 percent in the suburbs; however, in the next five years, downstate cities increased 5.7 percent compared with an increase of 17.9 percent in the suburbs. Thus, it appears that the suburbs were much more affected by the recession than were downstate cities.

Downstate cities reported substantial variations in per capita federal government receipts between the two five-year periods—from a 143.0 percent increase between 1992 to 1997 to a decline of 25.6 percent in the subsequent five-year period. The suburbs reported a 55.0 percent decrease in the first period and an increase of 68.2 percent during the second period with an average decrease of 24.3 percent.

Revenues collected from the federal government are relatively small parts of the overall revenues collected. On average, the Illinois cities in this sample collected \$6.03 per capita from the federal government, with downstate cities reporting an average of \$8.72 compared with \$3.44 per capita in the suburbs. This relatively large difference may reflect the fact that federal revenues often favor relatively distressed municipalities, and this is more likely to be the case in downstate cities.

State revenues increased markedly between 1997 and 2002, especially in the suburbs, but this also reflects changes in economic conditions, and possibly the change in the gubernatorial administration in 1998 as well. For instance, between 1992 and 1997, downstate municipalities received an increase of 19.0 percent in per capita state aid compared with an increase of 15.2 percent in the suburbs.

Between 1997 and 2002, however, the downstate increase was 9.1 percent compared with an increase of 17.2 percent in the suburbs. Overall, during the past decade, downstate municipalities received an increase of 29.8 percent compared with an average of 35.0 percent in the suburbs.

Illinois FIRST, a \$12 billion public investment program launched by the Ryan Administration, provided grants to local governments for capital expenditures. That program started in 1998, so it would have impacted the funds available to cities during the 1997 to 2002 period after which it was phased out. The expenditures would have continued until the program was ended, however. Thus, the increase in revenues received from the state reflects some of these capital expenditures.

Own Sources. Revenues from a city's own sources, including taxes and fees, are the largest revenue source for cities and amounted to \$561.42 per capita statewide in 2002, an increase of 7.3 percent in constant dollars from 1992. As with intergovernmental aid, the trends differed by period. Between 1992 and 1997, own source revenues increased 10.8 percent, but during the subsequent period, they decreased 3.1 percent.

The pattern of change in own source revenues differed substantially when downstate and suburban cities are compared. For instance, the own source revenues for downstate cities increased 5.2 percent and declined 9.0 percent, respectively, in the two periods during the 1990s, while suburbs increased 13.9 percent during the early period and declined marginally 0.2 percent during the subsequent period.

Taxes are a relatively large source of local revenues, and part of the explanations for differences between the two city types rests in this revenue category. The average downstate municipality collected \$160.03 per person from taxes in 2002 compared with an average of \$419.33 per person in the suburbs. When tax collections are converted to constant dollars, there was a 1.3 percent increase during the 1990s for Illinois cities overall and a 9.8 percent decline in downstate cities. The suburbs reported a 2.7 percent increase.

Property taxes in constant dollars increased 12.3 percent statewide between 1992 and 1997 but increased only 2.1 percent in the next five years. Downstate cities increased 9.1 percent in the early 1990s but increased only 2.3 percent between 1997 and 2002 for an increase of 11.6 percent during the period. The suburbs, on the other hand, grew 11.4 percent and 0.5 percent in the respective periods for an increase of 12.0 percent overall. This suggests that in purchasing power, the cities gained slightly less than one percent per year in resources. It is very likely that the Property Tax Extension Limit Legislation (PTELL) explains much of the slow growth in property tax receipts. At the same time, many municipal officials have deliberately not increased property tax rates to allow schools to fund services from that source since cities can use other revenue sources.

Changes in per capita tax collections can result from several factors. In relatively rapidly growing cities, for instance, the population increases may be happening more rapidly than the increases in property tax collections, which can lag several years, especially when cities are at levy limits and must rely on tax base increases. The converse is true for declining cities. Also, city officials could

have been trying to reduce their reliance on property taxes by implementing or increasing other sources of revenue such as home rule sales taxes or utility taxes. In any event, both groups of cities reported small increases in the purchasing power of property taxes.

Other local taxes, such as hotel and motel taxes and home rule sales taxes, represent a smaller, but still important revenue source for cities, especially for the suburbs. Receipts from these taxes increased less rapidly than inflation during this period and, in the case of downstate municipalities, declined 35.7 percent between 1992 and 2002. Suburban cities, on the other hand, reported only a 10.3 percent decrease. In both groups of cities, however, the largest decline in purchasing power was between 1997 and 2002, the pre-recession period. This period also featured a large increase in state revenues, as reported earlier. It could be that the healthy increases in state revenues, such as income and sales taxes, lessened the need for rapid increases in other local taxes during this period.

The final group of local revenues includes charges and miscellaneous revenues, which increased 14.8 percent in purchasing power during the 1990s. Once again, the two city groups differ, however, with the downstate cities losing 0.5 percent and the suburbs increasing 35.4 percent. Part of the explanation could be that the expansion in the suburbs generates additional charges for services, building permits, and related activities. The suburbs experienced substantial population growth and economic expansion during the previous decade, far more than downstate cities.

A comparison of changes in the relative importance of various revenue sources shows that local revenues declined in importance while intergovernmental aid, especially from state sources, increased from 29.2 percent of revenues to 33.5 percent, again probably partially explained by Illinois FIRST grants during this period. The increase in the importance of state aid is especially obvious in the downstate cities, which increased from 32.6 percent to 38.9 percent compared with an increase from 26.3 percent to 29.9 percent in suburban cities. Clearly, downstate cities rely more heavily on state aid than the suburbs, possibly reflecting the more rapid growth in the suburbs during the 1990s.

The changes in intergovernmental aid triggered a decline in the relative importance of own source revenues from 66.5 percent to 58.6 percent in the downstate cities and 72.0 percent to 68.9 percent in the suburbs. Property taxes were stable, with a slight increase in the downstate cities, but they actually declined in relative importance in the suburbs, which could reflect the impact of PTELL.

Expenditures

The revenue changes reported earlier are reflected in per capita expenditure growth (constant dollars) in both city groups. Statewide, expenditures increased 18.6 percent (Table 2). Thus, municipalities had more resources with which to provide services in 2002 than they did in 1992, and the two groups of cities are comparable in change at 17.0 percent in downstate cities and 17.9 percent growth in the Chicago suburbs. As of 2002, downstate municipalities spent an average of \$738.57 per capita compared to an average of \$1,003.22 per capita in the Chicago suburbs.

Table 2. Per Capita Expenditures for Municipal Governments (Less than 25,000 Population)

Expenditure Functions	Downstate Illinois*			Chicago Suburbs*			Illinois*			Pct Change 1992-2002		
	1992	1997	2002	Pct Change 1992-2002	1992	1997	2002	Pct Change 1992-2002	1992		1997	2002
General Expenditures												
Current	\$425.31	\$562.64	\$738.57	73.7	\$573.28	\$713.85	\$1,003.22	75.0	\$496.31	\$637.67	\$873.19	75.9
Constant	425.31	466.92	497.69	17.0	573.28	592.41	676.02	17.9	496.31	529.18	588.40	18.6
Capital Outlay												
Current	36.11	71.09	122.53	239.4	78.55	112.13	182.85	132.8	56.47	91.45	153.21	171.3
Constant	36.11	59.00	82.57	128.7	78.55	93.05	123.21	56.9	56.47	75.89	103.24	82.8
Current Operations												
Current	389.20	491.55	616.04	58.3	494.73	601.72	820.37	65.8	439.84	546.21	719.98	63.7
Constant	389.20	407.93	415.12	6.7	494.73	499.36	552.81	11.7	439.84	453.29	485.16	10.3
Health and Hospital												
Current	50.91	83.16	62.00	21.8	1.85	2.74	3.95	113.4	27.37	43.26	32.47	18.7
Constant	50.91	69.01	41.78	-17.9	1.85	2.27	2.66	43.8	27.37	35.90	21.88	-20.0
Highway												
Current	72.91	90.46	132.43	81.6	97.91	105.85	149.18	52.4	84.91	98.10	140.95	66.0
Constant	72.91	75.07	89.24	22.4	97.91	87.85	100.52	2.7	84.91	81.41	94.98	11.9
Capital Outlay for Highways												
Current	10.90	15.30	33.77	209.9	18.87	29.30	44.67	136.8	14.72	22.25	39.31	167.0
Constant	10.90	12.70	22.76	108.8	18.87	24.32	30.10	59.5	14.72	18.46	26.49	80.0
Police												
Current	68.37	87.36	114.63	67.7	146.31	167.01	228.25	56.0	105.77	126.88	172.43	63.0
Constant	68.37	72.50	77.24	13.0	146.31	138.60	153.81	5.1	105.77	105.29	116.19	9.8
Fire												
Current	18.40	24.61	37.17	102.0	35.29	45.19	69.51	97.0	26.50	34.82	53.62	102.3
Constant	18.40	20.42	25.05	36.1	35.29	37.50	46.84	32.7	26.50	28.90	36.13	36.3
Sewerage and Sanitation												
Current	62.48	58.37	106.04	69.7	61.80	63.08	75.83	22.7	46.40	42.75	65.58	41.3
Constant	62.48	48.44	71.46	14.4	61.80	52.35	51.10	-17.3	46.40	35.47	44.19	-4.8
Parks, Recreation, and Housing												
Current	20.47	24.74	42.64	108.3	24.97	52.50	69.99	180.3	19.36	34.86	48.53	150.7
Constant	20.47	20.53	28.73	40.4	24.97	43.56	47.17	88.9	19.36	28.93	32.70	68.9
Other Expenditures												
Current	119.08	176.50	227.84	91.3	188.26	248.20	360.81	91.7	152.27	212.07	295.48	94.0
Constant	119.08	146.47	153.53	28.9	188.26	205.97	243.13	29.1	152.27	176.00	199.11	30.8
Interest on General Debt												
Current	12.68	17.45	15.82	24.7	16.88	29.29	45.70	170.8	14.70	23.33	31.02	111.1
Constant	12.68	14.48	10.66	-16.0	16.88	24.31	30.80	82.5	14.70	19.36	20.90	42.2
Illinois Municipal Price Index (1992 = 100.0)	100.0	120.5	148.4		100.0	120.5	148.4		100.0	120.5	148.4	

*The downstate analysis is for 931 municipalities; the Chicago-Naperville-Joliet, IL Metropolitan Statistical Area is not included in this analysis. The Chicago Suburbs analysis is for 229 municipalities in the Chicago-Naperville-Joliet, IL Metropolitan Statistical Area; the City of Chicago is not included in the analysis. The Illinois analysis is for 1,160 cities with less than 25,000 population.

Source: U.S. Bureau of the Census, 1992 and 2002 Census of Governments.

The main difference between suburbs and downstate cities in expenditure trends involves capital outlays. On average, per capita expenditures increased 128.7 percent in downstate cities between 1992 and 2002 compared with an increase of 56.9 percent in the suburbs. Downstate cities spent an average of \$122.53 per capita (current dollars) on capital expenditures compared with an average of \$182.85 per capita in the suburbs.

Pressures can arise to protect current operations at the cost of capital projects, especially during recessions and tight budgets. This does not seem to have happened during the 1997 to 2002 period leading to the recession since current operations increased 7.0 percent in constant dollars compared with an increase of 36.0 percent for capital. Increases in highway spending account for a major portion of the capital spending changes. In downstate cities, capital highway spending increased 108.8 percent compared with a 59.5 percent increase in the suburbs. Most of the increases in highway spending occurred between 1997 and 2002, which is compatible with the fact that Illinois FIRST started during that period.

Expenditures for current operations increased an average of only 10.3 percent during the same period with a 6.7 percent growth in the downstate cities and 11.7 percent in the suburbs. A comparison of these spending trends suggests downstate municipalities focused more on rebuilding infrastructure and other capital items rather than increasing spending on current operations as did the suburbs. Several factors could explain these differences. For instance, suburban communities increased in population more rapidly than downstate cities, which could have necessitated substantial increases in spending on police, fire, and other current operations. In those downstate cities experiencing population declines, the demands for some of these services may have decreased.

A comparison of expenditure changes by services provided in cities shows that the largest expenditure changes were in capital outlays for highways (80.0%) and parks, recreation, and housing (68.9%). Expenditures for two services—health and hospital (-20.0%) and sewerage and sanitation (-4.8%)—declined in constant dollars. Police and fire protection, usually relatively large portions of municipal budgets, increased 9.8 percent and 36.3 percent, respectively. Operating expenditures for streets, another large portion of the budget, increased 11.9 percent in constant dollars.

On average, expenditure increases in downstate cities exceeded those in the suburbs, often by a substantial margin. For instance, fire protection expenditures increased 36.1 percent between 1992 and 2002 in downstate cities compared with an average of 32.7 percent in the suburbs. The increase of 13.0 percent for police protection (constant dollars) is over twice that in the suburbs (5.1%). Increases in public safety spending could reflect grants from Illinois FIRST for fire trucks, squad cars, and other safety equipment; local matching requirements for the COPS program enacted by the Clinton Administration in the mid-1990s; and increased expenditures after the September 11 terrorist attacks.

Comparing municipal revenues and expenditures is difficult because of the inclusion of capital expenditures but also because of differences among cities in the levels and types of services provided. Nevertheless, it is important for local officials and municipal administrators to compare

trends in resources available in order to provide municipal services over time. The comparisons in this section offer insights into those trends.

Economic Recession and Manufacturing Job Loss

The survey was mailed to municipal officials in 2002, the year after the 2001 economic recession began and ended. According to the National Bureau of Economic Research (2004), the recession officially began in March 2001 after ten consecutive years of economic growth. The recession was relatively short, ending after eight months in November 2001.

While the recession has been officially over for three years, pockets of economic dislocation persist in many cities and regions across the state. The recovery has been uneven at best, and for many communities, recessionary conditions continue. For example, in Illinois, the unemployment rate in April 2004 was 5.6 percent, the lowest level in 28 months. This rate does vary, however, depending on communities' local economic bases. Rockford and Kankakee are still struggling to recover and have June 2004 unemployment rates above the statewide average at 7.8 percent and 8.1 percent, respectively. In contrast, Bloomington and Urbana-Champaign are enjoying low unemployment at 3.3 percent and 3.5 percent, respectively (Illinois Department of Employment Security 2004).

Rural areas lag behind other regions in job growth. Employment is down 10,645 jobs in the past year in rural Illinois and 13,452 jobs in downstate Illinois (Gordon 2004). In fact, Illinois was behind other Midwestern states, and the nation, in job growth during 2004.

One national economic trend has had a particularly adverse impact on finances in some cities: the loss of manufacturing jobs. Since July 2000, manufacturers nationwide eliminated 2.6 million workers or 15 percent of the manufacturing employment base. Illinois has lost one in six manufacturing jobs in the same period (Illinois Manufacturer's Association 2003).

Manufacturing jobs are important because they provide relatively high incomes that generate more tax dollars for municipalities and other governments. According to the U.S. Department of Labor (2003), the average manufacturing worker in 2002 earned \$44,620 compared to \$23,174 in the service sector and \$18,987 in the retail sector. The higher pay resulting from manufacturing jobs produces a ripple effect in the community and increases business activity and sales taxes. Conversely, a loss of such jobs strains municipal coffers and reduces the number of dollars flowing through the local economy. Replacing manufacturing jobs with service and retail jobs can create a net loss of income and revenues for municipal governments.

The manufacturing job loss has been especially acute in downstate Illinois cities during the past several years. Decatur suffered the loss of 1,500 jobs from the closing of the Bridgestone Firestone facility (Norris and Walzer 2003). Sterling lost 1,400 jobs when Northwest Steel and Wire closed in 2001. Rockford, Macomb, Quincy, and Rochelle also lost major employers producing manufactured goods. The hardest hit community in the state has been Galesburg, which faces the

imminent closure of two major manufacturers—Maytag and Butler—eliminating more than 2,000 employees (Associated Press 2004). Major plant closings have a larger impact on smaller cities because the jobs comprise a larger share of the local job base.

The lingering effects of the recession are seen in an examination of state shared revenues conducted by the IML. Projections show that income tax distributions will increase to \$64.50 per capita in FY05 from \$59.50 in FY04 (Frang and Masters 2004); however, the FY05 amount is still less than the actual per capita amount of \$76.76 in FY01. State use taxes are also on a slight upswing from FY04, and motor fuel taxes are projected to increase in FY05 for the second year in a row. Motor fuel taxes are estimated to exceed the FY01 level, but state use taxes, like income taxes, will still be below that level.

The impact of the recession and the weakness of the recovery are also evidenced by results from a National League of Cities (NLC) (2004) survey in November 2003. More than four of five cities (81%) reported being less able to meet financial needs compared with the previous year, the highest percent since 1990. One fourth of the respondents cited the local economy as the biggest negative factor affecting city budgets.

State Government's Double Whammy

Municipalities in Illinois operate under Dillon's Rule, which states that local governments do not have the authority to take action unless that authority is stated in the Illinois constitution or state statutes. Local governments are creatures of the state and, in fact, are not mentioned in the state constitution. Home rule, available to cities of 25,000 and greater and to those under 25,000 that enact it through referendum, gives cities additional revenue raising and regulatory flexibility; however, even the added powers and flexibility available through home rule do not prevent the state from taking actions that greatly impact local finances.

Two actions taken in recent years demonstrate the negative impact state government can have on city finances. The General Assembly, battling financial difficulties of its own, discontinued sharing of photoprocessing tax revenues in 2003, resulting in a loss of approximately \$2.10 per resident. While seemingly an insignificant amount, aggregate amounts of \$30,000 to \$40,000 could fund a full-time employee in a small or medium-sized city.

According to the survey results, nearly one third of responding city officials (32.3%) predicted the loss of photoprocessing revenues, no matter how small, would cause significant changes in municipal finance. Most cities (42.6%) planned to postpone or delay a capital project; 33.2 percent did not hire new employees; 18.4 percent had to borrow funds; 13.2 percent raised property taxes; 11.1 percent cut funding for existing programs; and 10.5 percent added a new tax. Clearly, the loss of photoprocessing revenues, while not having major budgetary implications, had a negative impact on most cities' finances.

State government not only can reduce municipal revenue sources, it can add expenses to city budgets. In 2003, with little legislative debate and notice to city officials, the General Assembly passed and Governor Blagojevich signed a measure that placed a new fee on National Pollutant Discharge Elimination System (NPDES) permits (PA 93-32). The fee impacted municipal wastewater treatment facilities in the state and was based on such variables as the nature of discharges and flow rates of discharges. By not being based on the number of residents, the fee produced some disparate impacts across the state. For example, Chicago's fee equaled \$.15 per person, and Maestown (pop. 148) residents paid \$20.27 per person (Samuels 2003).

As with the loss of photoprocessing revenues, the added NPDES fees, while a small share of overall revenues, adversely impacted city finances. Canton, for example, paid \$24,500 in fees, and Belleville remitted \$80,000. Taken together, the two actions diverted funds from other municipal spending priorities. Legislation was enacted in 2004 to reduce the amount of the fees in smaller communities (PA 93-840).

Illinois municipal officials are not alone in experiencing reduced state financial assistance. In the NLC (2004) survey, 29 percent of city budget officers nationwide said that the reduction in state aid was the biggest negative factor affecting their budgets in 2003.

Environmental Mandates

Local officials have long been concerned about unfunded mandates, or rules and regulations enacted by state and federal governments whose costs are borne all or in part by local governments. Mandates are attractive to state and federal legislators because they can appear to take strong action on issues of concern to constituents while foisting most or all of the costs on local governments. Cities often have no alternative but to comply.

The area of most concern for city officials in recent years has been environmental mandates, especially for water and wastewater treatment. A series of mandates from the U.S. Environmental Protection Agency (EPA) imposed stricter standards for water quality and wastewater collection. Costs for improving water infrastructure are among the most expensive for cities, and there is little direct state and federal grant funding available. One source of financial aid is through state revolving loan funds, which provide cities access to low interest loans. Loans are small comfort, however, to city officials who must raise water and/or sewer rates to pay for water infrastructure improvements and repayment of loans.

The recent EPA mandates imposed on municipal water and wastewater systems include the following:

- *Reduction of Radium in Drinking Water*—The amount of radium allowed in municipal water supplies was reduced with compliance mandated in 2003. More than 100 Illinois communities were impacted by the mandate (Illinois Local Government Online 2004). Compliance was not

cheap. Morton spent \$5 million to comply, and Monmouth is spending more than \$6 million. Water rates were doubled in Monmouth to help pay for a new water treatment system.

- *Reduction of Arsenic in Drinking Water*—Some Illinois cities were required to comply with stricter regulations on the amount of arsenic permissible in municipal water supplies. Among the cities required to comply with the new standard are Port Byron, New Lenox, and Frankfort.
- *Stricter Stormwater Regulations*—Many cities were also required to reduce their combined sewer overflows (CSOs). These occur when stormwater runoff and wastewater flows run through the same sewer systems. New rules require separate pipes for stormwater and wastewater to prevent sewer backups when the system is overtaxed during large amounts of rainfall. Rock Island enacted a stormwater fee to finance improvements to the quality of stormwater runoff.

Cities faced with stricter regulations on water and wastewater often raise user fees to pay for needed improvements. Water and sewer rate increases can be especially onerous for people on fixed incomes. Fee increases can be accompanied by larger amounts of bonded indebtedness for municipalities. While city officials certainly aren't opposed to cleaner water and better sewer collection systems, they prefer state and/or federal financial assistance to help pay a share of the costs of compliance.

Declining Infrastructures

A silver lining to environmental mandates is that they force cities to upgrade their infrastructures instead of deferring maintenance, repair, or replacement. Infrastructure is important not only for public health, safety, and overall quality of life, but it also plays a vital role in economic development efforts. A 1997 study linked higher rates of job growth in regions across the U.S. to increased spending on infrastructure (Bleakley 1997).

Many municipal water, wastewater, and street systems are in need of additional investments. The U.S. EPA (1996) estimates that \$150 billion will be needed during the next 20 years to meet the nation's drinking water needs. Wastewater systems will require an additional \$140 billion in new investment to meet new water pollution rules. The 2001 Report Card for America's Infrastructure assigned a rating of D+ to the nation's roads, bridges, and water systems. In Illinois, the report, issued by the American Society of Civil Engineers (2001), cited 36 percent of roads as "poor or mediocre condition" and 21 percent of bridges as "structurally deficient or functionally obsolete."

While the needs are great, funding sources for infrastructure improvements are limited. Grant funds from the state and federal governments have been largely eliminated and replaced by low interest loans, making cities more reliant on local sources, such as water and sewer fees, for water infrastructure improvements. Naturally, these services are among the most expensive functions provided by city government, according to the U.S. Conference of Mayors (Holusha 1996).

Employee Benefit Costs

Another source of financial stress faced by cities is rising costs for employee benefits such as health insurance and pensions. Governments have traditionally offered richer benefit packages to compensate for lower wages in order to compete with the private sector for employees. Forces beyond the control of cities have caused recent increases in benefit costs, however, and these are further strapping municipal finances.

Health insurance costs began increasing at rapid rates in 1998 after two decades of fluctuation. Annual cost increases for health insurance reached double digits in the late 1980s before tapering off in the 1990s because of the introduction of managed care programs (Appleby 2001). In 2002, health insurance premiums surged eight times faster than the general inflation rate—the largest one-year increase in more than ten years (National Coalition on Health Care 2004).

Increases in municipal pension costs are driven by state legislative mandates and lower returns on investments. A proposal before the General Assembly in 2004 would hike municipal pension costs by \$24 million annually and comprise 5.63 percent of municipal payrolls (“State Pension Increases” 2004). For example, the cost to Peoria would be \$732,000 annually, adding \$600,000 to property tax bills, the amount needed to hire ten entry-level firefighters or police officers.

Higher costs for city employees’ health benefits and pensions are rated the first and second negative factors affecting municipal budgets according to the NLC survey. Nearly two thirds of city budget officers (63%) cited health benefit cost increases as the biggest negative factor, while 30 percent reported pension costs as being most significant.

Responses to Changing Conditions

City officials often feel powerless to influence external forces that dictate their budgets and priorities. When external forces tie the hands of city officials, their decisionmaking authority is weakened. As a consequence, city priorities are also changed as more funds are allocated to comply with mandates or higher health insurance costs, or when a major employer closes. Inevitably, pressure builds to reduce expenditures or increase revenues.

City officials have other options to meet these challenges. Officials can promote economic development that broadens the tax base and stimulates business activity and job growth. Cities can examine revenue sources and seek new sources of revenue. Officials can improve their infrastructures to augment economic development efforts and improve the quality of life. They can adapt technology to economic development efforts and use it to increase efficiency in service provision. City leaders can use a variety of management tools to lower or maintain the cost of services without diminishing service quality.

Cities also have tools at their disposal to respond to external influences that impact their financial positions, economic competitiveness, and day-to-day administrations. There are specific policies and strategies that officials can adopt to enhance their communities, broaden their tax bases, and operate more efficiently. The next section examines policies used by municipalities in response to financial stress.

Policy Responses to Financial Stress

Most Illinois municipalities seem to have weathered the effects of the 2001 recession fairly well as shown by positive forecasts for their local economies in the three years after 2002. Nearly half (45.8%) viewed future conditions as positive, with some businesses expanding and others stagnating or declining, which is the normal “churn” effect of job patterns responding to changing economic conditions (Table 3). Another 21.1 percent were optimistic that local businesses were growing and seemed to be prospering. Approximately one fourth of cities (26.8%) reported stable economic conditions but no significant future business expansions or contractions.

Few city officials predicted difficult economic conditions in the future. Only 3.5 percent said that several large employers are in decline and may have to reduce employment, and 2.8 percent said more than one large employer closed and replacement prospects were dim. All cities reporting difficult economic futures have populations of less than 25,000, which demonstrates that the major negative effects of the 2001 recession were concentrated in small and medium-sized cities.

Results from the survey allow an examination of city officials’ responses to fiscal stress. Officials often seek to avoid or defer difficult decisions such as raising taxes, laying off employees, or

reducing services while they take less drastic measures to hopefully tide them over until revenues recover. In response to a question asking whether they took unusual cost-cutting measures to balance the FY03 budget (Table 3), most respondents delayed replacement of vehicles or equipment (73.3%) and/or delayed repairs and maintenance on equipment and buildings (53.4%). Together with postponing construction of new facilities (40.5%), these measures seek to delay expenditures on items that are not essential to daily operations. Delayed replacement or maintenance of vehicles, equipment, and buildings can lead to deterioration, however, and potentially higher costs through higher repair bills. Service quality could also suffer if, for example, police cars with high mileage use are continually being repaired instead of being used by officers for patrols.

Some city policies are designed to hold down personnel costs until revenues recover. The most common technique cited by officials is postponing planned additions to staff (41.2%). Two thirds of responding large cities reported this strategy because they have more employees and are more likely to need additional staff whether for service demands or for replacement of retired employees. Some cities (27.5%) reduce their workforces through attrition by not hiring new employees to replace those who retire.

Limiting employee compensation is a strategy employed more often in small towns than in larger communities. For example, more than half of officials from towns of less than 5,000 (51.5%) provided smaller pay increases than planned compared with 27.3 percent of medium-sized cities and 21.9 percent of large cities. Smaller towns have fewer employees but also fewer options to address financial stress. Attrition and delaying vehicle and equipment replacement may not be viable options if there are no employees approaching retirement age and fewer vehicles and equipment items. These cities at least provide some level of pay increase—10.7 percent of cities reported that employees received no pay increases in FY03.

Cities can borrow funds through interfund loans or short-term bank borrowing to balance accounts. About one in five cities (20.6%) borrow from enterprise accounts, such as water and sewer funds, to provide funding for other accounts such as the General Fund. Interfund borrowing is acceptable as long as the funds are repaid at the end of the fiscal year. This practice is much more common in smaller cities, where 39.4 percent reported they borrowed from enterprise accounts. Short-term borrowing to meet current expenses also is used more often in smaller cities, with 18.2 percent using this practice compared with only 3.1 percent in large cities. Borrowing funds to meet current operating expenses is a risky strategy—often indicating an operating deficit that ultimately will need to be addressed by raising revenues or reducing expenditures. Cities may be rolling the dice that the economy will turn around quickly enough to increase revenues to pay back the loans and maintain current spending.

Officials save the most drastic measures for last. Only 9.9 percent reduced services, and 9.9 percent terminated employees because of budget shortfalls. It appears that city officials use a graduated scheme to address financial stress by adopting “painless” measures to stave off the more difficult decisions as long as possible.

Table 3. Economic and Financial Conditions

Questions	Under 5,000		5,000 to 24,999		25,000 and Above		All Respondents	
	%	No.	%	No.	%	No.	%	No.
How do you perceive the economic future for your municipality during the next three years?								
Optimistic; local businesses are growing and seem to be prospering	15.8	12	24.8	39	18.0	9	21.1	60
Positive, with some businesses expanding but others stagnating or declining	42.1	32	43.3	68	58.0	29	45.8	130
Stable, with no significant business expansions or contractions	35.5	27	23.6	37	24.0	12	26.8	76
Several large employers are in decline and may have to reduce employment.	3.9	3	4.5	7	0.0	0	3.5	10
More than one large employer closed, and the replacement prospects are dim.	2.6	2	3.8	6	0.0	0	2.8	8
Have you had to take unusual cost-cutting measures to balance the FY03 budget?								
Yes	35.6	26	35.6	53	54.0	27	39.0	106
No	57.5	42	61.7	92	42.0	21	57.0	155
Don't know	6.8	5	2.7	4	4.0	2	4.0	11
If yes, which of the following has occurred?								
Postpone construction of new facilities	33.3	11	42.4	28	43.8	14	40.5	53
Delay repairs and maintenance on equipment and buildings	60.6	20	53.0	35	46.9	15	53.4	70
Delay replacement of vehicles or equipment	69.7	23	77.3	51	68.8	22	73.3	96
Borrow from enterprise accounts (water/sewer) for current operations	39.4	13	18.2	12	6.3	2	20.6	27
Postpone planned additions of staff	27.3	9	36.4	65.6	65.6	21	41.2	54
Smaller pay increases than planned	51.5	17	27.3	18	21.9	7	32.1	42
No pay increases this year	15.2	5	10.6	7	6.3	2	10.7	14
Attrition through retirements	18.2	6	19.7	13	53.1	17	27.5	36
Temporary furloughs for employees	9.1	3	4.5	3	3.1	1	5.3	7
Termination of employees because of budget shortfalls	12.1	4	6.1	4	15.6	5	9.9	13
Services have been reduced	6.1	2	9.1	6	15.6	5	9.9	13
Short-term borrowing to meet current expenses	18.2	6	13.6	9	3.1	1	12.2	16
Referendum for property tax rate increase to keep pace with inflation	3.0	1	3.0	2	3.1	1	3.1	4
Contract services with private sector to reduce costs	6.1	2	6.1	4	12.5	4	7.6	10
Other	6.1	2	19.7	13	25.0	8	17.6	23

Source: IML/IIRA Municipal Survey, Fall 2002; n=286.

A similar tiered response can be seen in the impact of lost photoprocessing revenues to cities. Most respondents postponed or delayed projects (44.6%) and/or did not hire new employees (31.4%). Harsher measures were less likely to be pursued—for example, property tax increases (14.6%), instituting a new tax such as utility or telecommunications taxes (11.8%), or service cuts (10.4%).

Officials also try to mitigate the effects of revenue raising measures when trying to balance budgets. Officials were asked their likely responses to inadequate revenues in FY03. The most common strategy is increasing fees for services (65.6%), which can be considered a fairer way to pay for services since only people who use them pay for them (Table 4). Fee increases are also a way to lessen the burden of local property taxes.

Nearly half of cities (47.7%) sought project funds from the state and/or federal governments. This is a short-term measure since most grants are one-time funding sources for specific projects and are not intended for operational purposes. Still, grant funding for construction or for an addition to a water facility or other capital project reduces the direct financial impact on residents.

Officials also report exploring alternate ways of providing services to avoid tax increases or service cuts. Roughly one fourth of cities (26.7%) consider partnerships with other governments to share provision and costs of services, and one fifth (20.2%) contract services with private firms to reduce costs. Both management techniques can be long-term solutions to fiscal problems as long as the arrangements continue to produce the results that officials expect.

Tax increases appeared to be a last resort. One fourth of cities (25.2%) raised property tax rates, and 20.6 percent considered new revenue sources, such as a utility tax, in FY03. Another 6.9 percent planned to seek home rule status to raise local sales taxes and avoid property tax increases. The risk of tax increases is that they can harm the economic competitiveness of communities and further impair local finances. Officials must learn to balance that concern with the desire to fund the quality public services that businesses depend on for efficient operations.

Table 4. Financial Conditions

Questions	Under 5,000		5,000 to 24,999		25,000 and Above		All Respondents	
	%	No.	%	No.	%	No.	%	No.
If the local revenues are inadequate in FY03, what steps is your municipality most likely to take?								
Raise property tax rates	28.6	20	19.2	28	39.1	18	25.2	66
Increase fees for services	62.9	44	69.2	101	58.7	27	65.6	172
Consider a new tax	15.7	11	21.9	32	23.9	11	20.6	54
Seek home rule status to avoid property tax rates	8.6	6	8.2	12	0.0	0	6.9	18
Explore partnerships with other governments to share costs of services	34.3	24	26.0	38	17.4	8	26.7	70
Contract services with the private sector to reduce costs	14.3	10	24.0	35	17.4	8	20.2	53
Apply for project funds from the state or federal government	62.9	44	51.4	75	13.0	6	47.7	125
Other	17.1	12	21.9	32	56.5	26	26.7	70
What will revenue loss mean in your municipality?								
Cuts will be made in specific ongoing programs.	5.3	4	10.9	17	16.7	8	10.4	29
Property tax rates will have to increase to replace the lost revenues.	14.7	11	12.8	20	20.8	10	14.6	41
A new tax will probably be added.	9.3	7	12.2	19	14.6	7	11.8	33
Projects will be postponed or delayed.	44.0	33	46.8	73	39.6	19	44.6	125
A new employee(s) will not be hired due to lack of funds.	22.7	17	34.0	53	37.5	18	31.4	88
Municipality will "borrow" from other funds to meet essential payments.	21.3	16	23.1	36	4.2	2	19.3	54
Services will be contracted with private sector to reduce costs.	5.3	4	10.9	17	2.1	1	7.9	22
No major impact on overall budget because of other revenue growth.	18.7	14	21.2	33	12.5	6	19.3	54
Other	6.7	5	5.8	9	16.7	8	7.9	22

Source: IML/IIRA Municipal Survey, Fall 2002; n=286.

Broaden the Tax Base

Information on municipal revenue sources indicates that cities are trying to expand their local sources of revenues as state and federal sources have stagnated or declined. According to information from the State Comptroller's Office for FY98-FY02, most revenue categories that increased faster than the overall rate of increase for cities are local sources. For example, charges for services increased 7.6 percent; utility taxes, 6.4 percent; and local sales taxes, 5.7 percent compared with a 4.2 percent increase in revenues for cities statewide. State sales taxes increased 4.6 percent and state income taxes were stagnant, increasing only 3 percent.

Property taxes comprise about one fourth of municipal revenues (outside of Chicago) (25.8%) in FY02, the last year for which information is available from the State Comptroller's Office (Lipinski 2004). Cities received 19.5 percent of their revenues from state sales taxes and 8.8 percent from state income taxes.

Cities are somewhat limited in their flexibility to alter their mix of revenue sources. Property taxes are local sources of revenue and can be increased by cities; however, there are statutory limits on property tax rates and also tax cap restrictions for some cities. While few cities (12.8%) have policies to not increase property tax rates, most officials prefer rate increases as a last resort because of citizen opposition and the perceived unfairness of the property tax system. In nearly half the cities reporting (47.4%), rates actually declined because of increases in assessed valuations. Only 20.3 percent of cities increased property tax rates to meet spending requirements. Just 27.3 percent of cities reporting inadequate revenues raised property taxes to fund services, an indication of city officials' hesitation to increase property taxes and a preference for alternate means of balancing their budgets.

State government controls the distribution of income and sales taxes to cities. In addition, cities without home rule status are further restricted in their ability to raise revenues. Property tax increases are not limited by statute in home rule communities, but most cities prefer to use home rule to lessen the burden of property taxes on residents by shifting to other revenue sources.

A recent study of cities in the Chicago metropolitan area found that cities depending more on state sources of revenue run a greater risk of reduced funds due to a combination of economic decline and state reduction of shared revenue sources to local governments (Hendrick 2003). One recommendation of the study was for cities to seek home rule status to increase flexibility in their mix of revenue options. In addition, local option taxes available to cities provide them added flexibility.

Home Rule Sales Taxes. Cities with less than 25,000 in population can seek home rule authority through referendum. For example, home rule cities can enact an additional 1 percent sales tax and impose taxes on alcohol, gasoline, and cigarettes. Home rule cities often target nonresidents with taxes allowed under home rule such as hotel/motel taxes, gasoline taxes, and sales taxes.

In 2003, Illinois State Board of Elections data show that five cities enacted home rule authority and five opposed it, bringing the current number of home rule communities in Illinois to 158. Of those, 78 cities are home rule automatically by population and 79 acquired home rule through referendum. Home rule is enacted by roughly half of the cities that consider such authority at the ballot box (Banovetz 2002).

Despite the odds, more cities plan to seek voter approval for home rule authority. According to the IIRA/IML survey results, nearly one fourth of responding officials in non-home rule cities

Table 5. Home Rule

Questions	Under 5,000		5,000 to 24,999		25,000 and Above		All Respondents	
	%	No.	%	No.	%	No.	%	No.
Does your municipality have home rule authority?								
Yes	14.3	10	20.8	31	97.9	47	33.2	89
No	85.7	60	79.2	118	2.1	1	66.8	179
If no, does your municipality plan to seek home rule authority in the next three years?								
Yes	15.6	7	26.4	24	66.7	2	23.7	33
No	84.4	38	73.6	67	33.3	1	76.3	106
If yes, why?								
Revenue enhancement	57.1	8	65.4	17	83.3	5	65.2	30
Increased regulatory authority	57.1	8	69.2	18	100.0	6	69.6	32
To avoid tax caps	28.6	4	34.6	9	33.3	2	32.6	15
Other	21.4	3	15.4	4	0.0	0	15.2	7

Source: IML/IIRA Municipal Survey, Fall 2002; n=286.

(23.7%) said they plan to seek home rule authority in the near future (Table 5). Approximately one in five are medium-size cities (20.8%), and 14.3 percent are small towns.

Nearly two thirds of cities seeking home rule (65.2%) said they are doing so to increase revenues. In cities where revenues are inadequate, 83.3 percent want the ability to raise additional revenues through home rule. This finding is similar to a recent study showing that 60.9 percent of cities with home rule authority currently have a local sales tax in place (Banovetz and Kelty 2003). That study also reported that 59.7 percent use home rule to raise revenues from hotel/motel taxes, 35.6 percent use a real estate transfer tax, and 17.2 percent use a gasoline tax.

Hotel/Motel Taxes. Cities can impose a tax of up to 5 percent on hotel/motel rooms. Non-home rule cities must use the proceeds to fund local tourism efforts, but home rule cities can use the funds for any governmental purpose. Slightly more than one half of cities (50.7%) report they collect a hotel/motel tax, with usage much higher in large cities (80.0%) than in small towns (26.0%). This could be because some towns of less than 5,000 do not have hotels or motels. Approximately one half of medium-sized communities (53.0%) collect a hotel/motel tax. Cities facing financial stress, however, are no more likely to have a hotel/motel tax than cities with adequate revenues.

Not all cities that collect a hotel/motel tax use the funds to promote tourism, indicating that those that don't are probably home rule cities which deposit tax proceeds in the General Fund. In the survey, 38.9 percent of cities fund a department or other organization that promotes tourism, which is less than the 50.7 percent currently collecting the hotel/motel tax. Most cities began collecting the hotel/motel tax in 1992 and started funding local tourism efforts in 1994.

Hotel/motel taxes represent a possible revenue source for cities not currently collecting them. Even if communities are non-home rule and must create tourism programs to fund, the hotel/motel revenues can augment current economic development efforts and help generate additional sales taxes. For home rule cities, hotel/motel taxes are a possible revenue source both for local tourism initiatives and supplemental general revenue funds.

Utility Taxes. Cities can institute a tax of up to 5 percent on electric and natural gas bills without referendum. Opponents claim the utility tax is regressive and unfair to elderly residents and those on fixed incomes. Proponents say that utility taxes broaden the tax base and raise funds from nonprofit organizations, such as public schools and hospitals, that benefit from certain public services, such as police protection and fire prevention, but are exempt from property taxes. Currently, 479 cities impose a utility tax on electricity usage, and 436 have a utility tax on natural gas usage.

Telecommunications Taxes. Recent changes in state law allow cities to collect a tax of up to 6 percent on telecommunications services, and some cities have taken advantage of the tax. Twelve cities reported implementing telecommunications taxes as a way to make up for lost photoprocessing revenues. Other cities began collecting the tax to address other financial shortfalls. While the amounts of funds raised through hotel/motel, utility, and telecommunications taxes are less than amounts raised from property, income, and sales taxes, the revenues realized can broaden the tax base for cities and provide some cushion during an economic downturn.

Economic Development

In addition to increasing taxes and fees, another option for cities to increase revenues is to promote economic development. New business development and job growth stimulates economic activity and increases revenues. For example, increasing the number of retail businesses will add local sales taxes. Economic development, however, is a long-range strategy to assist municipal finances. Even development initiatives that maintain existing businesses can help stabilize local revenues and avoid revenue losses resulting from business closures.

Economic development does not occur in a vacuum—cities can work with nearby communities and local businesses to promote a regional approach to economic development. A regional strategy can share the costs involved among participating groups and promote cooperation in other areas such as the sharing of municipal services.

There are several structures cities can use to pursue economic development. Approximately four in ten cities (40.6%) have an in-house economic development agency. This method is found more often in large cities (66.7%), probably because they can afford the costs of staffing an agency. In fact, 82.1 percent of economic development agencies in large cities have a full-time director compared with 67.3 percent in medium-sized cities and just 33.3 percent in small cities. A full-time director indicates a level of prioritization and commitment from the city to pursue economic

development and can provide them with a competitive advantage over cities trying to operate with part-time staff.

The survey also asked city officials about the budgets of their economic development agencies. As one might expect, budget size varies with population size. Approximately three fourths of cities smaller than 25,000 have economic development budgets of \$150,000 or less. This amount can probably fund a full-time director, office expenses, marketing materials, travel, and possibly additional office staff. Responses from large cities are more diverse. Most cities (37.5%) report a budget of \$150,000-\$350,000, a level that can support more staff and higher levels of other expenses. One fourth of large cities report a budget of \$350,000-\$700,000. The larger budgets could allow these agencies to have separate offices apart from City Hall and to hire additional staff.

Economic development budgets are financed mainly through membership contributions by cities and businesses (29.0% of cities) and property taxes levied by the city and/or another government agency (22.6%).

The chain of command for economic development directors varies with the structure of city governments. Directors report to city managers or administrators more often in large cities (51.4%) and medium-sized cities (32.9%) than they do in small cities (6.9%), where managers and administrators are less common. In small cities, directors report directly to the mayor (20.7%) or the mayor and city council (31.0%).

Alternate economic development structures and reporting channels exist as well. In 10.6 percent of cities, directors report to an elected board composed of business and civic leaders, and in 6.4 percent of cities, a countywide organization is in place that oversees the director.

Economic Development Priorities. While economic development agencies should try to capitalize on any opportunity that presents itself, it is usually helpful for sponsoring entities to have a clear focus on which priorities to pursue. The priorities often reflect strengths within the community or region and help the city sharpen its marketing efforts. For example, a city located near a four-lane highway might market itself as a transportation hub or good location for a distribution center.

The survey findings indicate cities have turned away from the “smokestack chasing” strategies of the past. Local and state officials long coveted manufacturing facilities that employed hundreds of workers and provided good paying jobs with benefits. In the survey, attracting manufacturing placed fifth on a list of economic development priorities cited by 18.1 percent of responding officials (Table 6). Small and medium-sized cities focus on manufacturing more than large cities do (20.0%/19.1% versus 12.8%) possibly because large cities have more diverse economic bases and are less reliant on one or two major employers.

The top two priorities of cities focus on existing businesses: (1) to retain current businesses (62.2%) and (2) to expand current businesses (45.2%). The need to retain businesses is more pronounced

Table 6. Economic Development Priorities

Question	Under 5,000		5,000 to 24,999		25,000 and Above		All Respondents	
	%	No.	%	No.	%	No.	%	No.
Percentage of respondents who reported that the measure had the highest priority for local economic development								
Retain current businesses	70.0	49	58.0	83	62.5	30	62.2	163
Expand existing businesses	42.0	29	46.2	66	47.9	23	45.2	118
Revitalize or rebuild the downtown	25.8	17	40.1	57	51.1	24	38.3	98
Entice major retail shopping center or store	21.2	14	41.3	59	41.7	20	36.0	93
Focus on attracting manufacturing	20.0	13	19.1	27	12.8	6	18.1	46
Attract branch plants to municipality	18.8	12	20.0	28	4.5	2	16.9	42
Promote tourism activities	14.1	9	16.9	24	8.3	4	14.5	37
Help local entrepreneurs start businesses	13.4	9	10.1	14	6.4	3	12.6	32
Generate external business investment	12.5	8	18.1	25	14.9	7	16.0	40
Focus on high-tech activities	10.6	7	14.3	20	10.6	5	10.2	26
Attract or expand healthcare agencies	9.1	6	7.9	11	0.0	0	7.9	20
Value-added (agriculture) initiatives	6.2	4	5.8	8	0.0	0	6.7	17
Rehabilitation of Brownfield properties	4.5	3	10.1	14	6.4	3	4.8	12

Source: IML/IIRA Municipal Survey, Fall 2002; n=286.

in small cities (70.0%) due to their bigger impact on the community. The loss of a business in a small town affects the community more than the loss of a similar business in a large community with a larger economic base. Retaining and expanding existing businesses is also often easier than attracting an outside firm to the community. Focusing on what exists can be less expensive than providing incentives to potential new businesses even if development aid is provided for existing businesses to expand.

The next highest priorities for cities are to revitalize or rebuild their downtowns (38.3%) and to entice a major retail shopping center or store (36.0%). These priorities are more common in cities with populations greater than 5,000. Small towns may not have traditional downtowns or may already have adequate retail opportunities nearby or within their communities.

Two other priorities deserve mention. Only 12.6 percent of cities prioritized helping local entrepreneurs start businesses. Encouraging start-ups could become an important area of development in the future as laid-off employees or those taking early retirement consider starting businesses based on specialized skills learned at their former employers. Providing technical assistance to business start-ups can encourage budding entrepreneurs to stay in the community and stimulate economic activity and job creation opportunities.

Only 10.2 percent of cities focus on high-tech activities. This could be because more communities are gaining access to broadband services, eliminating any pre-existing competitive advantage for cities that have long had high-speed Internet access. The lack of attention to high-tech businesses

might also result from the downturn in so-called dot.com businesses that helped cause the recession.

Best Practices

- Crestwood and O'Fallon are focusing on high-tech businesses.
- Hillsboro is prioritizing the healthcare sector.
- Yorkville is emphasizing partnerships between businesses and schools.
- Carlyle is focusing on promoting tourism.
- Johnston City is helping local entrepreneurs start new businesses.
- Mattoon is prioritizing research and development jobs.

Economic Development Incentives. Cities have a variety of incentives available to help attract businesses or assist existing businesses with expansion plans. If the projects involve major expansions or significant employment opportunities, state government works as a partner with cities and offers another set of development incentives. The evidence is mixed on the net value of incentives, but cities feel compelled to use them, especially when competing with other cities to attract development opportunities.

The survey examined both the extent of economic development incentives and their effectiveness in creating new jobs. The incentive used most often by cities is Enterprise Zones, cited by nearly half of the responding officials (49.0%) (Table 7). Enterprise zone designation provides property tax and sales tax incentives for businesses that locate within the zone. Officials rated Enterprise Zones as the second most effective type of incentive, and 28.4 percent of respondents rated them as highly effective. Interestingly, fewer large cities (15.4%) rated Enterprise Zones as highly effective than officials in small (21.4%) and medium-sized (34.9%) cities. It could be that officials in large cities found other incentives more useful.

A similar number of cities (48.9%) use one-stop permitting as a business incentive tool. Combining all city permitting into one office streamlines the process and makes it easier for businesses to comply with all city regulations. This option was not included in the section on effectiveness of incentives.

The development incentive judged to be most effective is Tax Increment Financing (TIF). Nearly half of reporting cities (45.7%) use TIFs, and 38.9 percent rated them as highly effective in creating new jobs (Table 7). TIFs freeze property assessments within boundaries designated as blighted, thus allowing cities to capture revenue growth. Cities can use the incremental funds for infrastructure improvements and other development enhancements. TIF districts can create resistance from other taxing bodies and have been the focus of allegations that cities use them for areas that do not meet criteria for being blighted (PRAGmatics 2002).

Table 7. Economic Development Incentives

Questions	Under 5,000		5,000 to 24,999		25,000 and Above		All Respondents	
	%	No.	%	No.	%	No.	%	No.
Percentage of respondents who reported the incentive was often used by the municipality								
Tax Increment Financing (TIF)	53.1	17	41.0	41	50.0	21	45.7	80
One-stop local permitting	40.0	16	52.6	51	50.0	18	48.9	85
Revolving Loan Funds for new businesses	40.0	12	41.6	32	36.4	8	40.8	53
Active business attraction and retention program	19.5	8	33.0	34	52.8	19	34.3	62
Enterprise Zone designation	38.9	7	51.7	31	52.9	9	49.0	47
Property tax concessions for incoming businesses	15.4	6	23.0	20	32.0	8	22.4	34
Subsidies to remodel buildings	16.0	4	14.3	11	24.1	7	16.7	22
Write-downs of price for land to developers	12.0	3	12.7	8	6.9	2	11.0	13
Free public services (water-sewer, streets, rail spur)	15.8	3	8.2	4	7.7	1	9.8	8
Municipal employees help prepare site for new business activity	9.7	3	10.9	6	7.1	1	9.9	10
Business incubator facilities in the municipality	12.5	1	12.5	4	16.7	2	13.2	7
Loan guarantees for incoming businesses	6.3	1	2.9	1	0.0	0	3.2	2
Reimbursements for private improvements from sales tax growth	3.3	1	14.9	11	11.8	4	12.2	17
Percentage of respondents who reported that the incentive was highly effective in generating new jobs								
Tax Increment Financing (TIF)	38.7	12	38.5	37	40.0	16	38.9	65
Enterprise Zone incentives	21.4	4	34.9	22	15.8	3	28.4	29
Revolving Loan Funds	22.6	7	29.9	23	14.3	3	26.2	34
Subsidies for remodeling buildings	17.4	4	10.4	8	6.9	2	10.9	14
Business Attraction/Retention Program	13.3	4	7.7	7	11.8	4	9.6	15
Property tax concessions	8.1	3	18.3	15	29.0	9	17.9	27
Write-downs of land prices	4.8	1	20.3	13	14.3	4	15.8	18
Free public services to businesses	5.3	1	6.5	3	5.6	1	6.0	5
Sharing sales taxes	6.3	2	27.8	22	32.4	11	24.7	36

Source: IML/IIRA Municipal Survey, Fall 2002; n=286.

Another common incentive used by cities to attract new businesses is the use of revolving loan funds (RLFs), which was cited by 40.8 percent of cities. RLFs are self-sustaining—funds loaned are loaned to other businesses after they have been repaid. More than one fourth of cities (26.2%) rate RLFs as highly effective in creating new jobs. This incentive can be especially helpful in providing start-up, low-interest loans to new businesses or to existing firms seeking to expand.

The use and performance of other incentives vary by size of city. For example, large cities more often provide subsidies to remodel buildings, property tax concessions for new businesses, and incubator facilities, while write-downs in land prices for developers, free public services, and loan guarantees are more common in small towns. None of these incentives are rated very highly in their effectiveness by city officials.

One incentive that is not used very often but is still rated as highly effective is sales tax sharing. Cities work with other nearby communities and taxing bodies to attract a firm and then share sales taxes with these partners to gain their acceptance and support. Nearly one third of large cities (32.4%) and one fourth of medium-sized cities (27.8%) rated sales tax sharing as highly effective. This incentive could be a way for cities to broaden their support for development initiatives, resulting in a greater regionalization of development efforts.

Best Practices

- Carol Stream streamlined its building permit process.
- Northlake uses a combination of TIF districts, 6B property classification, rapid issuance of building permits, and timely inspections.
- Monticello promotes low taxes and other competitive factors by benchmarking with area communities.
- Rochelle provides 90 percent property tax rebates the first year and 70 percent the second year.
- Tinley Park provides sales tax rebates for auto dealerships.
- Galva lures businesses through the write-down of land prices.
- Sycamore developed a set of economic development incentive guidelines.

Measuring Outcomes. Like other municipal services, economic development efforts can be reviewed and measured for performance and outcomes. Performance measurement can help officials assess their strategies and adjust them to changes in the local economy or workforce. Specific outcome goals can be linked to the number of new businesses, employment growth, or an increase in retail sales.

Among cities with performance measurement systems for municipal services in place, 41.4 percent measure the effectiveness of economic development programs. Cities reporting inadequate revenues are less likely to measure outcomes in economic development than cities with adequate revenues (32.3% versus 48.7%, respectively). During tight financial periods, cities find it more compelling to carefully assess how tax dollars are spent in all areas, including economic development.

Best Practices

- Rock Falls officials said the creation of a Community Development Corporation (CDC) is the most innovative example of management in their community. The CDC has responsibility for all economic development activity in the community, and it has a wider range of contacts than the city previously enjoyed.
- Addison is only the second city in the state to receive a Lincoln Award for “Commitment to Excellence.”

Infrastructure Maintenance Practices

A more detailed examination of the condition of streets, bridges, and water and wastewater systems is warranted before looking at some specific strategies to help cities maintain and improve their infrastructures. This section will also explore gaps between infrastructure needs and available financing.

Street and Bridge Conditions. Street repair and maintenance is often funded through a variety of sources, including motor fuel taxes, vehicle registration fees, and general revenue funds. Cities typically allocate funding for the repair of streets on a rotating basis so all streets can be addressed over a period of time.

Officials were asked to rate the percentage of streets in their cities by condition from excellent to inadequate (Table 8). Nearly one fourth of streets (24.0%) were rated in excellent condition, needing no repairs; and nearly one half of city streets (45.4%) need only a minimum of normal maintenance. The remaining cities face challenges: 15.8 percent of streets were rated as adequate but needing more than normal maintenance, and 14.8 percent of streets need major rehabilitation or repair. The situation is worse in cities having inadequate revenues, with 19.5 percent of streets requiring major repair.

Roughly the same percentage of bridges are of concern. Officials rated 12.8 percent of bridges as adequate with more than normal maintenance, and 17.9 percent were rated as inadequate and requiring major rehabilitation or repair.

Cities face a funding gap between street repair needs and funding expectations. Officials estimated needing \$259 per capita per year for street repair during the next five years but projected they would likely spend only \$66 per capita. The shortfall of \$193 per capita indicates that officials will either need to seek additional funding or will defer maintenance into the future. The gap is largest in small towns where they face a shortfall of \$440 per capita annually over the next five years.

Officials estimate that they need \$754 per capita to bring existing streets to acceptable conditions and an additional \$1,209 per capita for added streets and bridges to meet anticipated traffic demands. At the expected rate of annual street repair expenditures (\$66 per capita), it will take cities around 11 years to cover current repair needs, not counting construction needs and repairs.

Water and Wastewater Conditions. Not every city operates a water and/or wastewater facility—some water systems are operated by private utilities and some wastewater systems are owned and operated by sanitary districts. Thus, 73.1 percent of cities have municipal water and/or wastewater facilities according to the survey (Table 9). Fewer large cities report municipal water and/or wastewater systems, probably because many are located in the Chicagoland area and

Table 8. Infrastructure Conditions (Streets and Bridges)

Questions	Under 5,000		5,000 to 24,999		25,000 and Above		All Respondents	
	%	No.	%	No.	%	No.	%	No.
Rate the percentage of streets and bridges in your municipality in each condition category								
Streets								
Excellent condition needing no repairs	24.7%	41	23.3%	93	26.3%	37	24.0%	172
Less than normal maintenance required	15.1%	36	16.1%	86	22.0%	38	16.9%	161
Adequate with normal maintenance only	31.7%	56	27.3%	109	26.2%	41	28.5%	207
Adequate with more than normal maintenance	16.9%	48	16.5%	96	12.5%	35	15.8%	180
Inadequate requiring major rehabilitation or repair	11.9%	38	16.9%	90	13.0%	36	14.8%	164
Bridges								
Excellent condition needing no repairs	27.6%	16	27.0%	38	29.5%	21	27.3%	75
Less than normal maintenance required	23.4%	9	17.9%	23	16.4%	13	19.0%	46
Adequate with normal maintenance only	18.4%	12	22.9%	34	28.1%	19	23.0%	65
Adequate with more than normal maintenance	9.6%	9	15.6%	25	8.1%	13	12.8%	47
Inadequate requiring major rehabilitation or repair	21.2%	15	16.6%	27	17.9%	14	17.9%	56
What is the estimated total cost to bring the existing city streets to acceptable condition?								
(Mean)	\$2,990,977	43	\$8,458,809	109	\$17,923,011	34	\$8,879,704	187
Per capita	\$1,002	43	\$755	107	\$435	34	\$754	184
What is the estimated total cost of additional streets and bridges to meet expected traffic demands?								
(Mean)	\$7,806,176	34	\$7,665,517	58	\$26,295,000	20	\$11,034,911	112
Per capita	\$2,507	34	\$680	58	\$533	20	\$1,209	112
How much should you spend on street repair for each of the next five years?								
(Mean)	\$969,554	56	\$2,433,056	126	\$5,418,259	40	\$2,590,988	223
Per capita	\$517	56	\$191	125	\$108	40	\$259	221
How much do you expect to be able to spend annually for street repair during each of the next five years?								
(Mean)	\$213,754	57	\$1,649,608	125	\$3,623,617	40	\$1,630,178	223
Per capita	\$77	57	\$63	124	\$61	40	\$66	221
Miles of municipal roads maintained in 2002	1,618	53	297,490	126	11,110	41	310,278	221
Number of municipal bridges maintained in 2002	97	64	393	138	316	41	811	244
Total population	278,295		1,936,293		2,415,175		4,629,763	

Source: IML/IIRA Municipal Survey, Fall 2002; n=286.

receive water from Lake Michigan through the City of Chicago and receive wastewater services through the Metropolitan Sanitary District.

Slightly more water systems are underperforming than wastewater systems. Nearly one in six cities (15.6%) report that their water treatment facility is inadequate and needs major repair compared with 13.2 percent with wastewater systems in the same category. In addition, 13.1 percent of cities have adequate water systems but need more than normal maintenance compared with 9.3 percent

Table 9. Infrastructure Conditions (Water and Wastewater)

Questions	Under 5,000		5,000 to 24,999		25,000 and Above		All Respondents	
	%	No.	%	No.	%	No.	%	No.
Does your municipality have a water plant and/or a wastewater treatment plant?								
Yes	83.1	59	71.0	103	63.8	30	73.1	193
No	16.9	12	29.0	42	36.2	17	26.9	71
If yes, what is the condition of your municipality's water plant?								
Excellent condition needing no repairs	24.5	12	18.4	16	29.2	7	21.9	35
Less than normal maintenance required	12.2	6	20.7	18	16.7	4	17.5	28
Adequate with normal maintenance only	30.6	15	27.6	24	50.0	12	31.9	51
Adequate with more than normal maintenance	8.2	4	19.5	17	0.0	0	13.1	21
Inadequate requiring major rehabilitation or repair	24.5	12	13.8	12	4.2	1	15.6	25
If yes, what is the condition of your municipality's wastewater plant?								
Excellent condition needing no repairs	15.9	7	21.7	15	13.3	2	18.6	24
Less than normal maintenance required	22.7	10	29.0	20	33.3	5	27.9	36
Adequate with normal maintenance only	43.2	19	21.7	15	40.0	6	31.0	40
Adequate with more than normal maintenance	4.5	2	14.5	10	0.0	0	9.3	12
Inadequate requiring major rehabilitation or repair	13.6	6	13.0	9	13.3	2	13.2	17

Source: IML/IIRA Municipal Survey, Fall 2002; n=286.

of wastewater systems. Nearly one fourth of small cities (24.5%) say their water systems need major repair. This challenge will be especially daunting for small city officials because of limited resources.

Some of the need to upgrade facilities could be related to EPA mandates on drinking water quality, wastewater quality, and storm sewer separation. Approximately 20 percent of cities report facing EPA mandates on these issues. Ability to pay for the required upgrades varies with population—few small towns have enough local funds to carry out the projects needed for compliance. In fact, none of the 12 small towns facing mandates of storm sewer separation have the necessary local funds. Most medium-sized cities also lack the funds to comply with mandates. These cities will be required to raise water and/or wastewater rates, seek grant funding, or create a new revenue source to help pay for water infrastructure improvements.

The funding gap for water infrastructure is quite significant. Statewide, cities expect to spend an average of \$820,000 annually for water infrastructure improvements but need to spend nearly \$2 million, leaving an annual shortfall of nearly \$1.2 million. The gap is more critical in small towns, which need an average of \$2.5 million more for their water systems.

The relationship between water infrastructure and economic development is demonstrated by the results from a question concerning municipal growth. Statewide, 16.3 percent of cities are prevented from expanding because of water and/or wastewater issues. This figure is more

than double the number of cities that were prevented from expansion due to water issues in 2000, probably because of new regulations on stormwater, wastewater, and drinking water. The problem is more acute in small and medium-sized cities, which will be forced to address these issues as part of their local economic development strategies.

Capital Needs Study. Effective management may require a long-term plan of infrastructure maintenance, repair, and replacement. Infrastructure replacement is often expensive, making a long-term capital needs plan important for communities of all sizes. Community leaders can prioritize projects based on either the age of the existing mains, pipes, and streets or based on usage. Reacting to water main or sewer breaks can be more expensive than a regular program of replacement completed on a regular and planned basis.

Most cities (57.3%) reported that a capital needs study had been completed since 1990, and in many cities (70.3%), studies had been completed since 2000 (Table 10). Large cities had performed a capital needs study since 1990 more often (87.5%) and had kept them updated (91.7% completed the studies since 2000). Small cities have fewer staff to monitor infrastructures and less available funding for a consulting firm to complete a needs study. The fact that 42.7 percent of cities have not conducted a capital needs study in more than a decade could be cause for concern both for municipal infrastructure quality and economic development.

Best Practices

- Christopher officials report that the city devised both long- and short-term infrastructure improvement plans to help ensure future economic development.
- Wood Dale officials use capital improvement planning to help guide specific city actions. The city received a Program Excellence Award for innovations in local government from the International City/County Managers Association (ICMA) in 2002.

Water and Sewer Rates. Water and sewer rates should accurately reflect the costs of providing water and wastewater services. Water and sewer funds are enterprise funds that should support themselves through user fees. Officials should set water and sewer rates at levels that cover operating costs and capital replacement costs. The latter are set aside in a capital reserve fund for future infrastructure improvement projects and typically represent approximately 10 percent of operating costs. Two entities that perform water and sewer rate studies are engineering firms and the Illinois Department of Commerce and Economic Opportunity.

In addition, water and sewer rates should be increased regularly to cover increasing operational costs such as for personnel, chemicals, and equipment. Many communities are forced to seek large rate increases every four to five years when water and sewer funds fall into deficit or additional funds are needed for a major capital project. An alternate concept links water and sewer rates to increases in the Consumer Price Index (CPI) or another pricing measure that represents cost elements of water and sewer services. Residents might be more willing to accept annual rate

increases of approximately 2 to 3 percent rather than “rate shocks” of 20 to 25 percent every four to five years. For example, Hoopston raised rates 18 percent in 2002, the first increase since a 106 percent hike 14 years ago. Freeburg officials report their most recent water rate increase was 13 years ago. Lake Zurich increased rates eight years ago, and the most recent rate hike was three years ago.

Despite only 43.9 percent of cities having water and sewer rate studies completed in recent years, 77.5 percent of city officials reported that existing rates are adequate for the fund (Table 10). More small cities (60.3%) contracted for rate studies, perhaps because large cities more often have administrators or managers who can analyze rates instead of having other agencies perform that function. Only 36.6 percent of cities reporting inadequate revenues had a recent evaluation of water and sewer rates, but two thirds (66.3%) viewed rates as adequate. This finding suggests that the cities facing financial difficulties should consider rate studies to determine whether increases are needed.

Some cities adjust water and sewer rates regularly, but most do not (45.3%). One fourth of cities (24.1%) adjust rates on an annual basis, and similar numbers increase rates over two, three, four, and five years. Cities that do not adjust rates regularly may do so only when the need arises or

Table 10. Infrastructure Improvement Strategies

Questions	Under 5,000		5,000 to 24,999		25,000 and Above		All Respondents	
	%	No.	%	No.	%	No.	%	No.
Has a capital needs study been made for your municipality since 1990?								
Yes	41.4	29	54.5	78	87.5	42	57.3	150
No	58.6	41	45.5	65	12.5	6	42.7	112
Has an engineering consultant or DCCA analyzed your water and sewer rates recently?								
Yes	60.3	41	39.0	55	33.3	15	43.9	112
No	39.7	27	61.0	86	66.7	30	56.1	143
Are the rates currently adequate for the fund?								
Yes	75.9	44	76.7	92	82.1	32	77.5	169
No	24.1	14	23.3	28	17.9	7	22.5	49
How often does your city adjust the water and sewer rates?								
Every year	21.7	13	23.8	31	29.3	12	24.1	56
Every two years	5.0	3	7.7	10	7.3	3	6.9	16
Every three years	5.0	3	10.8	14	7.3	3	8.6	20
Every four years	8.3	5	8.5	11	2.4	1	7.3	17
Every five years	6.7	4	6.2	8	14.6	6	7.8	18
Other	53.3	32	43.1	56	39.0	16	45.3	105

Source: IML/IIRA Municipal Survey, Fall 2002; n=286.

they may have stable finances in their water and sewer funds. In addition, some cities have no control over water rates because they are determined by regional agencies. Many cities reported that they adjust rates in accordance to changes in the CPI. Other strategies are used as well.

Best Practices

- Jerseyville determines water and sewer rates by estimating operational costs and adding 10 percent for depreciation.
- Elmwood Park and Forest Park adjust their rates based on what Chicago charges them for water purchases.
- Hoffman Estates sets annual water rate increases based on recommendations from a comprehensive water rate study completed every five years.
- Northbrook includes operating, maintenance, replacement, and capital costs in its rate formula.

Replacement Schedules. Cities can better plan for and fund new equipment and vehicles by keeping regular replacement schedules. Equipment and vehicles are maintained as operable for a certain number of years based on depreciation schedules and replaced when they reach the end of their “useful life.” To make a replacement schedule work properly, funds must be accrued on an annual basis to cover the replacement cost at the end of the useful life of the equipment or vehicle. As the survey results show, deferral of spending on equipment and vehicles is one of the first cost-cutting strategies used by cities when dealing with financial stress. Deferring replacement of equipment and vehicles can harm municipal performance; even so, some cities run that risk rather than cutting services or raising taxes.

Replacement schedules are used by nearly all large cities for both equipment and vehicles. Roughly two thirds to three fourths of medium-sized cities and approximately one half of small cities have replacement schedules in place. It could be that officials in smaller communities are unaware of this management tool or that they simply replace equipment and vehicles when equipment is no longer operable and they are forced to take action.

In response to a question on the frequency of vehicle replacement, 12.7 percent of cities replace vehicles every three years. Most respondents (51.9%) chose “other” as their response, probably indicating an as-needed replacement strategy.

Best Practices

- Bushnell officials report they set aside funds on a monthly basis for the replacement of equipment and vehicles.
- Warrenville officials use dedicated telecommunications taxes and amusement taxes for capital and vehicle replacement.
- Hawthorn Woods earmarks building permit revenue and developer donations to fund replacement schedules.
- Rochelle sets aside ambulance fees to pay for fire and ambulance replacement schedules; utility fees to pay for utility replacement schedules; and general revenue funds for public works and police department replacement schedules.
- Lindenhurst uses vehicle stickers and General Funds for vehicle and equipment replacement.
- Oswego funds replacement schedules partially through impact fees on new development.

Management Strategies

City officials facing financial challenges often strive to avoid or delay difficult decisions such as tax and fee increases, layoffs, and service reductions. As reported earlier, many cities defer capital projects or maintenance programs to save funds until the overall budget situation improves. Only after exhausting relatively pain-free measures do city officials consider more drastic changes.

Financial stress can provide cities with an opportunity to pursue more comprehensive changes in their structures and systems of service delivery. Cities can measure the performance of services to determine cost effectiveness or to see if less expensive alternatives exist. Two possible alternatives—contracting with other governments (service sharing) and contracting with private firms (privatization)—are used by cities for a variety of services and are explored in this section.

Performance Measurement. Before entering into an intergovernmental agreement or contracting services, cities can measure the performance of services and benchmark with nearby cities of similar size. The performance measurement process can provide a way for departments to compare their operational efficiency and satisfaction with other cities and give them the opportunity to improve internal systems.

Performance measurement systems can gauge several factors, including inputs, outputs, and outcomes. The “Reinventing Government” movement of the 1990s, led by authors David Osborne and Ted Gaebler (1992), described results-oriented government that focused on outcomes rather than outputs. For example, rather than emphasizing the number of arrests made by a police department, city officials should instead focus on the overall level of public safety in a community, however measured.

Only one third of Illinois cities (33%) regularly measure the effectiveness of city services (Table 11). Large cities measure services more often than smaller communities, probably because they have more staff that can develop and execute a results-based system. Still, it is somewhat surprising that fewer than half of large cities use performance measurement systems.

In cities that measure performance, only one service is measured by a majority of respondents—police protection (87.1%). Perhaps development of performance measures for police protection is easier to accomplish than other services. Most elected officials and residents may have a general sense of personal safety and well-being as captured in police department performance data. The systems in place may only measure arrests and a few other outputs but may still be adequate for city officials to assess the overall effectiveness of police services.

Fire prevention is measured by nearly half of cities statewide (47.1%); three fourths of large cities (76.5%) and a majority of small cities (55.0%) do so. Only one fourth of medium-sized cities (25%) measure fire service effectiveness. Fire prevention can be measured by the number of fires and dollar amounts of property damage. It is interesting that fire prevention is measured more in large and small cities but not in medium-sized ones. Perhaps more cities in that size range have volunteer fire departments.

Wastewater treatment is measured by 48.6 percent of cities across the state but by 65.0 percent of small cities. This could reflect past compliance issues with the EPA that require a greater degree of monitoring in small communities. Also, the importance of water infrastructure to economic development could provide motivation for cities to ensure effective operations.

Best Practices

- Grayslake uses a request for service system to benchmark the quality of services, and customer service surveys to measure citizen satisfaction.
- Moline reviewed all city departments in 2002 and identified and implemented new policies and procedures that saved money and increased efficiency. The city reorganized five out of nine departments through this process and saved \$900,000.

Service Sharing. Illinois has the most local governments of any state in the nation and includes nearly 1,300 municipalities. General purpose governments, such as cities, counties, and townships, have some overlapping responsibilities that can be shared between governments. Also, cities that are near each other can share resources to provide services more efficiently and eliminate duplication of effort.

While only one merger of cities has occurred in Illinois (Green Rock and Colona in 1997), many cities have cooperative agreements with other local governments for a variety of services. Limited agreements, such as emergency response among public safety agencies, can lead to further cooperative efforts in joint purchasing and shared equipment. Full merger or consolidation

Table 11. Reinventing Government Strategies

Questions	Under 5,000		5,000 to 24,999		25,000 and Above		All Respondents	
	%	No.	%	No.	%	No.	%	No.
Does the municipality contract for services with private businesses/organizations to reduce costs?								
Yes	40.8	31	62.6	97	69.4	34	58.0	163
No	56.6	43	36.1	56	26.5	13	39.9	112
Don't know	2.6	2	1.3	2	4.1	2	2.1	6
If yes, was the contract successful?								
Yes	85.3	29	89.1	90	94.3	33	89.5	153
No	5.9	2	1.0	1	2.9	1	2.3	4
Don't know	8.8	3	9.9	10	2.9	1	8.2	14
Does your municipality share services with other cities?								
Yes	45.6	31	52.2	72	73.2	30	53.6	133
No	54.4	37	47.8	66	26.8	11	46.4	115
Rate the effectiveness of shared services. (Mean, not Percent)								
Economic development	2.8	13	3.4	32	3.4	11	3.3	56
Police protection	3.7	21	4.1	38	4.0	19	4.0	78
Recreation	3.9	12	3.6	34	3.8	8	3.7	54
Water treatment/supply	4.2	19	4.1	44	4.4	19	4.2	82
Fire prevention	4.2	21	4.4	50	4.2	20	4.3	91
Sewage treatment	4.4	12	4.0	36	4.2	17	4.1	65
Waste disposal/land fill	4.5	4	3.5	23	3.7	11	3.7	38
Transportation	5.0	2	3.0	26	3.8	13	3.4	41
Other	5.0	2	4.5	14	4.8	6	4.6	22
*Coding: Rank from 1 to 5, with 1 being not effective and 5 being highly effective. (Mean is based on respondents who have used incentives.)								
Does your municipality regularly measure the effectiveness of municipal services?								
Yes	30.9	21	28.8	42	47.8	22	33.0	86
No	69.1	47	71.2	104	52.2	24	67.0	175
If yes, which services are measured?								
Police protection	90.0	18	81.3	26	94.1	16	87.1	61
Waste disposal/land fill	30.0	6	31.3	10	17.6	3	28.6	20
Fire prevention	55.0	11	25.0	8	76.5	13	47.1	33
Transportation	10.0	2	15.6	5	35.3	6	18.6	13
Economic development	45.0	9	37.5	12	41.2	7	41.4	29
Wastewater treatment	65.0	13	43.8	14	35.3	6	48.6	34
Other	5.0	1	15.6	5	11.8	2	11.4	8

Source: IML/IIRA Municipal Survey, Fall 2002; n=286.

is difficult because of the loss of community identity, but cooperative agreements and service sharing can move local governments toward more efficient service provision while avoiding the political challenges of more comprehensive efforts.

Service sharing agreements are used by more than half of responding cities (53.6%), but their use varies with population (Table 11). Nearly three fourths of large cities (73.2%) share services with other cities, while similar numbers of small and medium-sized cities use them (45.6% and 52.2%, respectively). Large cities offer a greater variety of services that are candidates for sharing agreements. The results may also relate to clusters of cities in close proximity, such as the Chicago suburbs, that share services versus more remote smaller communities in downstate Illinois.

The results also indicate that cities facing financial stress are more likely to enter into service sharing agreements, ostensibly to save tax dollars and improve efficiency. In cities reporting inadequate revenues, 56.9 percent of officials report service sharing agreements compared with 51.4 percent of officials in cities with adequate revenues. While responding to financial stress is not a pleasant experience for city officials, doing so can result in some benefits for cities that implement structural changes that improve future performance.

Service sharing agreements are most common for public safety services such as police protection and fire prevention that formalize mutual aid assistance for coping with emergencies. Additionally, water distribution and treatment and wastewater collection and treatment are regionalized in the Chicago area because many suburbs receive water from the city and are part of the Metropolitan Sanitary District.

City officials generally laud the performance of service sharing agreements in their communities. Majorities of responding officials rate service sharing agreements for fire prevention, water treatment and distribution, and wastewater treatment as highly effective.

Best Practices

- Round Lake Park shares a joint police department with a neighboring village.
- Wilmette officials praise their health insurance pooling agreement with neighboring governments as a successful management strategy.
- Champaign and Urbana have designated “metro zones” in which the two adjacent cities share the costs and benefits of commercial and industrial development.
- Mount Carmel participates in a regional marketing effort along with nine other counties in southern Illinois.

Privatization. Contracting with private firms is another alternate method for providing municipal services. A 1994 study by IIRA revealed that privatization is widely used in Illinois municipalities and generally deemed to be effective in saving tax dollars and improving government performance

(Johnson and Walzer 1996). Concerns are expressed by opponents about the potential loss of control over service provision and the possible negative effects on municipal employees.

According to the survey, most cities (58.0%) contract services with private firms to reduce costs (Table 11). Privatization occurs more often in large (69.4%) and medium-sized (62.6%) cities than in small towns (40.8%), probably because more private firms exist to provide adequate competition for services. Also, larger cities provide more services that can be potential opportunities for privatization.

Fewer cities experiencing financial stress contract services with private firms than those in better financial condition. A little more than one half of cities reporting inadequate revenues (53.6%) contract services with private firms to save funds compared with 60.6 percent of cities with adequate revenues. The results indicate that cities facing financial stress may be well-served to examine private provision as a way to save tax dollars.

Cities contract for a wide variety of services to save funds but also to tap private sector expertise. Garbage collection, legal and engineering services, street maintenance, building and grounds maintenance, and janitorial services are among the more common services that cities contract. Some cities have contracted other services, such as ambulance and water and wastewater treatment, in recent years. Public safety services are the exclusive province of the public sector, but most other services are potential opportunities for privatization because private firms exist in the marketplace.

City officials are overwhelmingly pleased with the results of privatization in their cities. The percent of officials judging privatization a success ranged from 94.3 percent in large cities to 85.3 percent in small towns. Cities contract services with private firms mainly to reduce costs and, judging from the results, are meeting that objective.

Best Practices

- Machesney Park officials report nearly all services are provided by independent agencies. Police protection, street maintenance, engineering, and legal services are contracted with private and public agencies. Officials say that near term costs may be slightly higher but that contracting produces large savings over the long term.
- Monmouth contracts most public works services with a private firm in an agreement that won a national innovation award in 2000. The agreement saved money, enhanced services, and won the support of public employees.
- Crestwood contracts 18 services, and officials believe privatization is the key to the village's success. The city has not raised taxes during the past 34 years and has received national recognition for its management performance.

Technology Enhancement

Ten years ago, few city officials used e-mail or were aware of the Internet. Some may have used a computer but probably only for word processing and basic spreadsheets. Today, officials are more computer savvy and understand that access to quality technology is an important part of municipal economic development efforts. City officials are aware of the importance of high-speed Internet access and the role that broadband can play in enhancing economic growth and the overall quality of life in cities.

Access to high-speed Internet services, whether through cable, DSL lines, or wireless, can improve the economic competitiveness of cities. Private cable and telephone companies extended high-speed services to many medium-sized and large cities, but access is still limited in some remote communities. Building a broadband system requires a significant investment of resources that is beyond the capacity of most small cities.

Many cities see technology as an important element of local economic development efforts. Officials were asked to rate the importance of technology as an economic development strategy on a scale of 1 to 5 with 1 being not important and 5 being very important. Most respondents (41.7%) rate technology a 4 or important, and 17.0 percent view it as very important. More medium-sized cities (23.4%) rate technology as very important, perhaps indicating their desire to remain competitive with larger cities. Few small cities (8.6%) rate technology as very important, either because they do not have access to high-speed services or they fail to recognize how local businesses could benefit from broadband availability.

Officials were asked about the status of local technological capacity and the efforts being made to improve their electronic infrastructures (Table 12). Most cities report that local technological capacity is in good shape, with 5.4 percent rating facilities as excellent, capable of surpassing expected future needs, and 40.2 percent saying that facilities are adequate for current economic developments plans.

Another group of cities are in the process of upgrading their infrastructures. Nearly one in five cities (18.5%) has inadequate facilities, and discussions are underway regarding upgrades; 11.6 percent say an improvement plan is being implemented; and 11.2 percent report clear evidence that there will be investment in facilities in the near future.

The rest of the cities are in poor condition on this issue: 13.1 percent say facilities are outdated and inadequate with no immediate plans for improvement. These conditions exist more often in small towns where 17.6 percent report inadequate facilities. The positive news is that most cities either report good facilities or are involved in plans to improve inadequate technology infrastructures. Even cities facing financial constraints are moving forward with technological improvement discussions—24.5 percent of cities reporting inadequate revenues are working with utilities to improve facilities. This is an indication that these officials realize the importance of keeping pace with technological innovations for economic development.

Table 12. Technology and Economic Development

Questions	Under 5,000		5,000 to 24,999		25,000 and Above		All Respondents	
	%	No.	%	No.	%	No.	%	No.
Does your municipality have a written action plan that incorporates technological changes?								
Yes	2.9	2	11.6	17	16.7	8	10.2	27
No	97.1	67	88.4	129	83.3	40	89.8	237
In terms of capacity for local development, what is the status of the current local telecommunications technology in your municipality?								
Facilities are outdated and inadequate with no immediate signs of improvement.	17.6	12	13.9	20	4.3	2	13.1	34
Facilities are inadequate but discussions are underway with utilities.	16.2	11	20.1	29	17.4	8	18.5	48
An improvement plan exists and is being implemented.	14.7	10	10.4	15	10.9	5	11.6	30
There is clear evidence of investment in facilities over next 2-3 years.	7.4	5	11.1	16	17.4	8	11.2	29
Facilities and equipment are adequate for current economic development plans.	39.7	27	36.8	53	50.0	23	40.2	104
Facilities are excellent and will surpass expected needs in future.	4.4	3	7.6	11	0.0	0	5.4	14
What kind of Internet access does your municipality have?								
Universal high-speed access for all	43.3	29	30.8	44	48.9	23	37.6	97
High-speed access for some areas of the municipality but not all	34.3	23	44.8	64	42.6	20	41.5	107
High-speed access for some businesses but not for households	9.0	6	7.7	11	6.4	3	7.8	20
Modem access is the only service available.	13.4	9	16.8	24	2.1	1	13.2	34
Does your municipality have a website?								
Yes	69.4	50	90.5	133	97.9	47	86.2	231
No	30.6	22	9.5	14	2.1	1	13.8	37
If yes, what features does the municipal website have?								
Community calendar	67.3	33	70.2	87	81.3	39	71.6	159
News/weather/sports	12.2	6	16.9	21	25.0	12	17.6	39
Community profile	87.8	43	87.1	108	87.5	42	87.4	194
Recreation information	53.1	26	63.7	79	58.3	28	60.4	134
Online phone book for local officials	53.1	26	53.2	66	75.0	36	57.7	128
Maps	53.1	26	53.2	66	79.2	38	59.0	131
Information on utilities	36.7	18	44.4	55	50.0	24	44.1	98
Information on tax rates	26.5	13	29.0	36	37.5	18	30.6	68
City forms available online	18.4	9	33.9	42	68.8	33	37.8	84
Online payment of city bills available	4.1	2	8.1	10	31.3	15	12.2	27
Information on TIF district/enterprise zone	20.4	10	30.6	38	35.4	17	29.7	66
Minutes and agendas of council meetings	34.7	17	54.8	68	72.9	35	54.1	120
Other	12.2	6	13.7	17	6.3	3	11.7	26

Table 12. Technology and Economic Development (cont.)

Questions	Under 5,000		5,000 to 24,999		25,000 and Above		All Respondents	
	%	No.	%	No.	%	No.	%	No.
What has your municipality done to improve local telecommunications?								
No action taken because service is already excellent.	25.9	14	27.5	33	36.8	14	29.1	62
Actions not started yet but will start soon to upgrade services.	29.6	16	22.5	27	7.9	3	21.6	46
Created a city council committee to examine local needs.	9.3	5	6.7	8	7.9	3	7.5	16
Hired a consultant to determine the best options to upgrade services.	0.0	0	5.8	7	2.6	1	3.8	8
Have action plan to improve service and are beginning implementation.	5.6	3	15.0	18	5.3	2	10.8	23
Telecommunications have been upgraded to desired status.	24.1	13	10.8	13	15.8	6	15.0	32
Have improvements in telecommunications helped attract or expand businesses in your municipality?								
Yes	7.8	5	16.3	22	16.3	7	14.4	35
No	40.6	26	27.4	37	20.9	9	29.6	72
Don't know	51.6	33	56.3	76	62.8	27	56.0	136

Source: IML/IIRA Municipal Survey, Fall 2002; n=286.

Cities wanting to improve local telecommunications are taking a variety of actions to ensure high-speed Internet access and other service upgrades. For nearly 45 percent of cities, no further action is necessary—service is already excellent in 29.1 percent of cities, and 15.0 percent reported their facilities were previously upgraded to the desired status. Another 21.6 percent report they will act soon to upgrade services.

The other cities are in various stages of taking action:

- 12.2% formed a committee from the public and private sectors to discuss needs and solutions.
- 10.8% began implementation of a plan to improve services.
- 7.5% created a city council committee to examine local needs.
- 3.8% hired a consultant to perform an assessment.

The survey delved deeper into the issue of capacity and asked officials about the scope of Internet capacity in their cities. The goal for cities is to have universal high-speed access, and 37.6 percent have reached that level of service. More small towns (43.3%) have universal access than medium-sized cities, possibly because they are located closer to large cities with access that made the connection easier. The largest number of cities (41.5%) report high-speed access for some, but not all, parts of their municipalities. These cities may be working with providers to make access available on a schedule, with perhaps downtown businesses first, followed by schools and hospitals, and then residential areas. Some cities already may have such a tiered arrangement

and are in the early stages because 7.8 percent of cities say high-speed access is available to some businesses but not households.

Finally, 13.2 percent of cities report that modem access is the only service available. This finding is more common in small towns (13.4%) and medium-sized cities (16.8%) than in large cities (2.1%). A digital divide exists in Illinois cities but is perhaps not as large as may be thought.

One high-tech tool that can demonstrate the technological advancement of a city and serve as a useful economic development aid is a website. Most cities (86.2%) have websites, and their existence varies from nearly all large cities (97.9%) to 69.4 percent of small cities. Even 88.7 percent of cities experiencing inadequate revenues have websites, again demonstrating their commitment to technological advancement in spite of financial stress.

Websites can be used for multiple purposes, from providing city council meeting minutes to providing information on land available for development. Most cities use websites for informational purposes, but fewer have developed their potential for economic development. For example, most cities provide the following information on their websites:

- Community profile (87.4%)
- Community calendar (71.6%)
- Recreation information (60.4%)
- Maps (59.0%)
- Online phone book for local officials (57.7%)
- Minutes and agendas for city council meetings (54.1%)

Some Web-based economic development tools and their prevalence are listed below:

- *Information on Utilities*—44.1 percent of cities provide information on utilities such as electric and gas companies, and water and wastewater providers. This is a handy way for developers and interested businessmen to quickly gather information rather than making phone calls.
- *City Forms*—37.8 percent of cities make tax forms available online. Online forms are convenient for taxpayers who can download, complete, and return them instead of making a trip to City Hall.
- *Tax Rates*—30.6 percent of cities provide information on tax rates through their websites. This tool provides potential business officials with an opportunity to comparison shop among different communities.
- *TIF/Enterprise Zones*—29.7 percent of cities provide information on specific economic programs on their websites. If cities have tools to attract development, these place are enhanced by the increased visibility of the programs posted on their site. As with other tools, this information

makes it more convenient for developers to compare economic data for potential locations of new facilities.

- *Online Payment*—Only 12.2 percent of cities have the technology to facilitate online payment of bills. This is another tool developed to increase customer convenience, but its usefulness depends on providing enough citizens access to computers and the Internet.

Large cities provide all the economic development tools listed more often than smaller communities, probably because they have greater resources and staff to maintain websites effectively. Also, cities reporting inadequate revenues more often include economic tools on their websites than cities with adequate revenues. This is an indication that cities see the importance of technology to economic development and are taking actions to enhance development in spite of financial stress.

The bottom line on all municipal services is how public officials perceive performance or outcomes. This applies to technology as well. When asked whether technological improvements had helped attract or expand businesses in their cities, most officials did not know (56.0%), and those reporting no effect outnumbered those with positive impacts by a 2 to 1 margin (29.6% to 14.4%, respectively). More officials from large cities (62.8%) are unsure about the role of telecommunications, possibly because they have fewer feedback methods. It may be difficult for city officials to know the impact on certain areas that use high-speed services, such as home-based businesses, because these areas may not communicate the importance to city officials. It would be advantageous for officials to devise ways to measure feedback from residents regarding the importance of technology to local business retention efforts and overall quality of life. The responses could help officials determine the extent of home-based businesses, firmly establish the link between technology and economic development, and help them adapt their strategies to enhance existing efforts.

Best Practices

- Naperville provides “e-billing” for utility bills where customers can be billed and pay over the Internet. The program uses current technologies to provide customers another opportunity to view and/or pay their utility bills.
- Aurora installed radio-read devices on all city water meters, making it no longer necessary to gain entry into homes to obtain water readings. The technology also increased efficiency in operations by eliminating the need to estimate readings.
- Monticello developed an “e-newspaper” generated from City Hall that provides more timely news for residents. The existing newspaper is published only once a week. Officials feel the service will provide a means of communicating “real-time” news and other important information with the public.

Other Key Issues

Two other issues of importance are examined: (1) public safety and (2) local-state relations.

Public Safety. The September 11 terrorist attacks brought heightened attention to public safety issues and emergency preparedness. Municipal governments, employing first responders such as fire and police personnel, have primary responsibility for emergency response. Anthrax scares in several Illinois cities soon after 9/11 created further momentum and awareness to the need for greater preparedness.

Soon after 9/11, the federal government promised a quick infusion of funds for enhanced public safety. Those funds have been slow to make it to the local level, and states have used a share of the funds before apportioning them to local governments. Cities, for the most part, were left to deal with these issues on their own.

Two of their strategies were to increase police and fire budgets for better preparedness and to increase training and cooperative agreements with other public safety agencies. Some cities had the resources to increase their public safety budgets because of 9/11. Nearly 20 percent of cities increased their police and fire budgets, and one half of cities increased training and mutual aid agreements with other governments. Large cities more often employed these strategies than small and medium-sized cities, probably due to greater resource availability.

Another key issue for many small cities is personnel retention, especially for the police and fire departments. Small cities' often cannot compete with larger cities pay and benefit packages and, thus, lose personnel, resulting in higher training and overtime costs.

While personnel turnover does not appear to be a major issue for cities, police and fire personnel turnover is important in one fourth of small cities. More than 90 percent of officials reported that personnel turnover is not an issue in their cities, including 15.9 percent of officials in small cities; however, 25.8 percent of small town officials said that they could not adequately retain personnel in their police and fire departments. Hillsboro officials reported that they pay for academy training and then larger departments hire the recruits away.

To entice police and fire personnel to stay, cities have tried a variety of programs and incentives such as the best practices that follow.

Best Practices

- Carol Stream offers police academy training reimbursement and college tuition reimbursement.
- Addison changed its compensation plan to allow transfers of senior officers from other jurisdictions.
- Steger provides continuing education benefits.
- Rantoul officials tout their liberal residency plan.
- Tinley Park police officers are allowed to take home their squad cars as an added perk.

Local-State relations. State government is in a position to both assist and harm municipalities. Targeted economic development assistance and cooperative regulatory policies in partnership with cities can greatly enhance local development efforts. Unfunded mandates and unanticipated additional fees, such as for wastewater discharge, can disrupt local budgets and shift funds from higher priorities.

Despite greater local opposition to unfunded mandates in recent years, state government continues to add financial obligations on cities without providing accompanying funding. From added pension requirements for firefighters and police officers to tougher environmental rules to eliminating revenue sources, such as the photoprocessing tax, state government has added significant financial obligations on cities in recent years. Some grant funding has been available through programs such as Illinois First and Opportunity Returns to help with infrastructure costs and public safety expenditures. Many available assistance programs involve loans, however; and those offering grants often involve a competitive process.

To gain a better understanding of ways for state government to work more closely with city development efforts, the survey asked respondents to list what additional power or authority the General Assembly could grant cities to help them the most in their economic development. The answers varied, and many simply requested the state cease enacting unfunded mandates. Other common responses are listed below to provide officials with ideas of how cities and the state can foster a more cooperative relationship for local development efforts:

- Enable General Obligation bonds to be issued without referendum
- Allow non-home rule cities the authority to spend hotel/motel tax revenues for any purpose
- Support greater quick-take powers through eminent domain for business redevelopment
- Allow property tax revenue sharing
- Provide grants for infrastructure repair



Conclusion

City officials continue to face a myriad of external challenges to their stewardship of municipal governments. Managing cities has become more difficult and challenging due to economic changes, the unbalanced relationship between the state and federal governments and cities, and the public's demand for more effective services.

These challenges also produce opportunities for creativity and resourcefulness in delivering good public services at an affordable cost. While there are limits to the policy responses city officials can consider, they have enough latitude to develop innovative policy responses that address the issues. Public/private partnerships for economic development, using technology to improve service delivery, and seeking available management tools such as home rule are policy responses city officials have taken.

The survey demonstrates that city officials are taking pragmatic approaches to dealing with external forces beyond their control. Many of the strategies are less common in smaller cities, which have fewer financial and staff resources available for analysis and implementation. The survey results do show that these strategies are succeeding in many cases and that they can be adapted for use in all sizes of municipalities:

- Broadening the tax base can help soften the impact of an economic downturn by reducing dependence on just one or two revenue sources such as sales and income taxes. The survey results show that more cities are planning to seek home rule to increase revenues from higher sales taxes or through other targeted taxes on alcohol, gasoline, and cigarettes. Municipalities collect hotel/motel taxes to either increase general revenues or to be allocated to economic development efforts. Many cities also have utility and telecommunications taxes in place to broaden their tax bases and enhance revenues.
- Cities are also restructuring and reforming government through innovative management techniques. While only one third of cities statewide regularly review service performance, more of them are at least examining specific services for the best service delivery option. For example, more than half of the respondents reported that they have shared services with other governments or outsourced services with private firms. These alternate service delivery arrangements indicate that at least some type of analysis is conducted to determine the best way to provide services.
- Integrating technology into service delivery can also improve performance and enhance economic development efforts. Most city officials grasp the link between technology and economic development and are implementing plans to upgrade their local technological

capacities. Officials are also striving to bring high-speed Internet access to their communities and to have websites as an additional economic development tool.

- City officials are also attempting to improve their physical infrastructures to enhance their economic competitiveness and quality of life. Management tools, such as capital needs analyses, water and sewer rate restructuring, and replacement schedules for vehicles and equipment, are used in many cities to adequately plan and finance infrastructure improvements. Despite these efforts, the costs of repairing, maintaining, and replacing streets, bridges, and water and wastewater facilities can be enormous. Many cities report funding gaps between their needs and anticipated resources. Balancing the need to finance infrastructure improvements with sensitivity to fee increases on residents will be a continuing challenge for many cities.
- Finally, aggressively promoting economic development can improve the tax base and strengthen local revenues. Most cities have aggressive economic development programs in place and use incentives to lure new development and retain existing businesses. Many city officials have moved away from trying to attract smokestack industries and are focused on business retention and expansion.

Supreme Court Justice Louis Brandeis once referred to state governments as “laboratories of democracy” in discussing the American federalist system. As the roles and responsibilities of the local, state, and federal governments have changed since our nation’s founding, cities have taken on greater obligations and provide many of the basic services available to residents. In most cases, cities are the face of government across the United States. This report shows that through innovative management and adaptation to change, cities have also become laboratories of democracy.

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