

# Municipal Choices during a Recession: Bounded Rationality and Innovation

State and Local Government Review  
44(1S) 44S-63S  
© The Author(s) 2012  
Reprints and permission:  
sagepub.com/journalsPermissions.nav  
DOI: 10.1177/0160323X12452888  
<http://slgr.sagepub.com>



Kimberly L. Nelson<sup>1</sup>

## Abstract

This study reports the findings of a comparative case study analysis of sixteen U.S. municipalities to provide an in-depth examination of the choices municipal leaders are making to address revenue shortfalls. The findings suggest that municipal fiscal choices during a recession fit the bounded rationality model. While local government leaders will attempt to follow a rational sequence of fiscal management decisions, as the economic situation worsens, the external pressures from electoral considerations, state government restrictions, and interest group involvement increase, leading a divergence in strategies. The greater the pressures (the bounds), the more unpredictable the choices among municipalities become.

## Keywords

innovation, finance, municipal, recession

Municipal governments, with varying levels of autonomy, state support, and economic strengths and weaknesses, are ideal laboratories for studying public sector financial practices. Today, municipalities are experiencing revenue declines caused by the worst recession in a generation; yet, they must still meet the service demands of their citizens. While some municipalities are successfully meeting those challenges, others are not.

Unlike in previous economic declines, the current recession has had nearly a universal affect on local government revenues. A study of the financial state of U.S. municipalities conducted for the National League of Cities found a number of troubling results (Hoene and Pagano 2010). Nine of the ten finance officers reported difficulty in meeting financial obligations in 2010. The conditions have led many governments to make cuts in services or

personnel but some have been able to avoid taking these steps by finding innovative ways to restructure government management. Hoene and Pagano (2010) also report that there has been a time lag between the beginning of the recession and its effects on overall property tax revenues, so local governments are likely to experience declining ad valorem revenues for at least another year. Although earlier research provides an understanding of how local governments responded to past fiscal crises, the political and economic environment has changed.

---

<sup>1</sup> Division of Public Administration, Northern Illinois University, DeKalb, IL, USA

## Corresponding Author:

Kimberly L. Nelson, Department of Political Science,  
Northern Illinois University, DeKalb, IL 60115, USA  
Email: [klnelson@niu.edu](mailto:klnelson@niu.edu)

Another weakness of the existing literature is that it gives limited insight into why municipalities choose to implement some strategies and not others. There are several theoretical approaches to government responses to fiscal stress. Under the bounded rationality (Simon 1957) or incrementalist approach (Lindblom 1959), multiple competing actors in the environment and less than perfect information result in an incremental decision-making process. A second approach argues that decisions made in response to fiscal stress follow a rational, logical set of steps (Levine 1978; Wolman 1980; Forrester and Spindler 1990). Other scholars find that there is no pattern to municipal responses to fiscal stress, instead arguing that the process most resembles the garbage can model of public policy making (Downes and Rocke 1984; Morgan and Pammer 1988; Bartle 1996).

A second stream of research attempts to uncover the factors that promote local government innovation (Boyne et al. 2005; Damanpour and Schneider 2009; Krebs and Pelissero 2010; Walker 2008; Nelson and Svara 2012). However, there is limited research that examines innovative fiscal choices.

Due to the conflicting findings in the literature and the age of many of the studies, the understanding of municipal choices in a recession is incomplete. The latest recession provides an opportunity for an investigation of characteristics of local governments relative to the types of strategies they have employed given these new environmental conditions. This study will report the findings of a comparative case study analysis of sixteen U.S. municipalities to provide an in-depth examination of the choices municipal leaders are making to address revenue shortfalls.

### **Theoretical Approaches to Municipal Responses to Fiscal Stress**

Local governments can be conceived as organizational systems (Wolman 1983; Hendrick 2004). According to systems theory (March and

Simon 1958; Cyert and March 1963), to understand organizations (including municipalities), they must be viewed as systems composed of the formal organization, the environment, and the informal organization—its culture and social networks (Scott and Davis 2007). A consideration of the municipality as a system is critical when examining fiscal variables because of the numerous environmental institutions and phenomena that influence fiscal choices (Wolman 1983; Pagano 1988). A number of factors in the municipal environment are outside of government control—such as the stability of the real estate market that determines the value of property or the maximum level of debt that a municipality can incur. Even when a municipality is in control, the outcomes from many policy choices take years to realize the full effects, such as implementing a new policing strategy to combat increasing crime rates.

Political culture is an environmental variable that may influence fiscal choices in a municipality—from decisions about the number of police to hire to decisions about fee increases. Daniel Elazar (1994) used migration patterns to divide the United States into three regions based on political subcultures. According to Elazar, different political cultures lead to differences in the citizens' attitudes about government and their expected roles in the governance process. These differing cultures may result in greater or lesser levels of citizen participation (Ebdon 2000) and varying pressures to keep taxes low while maintaining or improving the levels of service provision.

The demands and constraints present in the municipal environment vary across states and municipalities. A municipality in a state that was experiencing economic decline prior to the current recession is more likely to have used many of the common options for dealing with fiscal stress before the recession started. This leaves those municipalities with fewer options for adapting to the economic decline. There is some evidence that the level of fiscal stress will lead to different strategic choices when dealing with revenue decline. For example, Morgan and Pammer (1988) found that environmental

decline led to a greater likelihood of adopting productivity improvement or reorganization strategies. It is possible that the greater stresses will act as an incentive for city staff to become more creative, opening the door to innovation.

The recession that occurred in the United States during the 1980s provided an opportunity for a great deal of research about how well municipalities were able to cope with fiscal austerity. Studies of municipal fiscal austerity during the 1980s primarily dealt with the identification of strategies government officials could employ to mitigate the effects of fiscal stress. Using a number of theoretical approaches, scholars determined that municipalities used a diversity of tactics in retrenchment management (Morgan and Pammer 1988; Pammer 1990; Clark 1994). Much of this research attempted to uncover a pattern to the actions taken in response to fiscal austerity.

The next section of the article summarizes and categorizes the approaches in the literature on how local governments react to fiscal stress. From the analysis of the literature, this study will research whether the bounded rationality model is most appropriate to explain municipal strategic choices during a recession.

### *Levine's Step-by-Step Approach*

Levine (1978) argues that local government fiscal decision-making strategies will vary dependent on economic conditions. When revenues are abundant, despite having the time and resources to utilize sophisticated decision-making systems, there is no need for these tools, so informal methods such as intuition will predominate. However, when resources are restricted in times of fiscal stress, despite their usefulness, there is less time and money to invest in sophisticated techniques. During times of fiscal stress, therefore, organizational subunits will make decisions that will best promote their survival, regardless of the effects on the organization as a whole. Since resisting cuts outright is risky behavior, Levine argues that subunit managers will choose less risky actions to smooth the revenue declines and their effects on the organization (Levine 1978).

Although the choices change depending on whether the source of the decline is internal or external, organizations will generally try to avoid making service cuts by first broadening the revenue base (perhaps through annexation) and adopting user fees. Once those actions are taken, the next step would be to seek expenditure savings through efficiency improvements, deferring maintenance, or seeking voluntary employee reductions like early retirements or hiring freezes. As budget conditions become more austere, organization members begin to consider service cuts. Therefore, although cut-back decision making does follow a somewhat rational process limitations and paradoxes inherent in the government experiencing budgetary shortfalls preclude an entirely rational process.

### *Coping Strategies Approach*

A similar approach to Levine's but one that envisions a hierarchical set of choices is advanced by a number of researchers who argue that there is a set of predictable coping strategies employed by local governments experiencing fiscal strain (Wolman 1980; Forrester and Spindler 1990; Bartle 1996). Faced with fiscal pressure, these scholars suggest that local governments must choose to either increase revenues or reduce local services. These studies found that coping strategies to address revenue losses were similar across different municipalities.

Using systems theory, Wolman (1980) advances a set of hypotheses to predict local government responses to fiscal stress. According to Wolman, local governments are problem-solving organizations that must seek stability with their environment. In the case of fiscal stress, local governments will seek solutions that are both feasible and effective. Making cuts in services is seen as a last resort. Instead, local governments will first attempt to buy time by implementing strategies that neither increase fees or taxes nor reduce expenditures—thus not upsetting either the internal or the external environment. Drawing down reserves or utilizing one-time revenues are

examples of strategies that meet these conditions. According to Wolman, once these tools have been depleted, the government has no choice but to either increase revenues or cut expenditures, with the likely consequence of a decrease in services. Since the reduction in services upsets the external environment and creates risk for politicians, this is the choice of last resort. Wolman found that across the board cuts were more likely than targeted cuts given the perception of equity to the external and internal actors.

Other scholars also found patterns of responses when they investigated local government responses to fiscal pressure. Bartle (1996) found significant variation in municipal responses to state budget cuts in New York. However, despite this variation, he determined that the two most common strategies used by municipalities were to decrease capital spending and reduce cash reserves. Skidmore and Scorsone (2011) found that Michigan municipalities were most likely to make cuts in capital expenditures, general government, public works, and parks and recreation. Essential services, like public safety, were insulated from most cuts.

### *Unstructured Responses*

Other findings dispute the hypothesis that there are patterns of coping strategies or that municipalities use a rational systematic approach in response to fiscal strain. These studies find that due to differences in statutory requirements and restrictions, resource capacity, and demographics, there is little predictability in how municipalities respond to cuts (Downes and Rocke 1984; Morgan and Pammer 1988; Bartle 1996). Despite the conclusion that it is difficult to identify patterns of responsive strategies across municipalities with different characteristics, some characteristics of the municipalities did seem to be related to strategic choices. The level of professionalism of the municipality's leadership was one such factor.

Morgan and Pammer (1988) have done the most comprehensive work in this area. Using the "garbage can model" of decision making,

Morgan and Pammer (1988) examined seven variables they hypothesized might influence the choices among three types of financial management practices during retrenchment—increasing revenue, improving productivity, and cutting spending. Their general conclusion was that although it is difficult to explain the strategies used to deal with fiscal austerity in cities, the city administrator plays a significant role in decision making. More specifically, Morgan and Pammer found that administrators' perceptions of the city's fiscal situation influenced choices to cut spending or increase revenue—as the manager's perception of the fiscal problem increased, revenues and spending cuts also increased. No matter what the fiscal condition of the municipality, if the manager is not convinced that problem exists, steps to mitigate the fiscal distress will not take place.

In a later and more comprehensive study, Pammer (1990) used many of the same independent variables and expanded the number of fiscal choices. As in the earlier study, the administrator variables were the most significant predictors of fiscal choices in a recession. However, the low  $R^2$  figures in the model indicate that much of the variation in the model is not explained. Pammer concludes that fiscal choices during the retrenchment process are indicative of an unstructured decision process.

### *Bounded Rationality Approach*

Although not directly applied to municipal choices in a recession in the literature, the bounded rationality model of decision making (Simon 1957) may provide an explanation for the choices municipalities make when under fiscal distress. According to Simon's model of bounded rationality, the rationality of decision making is limited by imperfect or incomplete information. In government organizations, other constraints on rationality include the political process, insufficient time or expertise, and interest group involvement. These constraints, and the high level of complexity that is often inherent in government choices, lead officials and administrators to rely on heuristics rather than pure rationality when making

decisions. Often, the resulting decisions are incremental and satisfactory but not necessarily ideal for a given situation.

Applying the bounded rationality model to fiscal choices in a recession would lead to a number of potential outcomes. Some initial actions are likely to be taken by all municipalities in the first year of revenue declines, such as deferring maintenance and instituting hiring freezes, consistent with a rational approach. At that time, the political pressures will be less severe as the full extent of the problem was not realized.

However, in the case of a downturn of exceptional severity and duration like the current recession, many municipalities would not be able to reach stability in a single budget cycle. At this point, the trade-offs would become more difficult and the multiple actors in the system would begin applying pressure to the elected officials. Actions taken by state government would potentially complicate matters further by placing greater pressure on the system. These pressures would serve as constraints on a rationale decision-making process, leading to greater variability among communities in the strategies to address fiscal stress.

While it is likely that all municipalities will try to preserve essential services, cutting those areas of the budget only as a last resort, how a community determines which services are essential may vary by community. These conditions will lead to a diversity of choices by local governments in subsequent budget cycles.

Given the results from Morgan and Pammer's study (1988), it is possible that the presence of a professional manager will result in different choices to address fiscal distress. The presence of the manager could potentially increase the capacity for rationale decision making by insulating decisions from some of the politics. In this case, the expectation would be that the presence of a chief administrator will lead to different fiscal choices than in nonprofessional municipalities and may promote the implementation of more innovative fiscal choices.

### *Innovation and Fiscal Distress*

Research in local government innovation is abundant; however, this research rarely addresses innovative financial practices in local governments. Harold Wolman (1986) used the innovation literature to develop research questions for investigating the relationship between the local government response to fiscal strain and innovation. Questions of what factors lead to innovation in local government, whether fiscally stressed municipalities are more or less likely to innovate than others, and what types of innovations are likely to be implemented in times of resource scarcity were not entirely addressed in subsequent research.

One exception used survey data from the Fiscal Austerity and Innovation Project to gather data from cities with populations of 25,000 and above (Clark 1994). Clark developed a list of innovative fiscal practices in place during the 1980s and early 1990s. He hypothesized that fiscal strain would encourage a municipality to innovate and that fiscal strain might interact with socioeconomic, leadership variables, and other values to promote innovation. Clark concluded that the degree of fiscal strain of a municipality was unrelated to its propensity to innovate and that the other relationships were weak. In addition, the use of innovative strategies was not confined to affluent communities (Clark 1994).

Clark (1994) used a set of five criteria from the Urban Innovation in Illinois Program to determine which fiscal choices were innovative. The authors found many types of innovative activities. In the face of revenue decline, municipal leaders found creative sources of revenue in the form of impact fees for development and user fees. Advents in financial software allowed for near-constant monitoring of a city's fiscal status and better forecasting, allowing for a drawdown of rainy day funds. Clark also found that cities were using new forms of borrowing, such as short-term loans, to mitigate problems from declining revenues.

By far, the productivity category—doing more with less—contained the greatest number of innovative practices. For the most part, these

innovations relied on creative partnerships with private companies, nonprofit organizations, or other governments. Some of the examples provided by Clark included joint purchasing agreements, joint personnel recruitment and training of police officers, partnerships with private companies that involve bartering, and contracting out services previously provided by union staff.

Recent studies do not link innovation specifically to fiscal distress. However, one strategy that is often considered innovative is the use of privatization by local governments. A 2009 (Zullo) study found no relationship between fiscal distress and privatization rates of U.S. counties.

Clark's inventory of innovative fiscal practices is useful; however, given its age, it is no longer comprehensive. In addition, many of the fiscal choices described as innovative, often creating controversy in the communities that adopted them are now nearly universal; city-issued parking stickers are a good example. This study seeks to determine what actions contemporary municipal leaders, faced with the worst recession in a generation, have taken to maintain fiscal stability despite debilitating revenue losses.

Differences in form of government are likely to become more significant as the political stakes increase. City managers, unlike mayors, do not face electoral pressures. Since the political stakes are lower in the council-manager form, policy choices are more likely to be based on strategy rather than political opportunism (Feiock and Kim 2001; Feiock, Jeong, and Kim 2003) and therefore, policy choices are likely to differ.

Recent research provides some insights into the choices of municipalities in the current recession. Scorsone and Plerhoples (2010) argue that state and local governments' responses to the current recession, and other shortfalls since the early 2000s, have been more likely to rely on budget cuts and restructuring rather than the tax increases that were favored in earlier economic downturns. They argue that the increasing use of cash reserves may be one explanation for this shift. According to the National League of Cities' 2011 report of city

fiscal conditions (Hoene and Pagano 2011), the most common expenditure cuts taken by cities were reductions in personnel costs and delaying or cancelling capital expenditures. Consistent with the findings of Skidmore and Scorsone (2011), expenditure cuts are least likely in public safety and most likely in public works, parks and recreation, and libraries.

Drawing from the literature on innovation and municipal fiscal stress leads to a number of conclusions. First, municipalities operate in a turbulent and complex environment that influences the range of available fiscal choices (Wolman 1983; Pagano 1988; Hendrick 2004). The complexity of the environment makes it difficult to identify a simple pattern of municipal response to fiscal stress. Second, research has established that innovation should and can lead to better performance outcomes for local government (Watson 1997; Borins 2008). Third, structural variables influence innovation adoption and fiscal choices in municipal governments (Morgan and Pammer 1988; Moon and DeLeon 2001; Maher and Deller 2007; Nelson and Svara 2012).

The complexity of the environment and the differences (structural, cultural, and financial) of the municipalities means that municipal reactions to the recession should differ a great deal. This research will test whether the model of bounded rationality can explain these reactions. Under bounded rationality, in the early period of the recession, municipal governments are likely to employ similar strategies for addressing its effects because political and fiscal pressure should be less severe. These fiscal strategies will pose little threat to operations or to the elected officials—reducing overhead, hiring freezes, suspending salary increases for nonunion employees, and reducing overtime.

As fiscal conditions worsen, political and environmental pressures should lead to a divergence of fiscal strategies. A second set of strategies will pose minimal risk and will be employed by most municipalities. However, in some cases, states may restrict their use or the elected officials may deem them unacceptable. These strategies include tax and fee increases, furloughs, early retirements, labor

concessions, and use of one-time revenues. Only a few municipalities will use the final set of strategies. These strategies pose the greatest risk or have the highest level of restrictions by state governments, and would include innovative cooperative arrangements and technology, use of volunteers to provide city services, new revenue sources, and new management strategies.

## Methodology

Large-scale studies of municipal actions to address the recession have already been conducted (Ammons and Fleck 2010; Hoene and Pagano 2010). While these studies provide a good idea of the many strategies used to meet expenditure demands, they do not provide detail about the strategies themselves, whether municipalities are innovating, and whether patterns exist relative to the types of strategies adopted. This study uses a comparative case analysis of sixteen municipalities to provide this detail.

Case communities were selected through a process of stratified random sampling; a number of considerations guided sample selection. All U.S. municipalities with a population of at least 10,000 in 2010 were included in the initial sample pool. Unemployment rate was used to identify communities that were likely to be suffering from significant revenue declines. Even though Clark (1994) found no relationship between fiscal stress and innovativeness, there were two rationales for using unemployment rates to screen the data. First, innovation may become a necessity in communities that are hard-hit by a recession. Second, by selecting municipalities with similar unemployment rates, the municipalities are likely to be suffering from similar financial stresses. For these reasons, any municipality with a 2010 unemployment rate of less than 10 percent was removed from the initial sample pool. Removing municipalities with the commission or town meeting forms of government constituted the final restriction of the sample.

The remaining sample was then stratified into four regions and two forms of government

(council–manager and mayor–council). Since some fiscal woes faced by local governments are the result of regional economic conditions, it was important that the sample be drawn from throughout the United States. To keep the sample size manageable for in-depth analysis, four municipalities were randomly selected from each of four regions (two mayor–council form municipalities and two council–manager form). The final sample size was sixteen municipalities.

For each of the sixteen case municipalities, research of news sources and municipal documents (including budgets, audit, press releases, and states of the city addresses) were used to obtain a complete profile of each. Using the research done by Clark (1994) and others in the 1990s, a list of potential fiscal choices communities can make during a recession was developed and broadly divided into four categories—general expenditure cuts, personnel expenditure cuts, service expenditure cuts, new governance expenditure cuts (i.e., intergovernmental/interorganizational partnerships), and revenue increases.

In cases where the document analysis was insufficient, e-mails or phone calls were made to the finance director, city manager/chief administrator, or assistant city manager. Administrators were asked about the strategies they used to balance their budgets and to identify any strategies they believed were innovative for their organization. Subjects were also asked to describe those choices they believed were most beneficial for the organization. While a sample of this size is not generalizable to all municipalities, the findings provide a more detailed analysis than can be obtained through a large sample survey.

## Case Study Findings

Sample municipalities range in population from approximately 20,000 to nearly 200,000 residents. Some experienced extremely rapid growth (greater than 50 percent) between 2000 and 2010, while others saw their populations decline. Although population decline was more common in the Northeast and Midwest

than in other regions, Paramount, California, and Spartanburg, South Carolina, also experienced population loss.

All of the municipalities in the sample have suffered significant revenue declines of some type since the recession began. However, there are varying degrees of fiscal stress among the sample municipalities (see Table 1). On a net basis, some communities have been able to make up for one type of revenue loss by increasing revenues from another source. Many Midwestern and Northeastern communities were experiencing population decline before the recession, and consequently had been operating on lean budgets for a number of years. It is possible however, that high rates of growth prerecession could be more of a curse than a blessing. In cases where a municipality is highly dependent on residential property tax, the building boom created a substantial revenue stream that suddenly dried up. For example, Cape Coral, Florida, saw new construction decline from nearly \$1 billion in 2009 to approximately \$70 million projected for 2011. Further exacerbating the problem from loss of new construction revenues, many municipalities experiencing high growth chose to make substantial investments in capital improvements. In most cases, the bonds for those improvements are still outstanding, despite declining revenues.

Some case municipalities, such as Spartanburg, South Carolina, have seen only limited revenue contractions due to a diversified tax base. Ogden, Utah, benefited from the redevelopment of a former military installation. While many communities throughout the United States have seen limited potential in facilities shuttered in the Base Realignment and Closure process, Ogden's Business Depot is an example of a highly successful project. Converted into an industrial park, the former Defense Depot, closed in 1997, today provides millions of dollars in annual revenue to the city. This redevelopment project led to an increase in revenues from sales and entertainment taxes that offered protection from a declining residential property tax base.

These diverse conditions lead to differing sets of decision-making constraints for the case

municipalities. Those that had been suffering revenue declines for a number of years preceding the recession had already made the choices that were less painful, both politically and organizationally. Maintenance on buildings was deferred, no additional staff was added except for essential positions, and additional revenues through grants and intergovernmental aid were sought whenever possible.

Types of revenues available to local governments differ among municipalities due to state and local government legal provisions. For example, Delaware has no sales tax but does allow for commuter tax levies and Pennsylvania, Michigan, and Indiana allow local governments to levy an earned income tax. Levels of local government autonomy granted from the state governments also differ; some municipalities have home rule status, others do not. Those with home rule status are often provided the opportunity to call on a more diverse set of revenue options.

Another factor resulting in differing fiscal outcomes of municipalities are direct state government actions such as tax and expenditure limitations (TEs) and reductions in revenue transfers. These decisions by state governments often resulted in drastic and uncontrollable revenue reductions that hampered the efforts of municipal governments to maintain fiscal stability. Many states, including Ohio, Michigan, South Carolina, and Washington, have cut the amount of revenues they share with cities. Nebraska eliminated state revenue sharing.

States are also limiting own-source revenues that local governments can turn to in order to fill budget gaps through TEs and limits on the fees permitted by state law. Of the states represented by the municipalities in the sample, California, Michigan, and Washington place the greatest restrictions on their local governments' property tax levies (Amiel, Deller, and Stallman 2009). The most recent state in the sample to enact property tax caps was Indiana, which capped residential property tax at 1 percent valuation and business property at 3 percent.

Despite these encumbrances, for the most part, the case study municipalities have been



**Table 1. Fiscal and Autonomy Indicators for Case Municipalities**

Municipality	Population	% Change Full-Time Employees	% Change in General Fund (GF) Tax Revenue 2007–10	Home Rule	Ranking using Local TELS Index <sup>a</sup>	% Change in Undesignated GF Fund Balance 2007–10	Bond Rating Change Since 2007?
Allentown, PA	118,032	-3.91	-11.54	Yes	7	-86.57	Lower
Camas, WA	19,255	0.83	15.14	No	1	-6.16	No
Cape Coral, FL	154,305	-16.11	-17.40	Yes	4	208.20	Lower
Dalton, GA <sup>b</sup>	33,128	-0.13	-66.19	No	8	42.83	Higher
Hagerstown, MD	39,662	0.62	6.67	Yes	8	22.99	No
Ogden, UT	82,825	2.25	-35.66	Yes	8	-23.78	Higher
Paramount, CA	54,098		-14.61	No	2	-18.15	N/A
Park Forest, IL	21,975	4.21	10.03	No	5	-12.29	Higher
Rockford, IL	152,871	-6.58	4.23	No	5	-25.83	Lower
Saginaw, MI	51,508	-4.50	-12.30	Yes	1	-83.37	No
Smyrna, GA	51,271	-11.72	7.89	No	8	18.20	Higher
South Bend, IN	101,168	-7.97	-17.15	No	9	24.90	Higher
Spartanburg, SC	37,013	-7.83	4.99	Yes	10	2.40	Higher
Springfield, OR	59,403	4.37	16.11	Yes	3	-0.40	No
Wilmington, DE	70,851	2.10	9.23	Yes	9	-77.99	Higher
Worcester, MA <sup>c</sup>	181,045	-3.57	13.76	No	6	20.00	No

Note: TEL = tax and expenditure limitations.

<sup>a</sup>Municipalities were ranked using the Local TELS index for states created by Amiel, Deller, and Stallman (2009).

<sup>b</sup>Significant change in revenues and expenditures due to removing the tax receipts for the school district and the development authority from the city budget in 2008. School district expenditures totaled approximately \$29 M in 2007.

<sup>c</sup>Worcester's school system is funded through the city's General Fund.

able to avoid making drastic changes in service provision. All have reduced staff but large-scale layoffs are the exception, not the norm. For the most part, municipalities chose to use attrition and early retirement incentives to reduce staff levels. However, not all of the case municipalities implemented innovative policies to balance their budgets. Instead, some chose to take the standard steps to reduce expenditures and increase revenues rather than turn to new strategies.

## **Strategies to Mitigate Revenue Declines**

### *Increased Taxes and Fees*

In all cases, to balance the annual budgets from 2007 to 2011, municipalities had to attempt to maximize their revenues. Table 2 summarizes the actions taken to increase revenues by the case study municipalities. Since all case municipalities obtained additional revenue through federal grants, grants are not referenced in the table. Increases in fees for utilities or service provision were preferred over tax increases and were generally implemented in the early years of the recession. Eleven of the fifteen case municipalities increased utility rates. Five of the case cities increased their property tax rate while four others increased rates of other taxes such as special assessments for public safety or income tax.

State and local restrictions were critical factors in revenue capacity. Allentown's income tax rate increase can only be used to fund pensions. Spending of the funds from the special assessments in South Bend and Saginaw is restricted to public safety expenditures. In Michigan and California, state caps on property tax rate combined with valuation restrictions led to sharp decreases in property tax revenue capacity. However, not all tax and expenditure limitations were harmful to municipalities. Although Massachusetts limits property tax increases, local governments can store up excess levy capacity by not making their statutorily permitted increases until they are needed, thus Worcester's rate continued to increase throughout the recession.

## ***Drawing from Nonrecurring Revenue Sources***

Although drawing on nonrecurring revenue sources is an unsustainable practice that can harm a municipality's overall fiscal outlook, more than half of the case municipalities chose to draw on these sources to balance their general funds at least once since 2007.

Allentown chose to sell excess land and buildings to garner additional funds. Other municipalities are choosing to sell space on city assets such as trash receptacles or parking permits to private companies for marketing purposes. In larger cities, the revenue generated from these initiatives can be substantial.

## ***New and Recurring Revenue Sources***

Seeking new but recurring revenues provides long-term benefits to municipalities. One source are recurring revenues of are payments in lieu of taxes (PILOTs). Negotiating with nonprofit organizations located within the city limits for PILOTs allows municipalities to recoup the costs of providing services to those organizations. Municipalities often spend a great deal of money providing public safety, transportation, and other services to hospitals, universities, and other nonprofit organizations that are often exempt from taxes. Allentown recently began negotiating for voluntary payment from tax-exempt organizations for the estimated costs of city services provided to those organizations. Worcester collects PILOTs from several higher education institutions within the city limits. PILOT programs have been used by municipalities in at least eighteen states (Kenyon and Langley 2010) and are likely to become increasingly common as municipalities face greater revenue pressures.

Other municipalities sought new revenues from excess capacity and casinos. Allentown realized additional revenues from its casino due to a recent expansion and they were able to lease their excess sewer capacity. Smyrna, Georgia, used available space in its jail to

**Table 2.** Strategies to Increase Revenues 2007–11

Municipality	Lowest GF Revenues (2007–11)	Increase Utility Rates	Fees/ Tax Increase	Draw on Reserves/ Nonrecurring Income	New Revenue Sources	Recurring Revenue Source/ Sources	Increase Delinquent Collections	Increase Interest	Investment
Allentown, PA	2008	X	I	X	X			X	
Camas, WA	2007			X	X				
Cape Coral, FL	2009	X	P						
Dalton, GA	2011	X	H/M						
Hagerstown, MD	2007								
Ogden, UT	2009	X		X					
Paramount, CA	2010	X		X					
Park Forest, IL	2007	X	P	X	X			X	
Rockford, IL	2008	X		X					
Saginaw, MI	2010		P; SA	X			X		
Smyrna, GA	2011	X			X				
South Bend, IN	2009	X	I; SA		X				
Spartanburg, SC	2007	X							
Springfield, OR	2007	X		X					
Wilmington, DE	2007		P	X	X		X		
Worcester, MA	2007		P		X				

Note: H/M = Hotel/Motel; I = Income; P = Property; SA = Special Assessment (Public Safety).

house prisoners from other jurisdictions, another new and recurring source of revenues.

### ***Increase Collections of Delinquent Payments***

When the economy is strong, initiatives to collect delinquent revenues may not prove cost-effective. However, if there is a substantial amount of revenue due to a municipality, failure to collect that revenue may be detrimental, particularly when revenues are declining. Two of the case municipalities made the collections of these revenues a priority. Wilmington's program was called the "Plan for Change." As the only municipality in Delaware that collects a wage tax (earned income tax), Wilmington experienced a significant level of noncompliance. As part of the plan, the city established a special collections and audit group made up of both employees and outside experts. The group has collected \$50 million in wage tax revenues, \$20 million in delinquent parking citations revenue, and \$30 million for the water and sewer utility since its founding. A similar program was established in Allentown to collect delinquent revenues.

### ***Cash Management***

A final strategy used in the case municipalities to increase revenues was to seek new investment tools to maximize the interest returns from reserves. Park Forest, Illinois, began using a ladder CD portfolio that led to and increase annual investment interest by \$75,000.

While efforts to maximize revenues were important to meeting budget deficits, they were not sufficient given that the most stable revenue sources for municipalities—property and sales taxes, continued to decline in most municipalities. However, it was more common for municipalities to use expenditure reductions and efficiency improvements to balance the budgets rather than seeking revenue enhancements.

## **Strategies to Reduce Expenditures**

Researching efforts by the case municipalities to address declining revenues revealed that while some strategies have changed from those that were commonly used in the recession of two decades past, many of the same techniques are employed today. Only one community, Worcester, implemented across the board budget cuts. Given that the majority of local government expenditures are for personnel, it is no surprise that all of the sample cities targeted personnel costs as the primary engine for budget reduction.

### ***Reducing Personnel Costs***

For most of the cases, the primary goal in reducing personnel expenditures was to do so while retaining prerecession service levels. Some personnel expense reductions, including the reduction in workforce through attrition and/or hiring freezes, changes in benefit structure or contributions, and a reduction or elimination of cost of living increases were implemented universally and were usually implemented at least partially before 2009.

Reductions in force began in 2009. More than half of the case study municipalities used layoffs to reduce personnel costs and only one-third used furloughs applied to some or all of their staff. Greatest reductions in personnel were seen in those municipalities that lost significant amounts of state revenue sharing (Camas, WA; Saginaw, MI) or that had restrictive TELs (South Bend, IN; Paramount, CA). Other strategies to reduce personnel costs included renegotiations of union contracts, reducing full-time employees to 32-hour workweeks and reducing management pay levels. Consistent with the bounded rationality model, the environmental complexity led to a great deal of variability in expenditure reduction strategies (Table 3).

### ***Volunteers***

Some of the municipalities were able to reduce personnel costs by increasing opportunities for

**Table 3. Personnel Expenditure Reduction Strategies 2007–2011**

Municipality	Reduce Personnel*	Furloughs, Change Shifts	Labor Concessions	Use of Volunteers	Reduce Health Care Costs
Allentown, PA	L, A, ER		X		X
Camas, WA	L, A	X	X	X	
Cape Coral, FL	L, A	X	X	X	X
Dalton, GA	L, A, ER				X
Hagerstown, MD	L, A	X		X	X
Ogden, UT	A			X	
Paramount, CA	A	X	X		X
Park Forest, IL	A				
Rockford, IL	L, A, ER	X			
Saginaw, MI	L, A		X		
Smyrna, GA	A				X
South Bend, IN	L, A	X			
Spartanburg, SC	L, A				
Springfield, OR	L, A	X	X	X	
Wilmington, DE	L, A	X			X
Worcester, MA	L, A	X	X		

\*Actions taken by all municipalities: delay hiring in vacant positions; reduce overtime; suspend cost of living adjustments or other benefits.

Note: L = layoffs; A = Attrition; ER = Early Retirement

**Table 4.** Other Expenditure Reductions

Municipality	Cancel Events/ Close Facilities	Delay Capital Projects; Defer Maint.	Technology	Intergovernmental Public-Private	Restructure/Combine Depts.	New Management Approaches
Allentown, PA	X					X
Camas, WA		X		X		
Cape Coral, FL		X		X	X	X
Dalton, GA			X	X	X	
Hagerstown, MD		X			X	
Ogden, UT		X			X	
Paramount, CA						
Park Forest, IL		X	X			
Rockford, IL					X	X
Saginaw, MI		X			X	
Smyrna, GA		X	X	X		
South Bend, IN				X	X	
Spartanburg, SC						
Springfield, OR					X	X
Wilmington, DE	X			X		
Worcester, MA	X				X	

Note: All municipalities reduced routine administrative expenses for overhead and supplies.

volunteer assistance. Cape Coral turned to greater assistance from police department volunteers. In Cape Coral, work for a park ranger program previously provided by contracted staff was transferred to the police volunteer program. The parks department in Camas, Washington relies on volunteers for multiple services, including office work, park maintenance, and assisting with special events. Hagerstown, Maryland recently formalized their citywide volunteer program that seeks to inventory the skills of potential volunteers and match them to various city departments. In Springfield, Oregon, volunteers staff and maintain the city museum.

### *Reduction in Benefits and Health Care Costs*

Health care costs have greatly increased in the past several years. In most cases, municipalities have sought greater employee cost sharing for health care premiums or they have reduced retiree benefits. Some organizations are trying a more innovative approach to reducing costs for health care. Worcester sought reduced premiums through negotiations with insurance companies. Another innovative cost-savings approach is to offer employees incentives to opt out of municipal-provided health care. In Allentown, employees who are covered by another health insurance plan are able to opt out of the city's insurance and receive a \$1,500 incentive.

### *Other Expenditure Reductions*

Although the preponderance of expenditure savings in municipalities were realized through changes in personnel policies, other areas were targeted for reductions as well. Three communities cancelled major events in their communities, such as July 4 fireworks displays. In several other cases, chief administrators proposed eliminating events but elected officials chose other reductions instead. Wilmington, Delaware chose to close several community pools, saving money in both staff and facility operations.

A common source of expenditure savings was through the delay of capital projects or the deferral of maintenance for buildings and facilities. Half of the municipalities chose these strategies. In some cases, the slowdown in residential growth meant that planned infrastructure expansion was no longer needed. Deferred maintenance included slowing down the timetable for replacing equipment, reducing the number of potholes filled, and making minor building upgrades.

Technological innovations were also credited with saving money. From low-energy options in transportation and lighting to software programs that improved efficiency while performing government services, technological advances were cited in most cities as having at least a minor cost-savings affect. Smyrna reduced expenditures by implementing a new electronic parking ticket system and began using SUVs in place of fire trucks to respond to medical calls.

### *Intergovernmental and Interorganizational Agreements*

Municipal efforts to reduce costs and improve productivity through contracting out services, intergovernmental agreements, and public-private partnerships precede the recession. However, when faced with extreme reductions in revenues, these initiatives take on greater importance. While every municipal case in this study is engaged in these efforts to at least a limited degree, some have developed truly innovative approaches.

Among the case study cities, the most complicated new governance effort was a functional consolidation of the fire departments of Springfield and Eugene, Oregon. The consolidation resulted in combined offices of the chief, operations, fire marshal, and training, saving each department more than \$100,000 per year. In his budget message, the Springfield city manager said that revenue declines have "required the organization to act and think differently" (Springfield 2012 Annual Budget Message, 3).

In the United States, combined dispatch services are becoming increasingly common. Park Forest, Illinois participates in SouthCom, a combined public safety dispatch service for four municipalities. SouthCom is able to use better technology at lower cost than the municipalities could provide individually. Hagerstown, Maryland consolidated its 911 dispatch services with the county.

Even small-scale efforts can result in substantial cost-savings. Allentown created a Corporate Partnership Initiative to seek support from individuals and organizations doing business with the city. Types of support include supplier discounts, donations from citizens, and corporate donations to offset costs of some projects. Cape Coral has outsourced several functions including street sweeping and formed a limited partnership with its county to take its biosolids. South Bend engaged in a number of small cooperative efforts to achieve costs savings that included consolidating building inspections functions with St. Joseph county and entering into a cooperative purchase agreement with other governments for road salt that saves the city nearly \$100 per ton.

Overall, those municipalities with professional managers were more likely to seek out intergovernmental and interorganizational partnerships to alleviate fiscal strain. Of the mayor-council cities, only Allentown and South Bend undertook major cooperative endeavors.

### ***Government Restructuring***

Municipalities could also lower expenditures by consolidating functions into one department that were previously performed by staff in multiple departments, sharing staff between multiple departments, and cross training employees to fill multiple positions. For example, in South Bend, the finance and public works departments now share a finance officer.

Saginaw combined the administrative offices of the police and fire departments into a new administrative division called Community Public Safety overseen by the Assistant City Manager for Public Safety. Police officers also agreed to cross train as firefighters. By

combining the administrative functions of the two departments, the city hopes to reduce costs; in the first year, the city was able to eliminate a clerical position. Hagerstown, Maryland underwent significant structural changes due to the recession. Although forty-three positions were eliminated, another five were added due to the restructuring.

### ***New Management Approaches***

While the Lean government approach is used in a number of federal agencies, more recently, local governments have begun implementing it. Only one of the case cities, Cape Coral, uses this method of continuous improvement that is customer focused and seeks to maximize the efficient use of government resources. If the Lean approach works, the government's capacity will be increased without the need for additional revenues.

Engaging citizens or employees in efforts to balance the budget may lead to new ideas that management may not be able to develop on their own. In 2009, Allentown created a Blue Ribbon Finance and Operations Committee made up of community members from both the government and the private sectors. The committee successfully identified a number of potential new sources of revenue and expenditure savings. Rockford's mayor appointed members of the community to a financial advisory board that is tasked with identifying areas of potential cost reduction that will not lead to consequent service reductions. Many of the ideas are being implemented including outsourcing some services and sharing services with other local governments. Springfield's "My Ideas" program seeks money saving ideas from employees. As of 2011, sixty-three ideas had been implemented for an estimated cost savings of \$232,000 (Springfield FY2012 Budget).

### ***Decision Choices over Time***

Consistent with the expectations of bounded rationality, in the early stages of the recession, the fiscal choices made by the municipalities were nearly identical. They sought to maximize



revenues through fee increases and federal grants and transferred money from cash reserves and enterprise funds. Hiring freezes and ending annual cost of living adjustments for nonunion workers were also early tactics used universally. These strategies all had the same goal, to generate revenues or lower expenditures without cutting back on services or laying off workers.

However, in subsequent budget cycles, these actions were not sufficient to mitigate the revenue shortfalls. Reductions in positions were universal but not all involved layoffs of current employees. Those with unions, on average, lost more positions than those without unions. Other choices to reduce costs were diverse across the municipalities. For example, some municipalities almost immediately cut transfers to local nonprofits or other outside groups while others decided to continue funding these groups. Parks and recreation, often one of the most common victims of budget cuts, was identified instead as a priority through strategic planning for one community.

Differing resource levels were another factor related to variance in municipal fiscal choices. For example, municipalities with electric utilities were able to draw additional revenues by increasing rates. Municipalities with greater shares of commercial property versus residential also experienced less fiscal stress and were able to maintain services with fewer cuts. Local governments with the option to levy different types of taxes also had more flexibility.

### *Form of Government*

Half the municipalities used the council–manager form of government and half used the mayor–council form. Five of the eight mayor–council municipalities also employ a chief administrative officer. Overall, there did not seem to be any greater likelihood of innovative practices being instituted in one form of government versus another, nor did there seem to be a pattern to the choices in fiscal strategy related to structure.

However, efforts to engage other governments in cooperative agreements seemed to be

more common in municipalities with council–manager form. All but one of the consolidated services arrangements occurred in council–manager municipalities. These findings provide mixed support for the research proposition that council–manager municipalities are more likely to implement innovative policies.

### *Region*

Region did have an effect on the overall financial condition of the municipalities, but it was not primarily due to the decline of manufacturing industries of the Northeast and Midwest. Municipalities in states that limited municipal taxing authority and those that saw significant declines in state revenue sharing fared the worst in the recession. For example, Indiana’s 2010 property tax cap led to a loss of \$22 million in property tax revenues for South Bend.

Municipalities that experienced revenue declines due to state action were more likely to institute a variety of personnel changes. In addition to reducing positions, these municipalities were more likely to use furloughs, reduce employee hours, and reduce benefits or salaries than those not experiencing these pressures. Forced to operate with a reduced workforce, municipalities under these conditions were also more likely to institute organizational restructuring.

### **Conclusion**

Municipal governments are seeking creative answers to adapt to a new environment of lower revenues and greater restrictions on their ability to generate new revenues. This “new normal” means that municipal leaders will need to be more innovative. The language used by municipalities in this sample reflects that shift. In his 2012 budget statement, Hagerstown, Maryland’s administrator says that decreasing revenue has led to the positive outcome of “utilizing innovation, cost reductions, and organizational restructuring to sustain the city’s commitment to delivering excellent customer services.” Similarly, South Bend’s public works director says that the city is instilling a

proactive culture in their organization. Overall, these attitudes indicate the desire to act innovatively, finding opportunity in the challenges.

The results from the case studies seem to indicate that municipalities are able to overcome extreme financial hardship. One indicator of this observation is that despite having higher unemployment rates than the national average, bond ratings in seven of the municipalities received upgrades since 2007. In addition, two of the sample municipalities granted across the board salary increases for the 2012 fiscal year.

### *Patterns of Municipal Response to Fiscal Stress*

Choices municipalities are making in response to the recession are strategic, not haphazard. While environmental constraints preclude the ability for an entirely rational process, local governments are making choices that will preserve service levels, leading to a process that is rational, but bounded. The responses of the municipalities in this sample best fit the pattern of responses suggested for bounded rationality. If the municipalities were making decisions solely based on rational decision methods, a consistent pattern of responses would be likely across municipalities—as politics and other constraints would not factor into the decisions of the elected and administrative officials. However, with bounded rationality, strategy choices would initially be consistent across municipalities but become less so as the constraints increase. As the recession continues through multiple budget cycles and states continue to cut back on funds to local governments, municipal leaders have fewer options left that involve no political hazards. They have no choice but to take risks, develop creative solutions, and involve external actors.

Consistent with the bounded rationality approach, in the first year or two of the recession, all of the municipalities employed similar expenditure reductions. These cuts represented those that would have the least impact on service provision and represented little political risk. For example, all municipalities in the sample reduced expenditures for supplies, delayed filling vacant positions, sought and received

federal grants, and reduced overhead as initial steps in controlling costs.

A second tier of strategies is employed by most municipalities, but not all. These strategies are not universally employed for two reasons—they involve greater risk than the first set of strategies or there are barriers to their implementation. For example, nearly every municipality increased either fees or tax rates. State limits on taxation may remove that option for some communities and others may have limited enterprise activities from which to garner greater revenues. A strategy that involves risk is choice to draw on reserved fund balances or to use other one-time sources of revenue. While drawing down reserves has little political risk, it can harm the credit rating of the municipality.

Patterns of fiscal strategic choices became much less predictable across municipalities as the recession wore on. The lack of predictability is consistent with bounded rationality. While ideally, perhaps, administrators and elected officials would be provided a handbook of steps that should be followed in the event of a recession, the reality is that the culture of the community, external pressures from state choices, and the level of revenue loss in a community create unique conditions for each municipality. These unique conditions lead to a distinct set of strategies employed by municipalities after those choices that bear little operational or political consequences have been exhausted.

In this research, community leaders made different choices about which services were most essential and needed to be preserved. This is both related to culture and the environment. Public safety is a good example; in some communities, the number of public safety personnel has increased since 2007. However, in other communities, factors such as high pensions and unsuccessful union negotiations led to large-scale layoffs of public safety personnel. A community that has had problems with crime in the past or that has a tradition of supporting police and fire services are less likely to support public safety cuts than are communities without those conditions.

Municipalities experiencing the greatest fiscal stress—largest revenue declines—tended to become the most innovative in seeking solutions.

Several of these communities chose to engage the private sector to find creative alternative revenue sources or service delivery methods. Because some of these choices may pose some risk—for example, seeking PILOTs from nonprofit organizations—they may not be entirely rational; however, when a municipality has exhausted other options, its leaders may be more open to risk.

State governments are another factor that contributes to differing fiscal strategies by limiting the options of the municipalities. State decisions have had a considerable affect on municipal fiscal choices. Tax limitations are much more prevalent today than they were in the 1990s. While political culture seems to have little influence on local government fiscal choices, it may be responsible for the current movements to limit local government taxing discretion. Those municipalities that experienced the most significant state cuts and limits saw the highest numbers of employee reductions.

Although the results are not entirely generalizable, the findings provide a good starting point for future research. Determining how widespread some of the more innovative practices are and whether there are predictable patterns to the adoption of individual strategies would be beneficial. However, predicting the precise steps municipal leaders will take in a prolonged financial decline is difficult, if not impossible. The lesson learned from the research thus far indicates that municipal leaders must be proactive in monitoring their environment for fiscal changes, be conservative in their revenue estimates and fund balances, and be open to new ideas from both inside and outside the organization.

### Declaration of Conflicting Interests

The author declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

### Funding

The author received no financial support for the research, authorship, and/or publication of this article.

### References

- Amiel, Lindsay, Steven Deller, and Judith Stallman. 2009. *The construction of a tax and expenditure*

*limitation index for the U.S.* (Staff paper no. 536). Madison: Department of Agricultural and Applied Economics, University of Wisconsin-Madison.

- Ammons, David N., and Trevor A. Fleck. 2010. *Budget-balancing tactic in local government*. Chapel Hill: School of Government, University of North Carolina.
- Bartle, John R. 1996. Coping with cutbacks: City response to aid cuts in New York State. *State and Local Government Review* 28:38–48.
- Borins, Sanford S. 2008. *Innovations in government: Research, recognition, and replication*. Washington, DC: Brookings Institution Press.
- Boyne, George A., Julian S. Gould-Williams, Jennifer Law, and Richard M. Walker. 2005. Explaining the adoption of innovation: An empirical analysis of public management reform. *Environment and Planning C: Government and Policy* 23:419–35.
- Clark, Terry N., ed. 1994. *Urban innovation: Creative strategies for turbulent times*. Thousand Oaks, CA: Sage.
- Cyert, Richard M., and James G. March. 1963. *A behavioral theory of the firm*. Oxford, England: Blackwell.
- Damanpour, Fariborz, and Marguerite Schneider. 2009. Characteristics of innovation and innovation adoption in public organizations: Assessing the role of managers. *Journal of Public Administration Research and Theory* 19:495–522.
- Downes, George W., and David M. Roche. 1984. Theories of budgetary decision-making and revenue decline. *Policy Sciences* 16:329–47.
- Ebdon, Carol. 2000. The relationship between citizen involvement in the budget process and city structure and culture. *Public Productivity and Management Review* 23:383–93.
- Elazar, Daniel. 1984. *American Federalism: A view from the states*. 3rd ed. New York, NY: Harper and Row.
- Feiock, Richard C., and Jaehoon H. Kim. 2001. Form of government, administrative organization, and local economic development policy. *Journal of Public Administration Research and Theory* 11:29–41.
- Feiock, Richard C., Moon-Gi Jeong, and Jaehoon Kim. 2003. Credible commitment and council-manager government: Implications for policy instrument choices. *Public Administration Review* 63:616–25.
- Forrester, John P., and Charles J. Spindler. 1990. Assessing the impact of the elimination of GRS

- on municipal revenues. *State and Local Government Review* 22:73–82.
- Hendrick, Rebecca. 2004. Assessing and measuring the fiscal health of local governments: Focus on Chicago suburban municipalities. *Urban Affairs Review* 40:78–114.
- Hoene, Christopher W., and Michael A. Pagano. 2010. *Research brief on America's cities: City fiscal conditions in 2010*. Washington, DC: National League of Cities.
- Hoene, Christopher W., and Michael A. Pagano. 2011. *Research brief on America's cities: City fiscal conditions in 2011*. Washington, DC: National League of Cities.
- Kenyon, Daphne A., and Adam H. Langley. 2010. *Payments in lieu of taxes: Balancing municipal and nonprofit interests*. Policy focus report. Cambridge: Lincoln Institute of Land Policy.
- Krebs, Timothy B., and John P. Pelissero. 2010. Urban managers and public policy: Do institutional arrangements influence decisions to initiate policy? *Urban Affairs Review* 45:393–411.
- Levine, Charles H. 1978. Organizational decline and cutback management. *Public Administration Review* 38:316–25.
- Lindblom, Charles E. 1959. The science of “muddling through.” *Public Administration Review* 19:79–88.
- Maher, Craig S., and Steven C. Deller. 2007. Municipal responses to fiscal stress. *International Journal of Public Administration* 30:1549–72.
- March, James G., and Herbert A. Simon. 1958. *Organizations*. Oxford, England: Wiley.
- Moon, M. Jae, and Peter deLeon. 2001. Municipal reinvention: Managerial values and diffusion among municipalities. *Journal of Public Administration Research and Theory* 11:327–52.
- Morgan, David R., and William J. Pammer, Jr. 1988. Coping with fiscal stress: Predicting the use of financial management practices among U.S. cities. *Urban Affairs Quarterly* 24:69–86.
- Nelson, Kimberly L., and James H. Svara. 2012. Form of government still matters: Fostering innovation in U.S. municipal governments. *The American Review of Public Administration*, 42 (3): 257–281. <http://arp.sagepub.com/content/early/2011/03/10/0275074011399898>.
- Pagano, Michael A. 1988. Fiscal disruptions and city responses. *Urban Affairs Quarterly* 24:118–37.
- Pammer, William J. Jr. 1990. *Managing fiscal strain in major American cities*. New York, NY: Greenwood Press.
- Scorsone, Eric A., and Christina Plerhoples. 2010. Fiscal stress and cutback management amongst state and local governments: What we have learned and what remains to be learned? *State and Local Government Review* 42:176–87.
- Scott, W. Richard, and Gerald F. Davis. 2007. *Organizations and organizing: rational, natural, and open system perspectives*. Upper Saddle River, NJ: Pearson Education.
- Simon, Herbert A. 1957. *Models of man, social and rational: Mathematical essays on rational human behavior in a social setting*. New York: Wiley.
- Skidmore, Mark, and Eric Scorsone A. 2011. Causes and consequences of fiscal stress in Michigan cities. *Regional Science and Urban Economics* 41:360–71.
- Walker, Richard M. 2008. An empirical evaluation of innovation types and organizational and environmental characteristics: Towards a configuration approach. *Journal of Public Administration Research and Theory* 18:591–615.
- Watson, Douglas J. 1997. *Innovative governments: Creative approaches to local problems*. Westport, CT: Praeger Press.
- Wolman, Harold. 1980. Local government strategies to cope with fiscal pressure. In *Fiscal stress and public policy*, pp. 231–248. ed. Charles H. Levine and Irene Rubin. Beverly Hills, CA: Sage.
- Wolman, Harold. 1983. Understanding local government responses to fiscal pressure: A cross national analysis. *Journal of Public Policy* 3:245–63.
- Wolman, Harold. 1986. Innovation in local government and fiscal austerity. *Journal of Public Policy* 6:159–80.
- Zullo, Roland. 2009. Does fiscal stress induce privatization: Correlates of private and intermunicipal contracting 1992–2002. *Governance: An International Journal of Policy* 22:459–81.

## Bio

**Kimberly Nelson** is an assistant professor of public administration at Northern Illinois University. Her research and teaching interests include local government management, innovation, and local government form. Her work has appeared in *Urban Affairs Review*, *The American Review of Public Administration*, and other journals.