UNIVERSITY OF ILLINOIS

THIS IS TO CERTIFY THAT THE THESIS PREPARED UNDER MY SUPERVISION BY

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ENTITLED: THE BUDGETARY PROCESS AT THE LOCAL GOVERNMENT LEVEL

MAHOMET, SAVOY, ST. JOSEPH, TOLONO

IS APPROVED BY ME AS FULFILLING THIS PART OF THE REQUIREMENTS FOR THE

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The budgetary process at the local government level

AMANDA SAVOY, ST. JOSEPH, ILLINOIS

Wildavsky describes the budget as "a public means of prediction, a source of enlightenment, a means of negotiation, a mechanism of control, an escape from restrictions, a means to action, a brake on progress, even a prayer that the powers that be will deal gently with best aspirations of fallible men."

Wildavsky's description of the budgetary process must be looked at in terms of its role at the local government level. For a more intimate view of local governments and their budgetary processes, field research was conducted in March and April of 1982 in four small municipalities in Champaign County, Illinois. All of the municipalities are under 2,500 population and are located in a nonmetropolitan and primarily agricultural area. However, by no means can these municipalities be regarded as a statistically representative sample for all of Illinois' nonmetropolitan cities and villages. The four municipalities include the villages of St. Joseph, Mahomet, Tolono, and Savoy. (See Table I, Appendix, p. 19.) Interviews were conducted in each community with the officials who were most knowledgeable about the budgetary process—in all four cases the interviews were held with the mayors of each village. This paper, then, has a dual purpose: to describe and appraise the budgetary process at the local government level.
THE ROLE OF LOCAL GOVERNMENTS

While larger municipalities have had years of experience, local governments, including cities, villages, towns, and townships, are not only doing more, but they are being called on to work harder at their traditional functions. Housing, zoning, public safety, traffic control, and public welfare are only parts of the current range of problems for which more acceptable solutions must be found. In 1977, the United States Bureau of the Census counted 6,620 units of local government in Illinois including: 102 counties, 1436 townships, 2745 special districts, 1063 school districts, and 1274 municipalities. Local governments in Illinois are numerous, diverse, and important in terms of the overall federal system.

Because of the shift in federal philosophy to decentralized programs involving greater local control, local governments will become increasingly important in the next decade. For example, the "New Federalism" policies proposed by President Ronald Reagan would shift authority from the federal government to the nation's states and cities. This decentralization of government would provide local government with fewer federal dollars but more freedom to decide how the dollars would be spent. Therefore, with the rise of the "New Federalism," local governments have inherited a major planning responsibility, and the budget can be the key to discharging this responsibility well.

While larger municipalities have had years of experience
In Illinois and Indiana, another new proposal is under
consideration aimed at facilitating the more effective
operation of local government. Under the structure of
the new proposal, local government officials would be
agreed upon by the local citizens. This change is
expected to provide an indication of the effec-
tiveness of local governments in their increasing role.

The four municipalities all face the problem of limited resources versus infinite demands. The allocation of resources is a policy problem involving all levels of government. A municipality is the unit of government that is closest to the individual citizen, and the one in which he can actively and effectively participate with relatively little difficulty. The participatory aspect of local government is heightened by the widespread use of property taxation, which itemizes tax rates and liabilities on a function by function basis so that the taxpayer can readily identify the services financed with his payments.3

BUDGETING BY LOCAL GOVERNMENTS IN ILLINOIS

Local governments are crucial to the daily lives of the citizens in each community. Most of the services of government which the ordinary citizen is dependent upon each day are provided by the local units such as the village of St. Joseph. There, police, fire protection, street maintenance, traffic control, and the operations of sewage and water systems fall within the range of local government functions. So local government is important in the daily lives of all who live in Illinois, and in Champaign County. The quality and capacity of
The budget system provides the allocation of resources to meet the competing demands; moreover, the budget takes public policy and spells it out in dollars and cents. In short, budgets can be informative in telling something about the goals a village chooses to pursue and the way it distributes the burden among those who pay its bills.

In theory then, the most important policy-making instrument for assuring responsible and responsive government is the budgetary process. Budgeting can be the occasion for planning, for improving the management of government, for the formulation of policy and for building the political support of the citizenry. However, at the local level there are certain deterrents to the realization of budget's role as a policy-making instrument. One deterrent involves the status of local governments within the federal system. Local governments are "creatures of the state" and do not derive their legal authority from their own sovereign status. In other words, local governments in Illinois are extensions of state government and therefore can only exercise power delegated or implied by the state.

The legal creation and authorization of municipalities by the state, along with state-imposed limitations on localities, are supported by a judicial opinion referred to as "dillon's
and (3) are indispensable to the declared objects and purpose of the corporation. ⁵ In Illinois, a place like Mahomet must have at least 400 persons living within its area, and there must be at least 30 different persons who are property owners within its area, for it to be incorporated. Areas of at least 2,500 may incorporate as cities, those of less than that figure as villages. Therefore, local governments are not isolated from state government; in fact, their legal basis is from the state of Illinois. So municipalities like those in this study have no inherent powers, and can only perform those functions which the Illinois General Assembly has authorized for them.

When compared with municipalities of greater size and complexity, the small, rural towns of St. Joseph, Mahomet, Savoy, and Tolono may seem rather insignificant, especially when one considers that the four villages have a combined population of less than 10,000. However, the following can be concluded about the importance of local governments—of any size:

"Local governments affect the lives of citizenry more directly and intimately than do any other levels of American government. . . . Health, welfare, education, and the well-being of one's family are more closely related to and serviced by local government. . . . Therefore, local government must be more efficient and effective than either state or national government if it is to retain the support of the citizenry on whom its existence depends." ⁶

The significance of local governments can be reflected in the
The importance of local government planning is increasingly evident at the citizen level. In recent years local government budgeting has become increasingly important because of the decencralization of government invoking greater local control and also because of the awakening of local governments to the need for sound financial planning and management.

The mayors interviewed in each of the municipalities agreed that the budgetary process is an important part of village government. But the economic situation does not facilitate the budgetary process. The mayors and other local government officials face a declining level of economic activity, and a declining tax base. In addition, demands for governmental services keep increasing. Citizens want better police and fire protection along with improvements in other services. Inflation adds greatly to the costs of local government—and provides another obstacle to overcome in the formulation of the budget. Moreover, the budget is a political document and budget-making is a political process. That is, every local official is caught in the middle of a continuing controversy which arises from the conflicting goals of citizens. The citizen wants services and facilities which improve his or her way of living, but that same citizen often objects to an increase in his or her taxes. This leaves the local official with the dilemma of meeting these demands for services while holding taxes down. The allocation of resources as set out in each municipality's budget involves choices between alternatives. Whether they be monetary, psychological, social, or political
costs, there are always costs involved in the choice between alternatives. In other words there is no such thing as a cost-less alternative.

The choice between alternatives occurs at all stages of the budgetary process. Budgeting at the local level involves the selection of ends and the selection of means to reach those ends. Budgeting systems, then, are systems for making choices about ends and means. Series of intricate processes that link both political and economic values are integral to budgetary systems. Therefore, making budget choices about ends and means specifically involves making political decisions that allocate scarce resources within the public sector among alternative uses. Budgeting at the local level, then, must be considered within the context of a system containing numerous components and relationships. One component of this system is the availability of revenue for which to base the budgetary decisions on. Local governments, then, are bound by the sum of all resources available to them.

MUNICIPAL REVENUE

The sources and availability of revenue for local governments are two considerations which must be taken into account when policy choices are being made. Local governments are primarily self-supporting units of government because most of the revenues which support the local government are collected in some form from the jurisdiction itself. For example, local
governments in Illinois rely, at least in part, on property taxation. It is clearly the most important source of revenue for the four villages in this study. State aid is the second most important source of local government revenue. This can take the form of grants to support general local government, grants for specific functions, and state tax money that is returned to the jurisdictions where it is collected. Local governments in Illinois also receive revenue from user charges, utility charges, intergovernmental aid, and from borrowing. Revenue policies can provide an example of policy outputs that have direct feedback to decision-makers. Moreover, revenue policies cannot only reflect the officials' decisions on tax rates, service charges, and borrowing, but also the burden the taxpayers are willing to pay in each village.

There are certain limitations to any local government's revenue capacity. Local governments are generally required to operate within a balanced budget, a requirement set by the state. The revenue capacity of local governments is further constrained by the state's limitations on local taxation. Local governments can tax only for purposes and in the manner specified by Illinois law. Local governments cannot choose to adopt a new income tax or sales tax that is not specifically prescribed by state law. Even if the state has authorized the levy of such taxes by local government, the state may impose upper limits on each tax or specify the uses for each tax. Thus, the property tax, the primary revenue source for local government, is subject to state regulation, e.g., in Illinois,
the state regulates the levels of property taxes, and the kinds of property taxes that are subject to the property tax. Because of excessive state influence over local government revenues, the municipalities often face a revenue bind. In this sense, it is easier for municipalities to spend money than it is to obtain money in the first place. Furthermore, program expansion and improvement will very often be constrained by the availability of revenue for local government.

**Tax, Nontax, Intergovernmental Revenues**

The available revenue for municipalities usually falls into one of three basic categories. The three categories of municipal revenue include (1) tax, (2) nontax, and (3) intergovernmental. Tax revenues are of two types: property and nonproperty. Property taxes in Illinois apply to real property (land and improvements, including structures). As specified, property taxes are the major revenue source utilized by local governments. Moreover, the property tax is the only major tax allowed for use by local governments in the State of Illinois. Besides property, there are three other sources for the levying of taxes: sales, income, and privileges. Nonproperty taxes include taxes on income (individual and corporate), on sales, and on motor vehicle registration, operators' licenses, and on business and occupational licenses (taxes on privileges).

Nontax revenues is the second category of municipal revenue. Nontax revenues usually encompass all the current charges and miscellaneous general revenues collected by local
governments. Current charges, as defined by the Bureau of the Census, "are amounts received from the public for performance of specific services benefitting the person charged, and from the sales of commodities and services. The following are the specific categories of current charges: education, hospitals, sanitation, sewerage, local parks, and recreation, monies received from sale of services to other local governments through contractual arrangements, and parking facilities."^{8} Miscellaneous general revenues are locally generated revenues which may include interest earnings on deposits and securities, receipts from the sale of real property, and special assessments which include contributions collected from the owner of property benefitted by specific public improvements to defray the costs of such improvements. The third category of municipal revenues is intergovernmental revenues of two types: federal and state. In general, intergovernmental revenues help local governments pay for more of the costly, collectively consumed services.^{9} Of the three categories of municipal revenue briefly described, the four villages in this study did not rely heavily on intergovernmental revenues but were basically self-supporting.

Property Tax in Illinois

In fiscal year 1979, the latest national profile, Illinois citizens paid on the average $998 per person for State and Local taxes. Property taxes are on the rise almost everywhere, but Illinoisans rank behind 17 other states on a per person basis and only slightly above the national average.
The latest Tax Foundation report (1978) on the subject shows that on the average, Americans paid $305 in property tax per person. The Illinois average was $325. The property tax as already stated is the most important source of local government revenue and a large proportion of locally raised taxes.

(The Property tax) is a tax which is often difficult to justify either in terms of the benefits received by those who pay it, or by its fairness in hitting those who have the greatest ability to pay. It is, however, a fact of life in local government, and it has favorable aspects; it is a productive source of revenues. Much of this revenue goes for municipal services which are directly or indirectly related to property. . . . Although everyone pays the property tax—property owner, renter, businessman, and consumer—most studies show that the property tax is "progressive," that is, poorer people pay a higher proportion of their income on property taxes than wealthy people do.10

One look at a citizen's property tax statement will substantiate the claim property tax revenue pays for many municipal services. The local property tax statement shows the citizen's affiliation with not only the village government but with the school district, county government, municipal township government, and the numerous special districts. In the Village of Mahomet, for example, property taxes fund ten different local government services. The property taxes paid in Mahomet are distributed to the Champaign County government, the Champaign County Forest Preserve District, the Community college district (505), the Unit School District #3, the Cornbelt Fire Protection District, the Village of Mahomet, the Township of Mahomet, and to Roads and Bridges, and to the library. It is obvious that the property tax is distributed over a wide variety of overlapping local government units in Champaign county.
The constitution of Illinois in Article IX authorizes a property tax and provides for certain exemptions from the property tax. The sole effect of such a statement is to impose limitations on the power to tax, since the general power is inherent in the legislature. Section 6 of Article IX of the Illinois constitution limits the kinds of real property which the General Assembly can exempt from taxation to government property and that used by agricultural societies and for school, religious, cemetery, and charitable purposes. Local governments in Illinois then do not have much control over certain aspects of the property tax. State laws specify the types of property that are taxable and the types that are exempt. Some critics of the property tax feel that state legislators sometimes grant property tax exemptions without adequate consideration of the consequences for fiscal capability of local governments.

Another problem facing the property tax is that the administration of the property tax is a complex task. The determination of the value of property -- assessment -- is a difficult problem involved in property tax administration. The tax value of property is defined as the price at which property would ordinarily be exchanged for in a sale between a willing buyer and a willing seller. The amount of revenue to be collected through the property tax is called the property tax levy. The property tax levy is usually determined through the deliberations of local government authorities during the budget-making processes. Various agencies and departments of local
government prepare budget requests, and the requests are then examined and evaluated by elected officials of the local governments. After public hearings are held, the size of the property tax levy for the coming fiscal year is decided upon. The sum total of tax values of properties in the local jurisdiction constitutes the property tax base for that jurisdiction. In order to determine the size of the tax base, an assessment must be made of the tax value of each piece of taxable property in the jurisdiction. The property tax rate is determined by dividing the tax levy of the jurisdiction by the tax base of the jurisdiction. The property tax is a flat rate tax—the same rate is applied to the tax value of all properties in the jurisdiction. Therefore, the property tax rate is set after the government has determined how much money it will spend.

An accurate assessment of property value is indispensable to the equitable operation of the property tax process. Moreover, accurate assessment is fundamental to fairness in property taxation. The cost of assessment, both political and financial, are high. Assessment positions are held by elected officials, and many property tax reformists feel that this holds the actual assessments down to a lower level than an actual assessment would reveal. Since the assessor is an elected position rather than a civil service position, the assessor may hold down his assessments of property in order to satisfy his constituency. In other words, reelection pressures might interfere with the performance of one's assessment duties.
The property tax, despite some of its problems, is still important at the local government level. Village officials must be concerned about the property tax within their jurisdiction because of its relationship to the government services that are financed from property tax revenues. Property owners—commercial, residential, or industrial property owners—constitute an impressive and powerful interest group with local government. Property owners can directly see the increases in property taxes from year to year. In some instances, there is an ongoing war between the mayor of a village and the property owners of that village. The property owners may put the pressure on for a reduction of property taxes. The mayors on the other hand are struggling to make ends meet and need additional revenue sources to provide adequate services to meet the demands of the local citizens.

Sales and Income Taxes

Other revenue sources for local government are the returns from the sales and income taxes administered by the State of Illinois. During fiscal year 1980, $2.01 billion was deposited from the 4% corporate income tax and 2½% personal income tax, and $2.368 billion was deposited from the state sales tax. The state sales tax has dropped in Illinois on food and medicine and now stands at two cents for each $1 spent and 4 cents for other goods. In addition, most local governments can levy an additional 1 cent for every dollar spent. Income taxes and sales taxes are broad-based taxes, since most
people in a community become taxpayers under the two taxes in ordinary day-to-day living.

Local governments frequently look with interest at income and sales taxes as an alternate revenue source. The imposition of these taxes becomes a revenue alternative when local governments are lacking revenue or when the property tax generates widespread dissatisfaction. However, once again the imposition of local sales and income taxes is not possible, since the state has not as yet granted them the authority to impose these taxes. Local governments in Illinois are lucky in that they can levy an additional one cent tax on the four cent state sales tax. This is an excellent source of revenue for the villages because they receive the full one cent back on each dollar spent within the community. The state income tax also provides additional revenue sources for the villages. The State of Illinois redistributes a certain percentage of the income tax to the local governments in Illinois.

User charges and non-property miscellaneous taxes can also contribute to the overall revenue picture for local governments in Illinois. During fiscal 1980, $404 million was collected from the 7½ cent/gallon motor fuel tax, and $465 million was collected from the 5% public utility tax. User charges are governmental revenues which are fees for services to cover all or part of the cost of providing such services. The decision to pay for a service with a user charge assumes that the beneficiaries of the service are identifiable and thus there is a
rational basis for the fee structure.

Two considerations suggest that local governments may make greater use of user pricing in the future than they have made in the past. First, if local government tax rates rise and if local citizens thus become more concerned with efficiency in local government decision making, user charges may be adopted because of their allocation efficiency qualities. Second, if the national government expands its income redistribution and maintenance programs through systems such as the negative income tax, which dispenses direct money transfers, local governments may find it more acceptable to employ user charges for the financing of private benefit services.

At four year intervals, the Advisory Commission on Intergovernmental Relations surveys public opinion regarding its tax preferences. Citizens reported that they preferred the sales tax first, income tax second, and property tax a distant third. Moreover, many tax experts are critical of the way state and local governments raise taxes. They argue that our state tax systems are regressive and inelastic. A regressive tax is one in which more taxes are paid by lower-income persons as a proportion of personal income than by higher income taxpayers. An inelastic tax is a tax where the revenue raised does not expand or rise at a rate equal to or greater than increases in personal income. State officials and local officials are reluctant to improve the overall state and local tax systems because states and localities compete with each other for business and industry. If a state's or community's taxes are very much higher than those of its neighbors, it risks losing some of its taxpayers to lower states and communities.
Intergovernmental Revenues

Another factor evident in the discussion of municipal revenues is not only the political, but the financial interdependency of the federal system. This interdependency is necessary to deal effectively with state and local problems. Local governments in Illinois no longer depend on their taxes alone but get a substantial portion of their funds from state and the federal govern-15ments. Intergovernmental revenue transfers generally flow from higher to lower levels—from the nation to the state to the localities. Federal funds, more than state funds, are likely to be redistributed according to program needs. Some state transfers are little more than a tax-collection service—the states collect specific taxes and return them directly to the local units in which they were collected, and so are not redistributive. The four villages studied here did not exhibit a great reliance on federal intergovernmental revenue. They tended to depend more on the state transfers which were simply returned percentages of the taxes collected within that jurisdiction.

The local governments in this study did not show a heavy dependence on federal revenues, therefore, only a brief description of the types of federal grants-in-aid. Categorical grants are open-ended: The federal government agrees to pay a fixed percentage of certain program costs without an annual limit on what can be spent. Some of the largest categorical grant programs are in public assistance and medical care. An
example of a categorical grant is the states' administration of the "Medicaid" program under federal guidelines for people who are "medically needy" or "medically indigent." A second type of federal grant is the project grant. To get a project grant, the state or local unit must apply for the funds. Project grants are subject to a great deal of federal bureaucratic influence. Project grants are especially designed for experimental programs and demonstration projects.

Two other types of federal grants-in-aid include block or formula grants and general revenue sharing. Block grants are made to a general area of activity and allow state or local governments to allocate the funds as they wish among a list of approved programs. With block grants, Congress retains some broad policy control and federal administrators continue to review state and local plans to ensure compliance with federal guidelines. At the same time states and localities have some choice to fit the programs to local needs. Also important is the fact that the block grant funds are allocated to states and localities as a matter of entitlement by formula. General revenue sharing is the fourth type of federal grants-in-aid. The federal government shares its revenues with states and communities. Federal revenue sharing is distributed according to a formula determining how much individual states and communities would receive. The formula that was worked out used population, tax effort of state and local governments, and personal income. The money then went to the states, who in turn passed along
two-thirds of it to the general purpose governments—counties, cities, villages, and townships. Of all the federal grants-in-aid outlined above, federal revenue sharing is the most common source of federal intergovernmental revenue for the localities in Champaign County.

State aid to local governments is another important source of revenue for the villages in this study:

"Because of the variation in local resources and needs, the disadvantages of local tax competition, and the cost of administering multiple tax systems, general purpose or approximately general purpose state aid has developed in almost all the states. This aid may be for any legal municipal purpose with no reporting requirements, or for special functions such as roads, libraries, or police, but with no strings attached so that the budgeting and planning for these functions is not affected by the presumed constraints. Such aid is distributed on a formula basis to all local governments; in effect it is revenue sharing of the statewide tax system."

Summary

A municipality's total general revenue can then be classified into two categories: general revenue and intergovernmental revenue. General revenue includes property and sales taxes, charges and miscellaneous revenues, and utility revenues. Intergovernmental revenue can either be from the federal government or from the state. Regardless of the revenue sources for each municipality, the question still remains as to how these revenues are spent in each community. Over the past years, state and local revenues have been increasing. Therefore, it is no surprise that state and local spending has also increased. Education, highways, public welfare, and health are four
functions which take up more than two-thirds of state and local expenditures. Moreover, in municipalities of any size, there is no doubt that certain services should be offered. Police and fire protection, street maintenance, and traffic control are examples of such basic functions. Other functions such as the operation of water and sewer systems, a recreation program, and a library are not so essential but commonly offered. Still others, such as programs to improve human relations or to attract industry to the community, are less often engaged in and are frequently controversial. Furthermore, the changing conditions and environments of the municipalities often produce new pressures for municipal services.17

MUNICIPAL EXPENDITURES

The discussion of revenues for local governments has outlined the availability of resources on which to base budgetary decisions. Municipal expenditures then are directly related to the availability of municipal revenues, and they are another component of the system which must be considered when examining the budgetary process. To identify the expenditure categories of any municipality, one should examine the budget of each municipality. In almost every budget, expenditures are classified according to one of three ways. The classification of expenditure schemes include the organization unit classification, the "object" or "line-item" approach and the functional or summary classification. Each scheme is used for a different purpose and all may be used in a budget if so desired.
Classification of Expenditures

Jesse Burkhead, in his book Municipal Budgeting, outlined four major objectives which are served by classifying expenditures, including:

Program formulation: The mayor has responsibility for proposing to the city council that specific programs be conducted in the forthcoming fiscal year. The budget must show the level of such programs and the proposed changes, and the budget message should justify the changes.

Execution: Expenditure classification should facilitate the execution of the budget. Department heads must know the amount of resources that are available to them during the forthcoming fiscal year and the responsibilities they are expected to assume. This may include the setting of program targets for providing municipal services to specific neighborhoods or specific clientele groups.

Accountability: An expenditure classification must facilitate accountability. Specifically designated persons are responsible for obligating appropriations, for authorizing expenditures and for the disbursement of monies. Budget accounts must be maintained in such a way that personal and legal responsibility can be established for accounts that can be subjected to audit.

Measurement of Outcomes: Budget accounts must be organized to facilitate the measurement of outcomes. Both the executive and the citizenry should be as fully informed as possible as to what the municipality is doing with its revenue dollars, and what the consequences are. This is a difficult matter, since even in a small municipality it is not easy to demonstrate that police protection or fire protection or sanitation services will be improved next year. Nevertheless, there are budget classifications that will provide at least limited insight into the changes in efficiency and adequacy of municipal services.

Most budget classification systems include a presentation of accounts based on organizational units--the department and agency structure of that government. The organizational classification is important for implementation; most village
councils authorize department and agency heads to incur obligations, and authorize expenditure, or both, and accounting records are generally maintained on the basis of organizational units. Within the department and agency structure of a municipal government, the traditional budget classification employed is the "object-of-expenditure" or "line-item" classification. This classification system centers on the purchase of inputs—personal services, office supplies, printing and binding, equipment and the like. Since different departments and agencies tend to purchase similar kinds of inputs (although in different combinations), it is often possible to establish a uniform accounting system for the whole municipal government. The object classification is essential for the maintenance of accountability in any government. In addition to classification by organizational unit and object classification, all municipal budgets should have a summary classification for both executive and village council overview and for informing the citizens. This classifications list program characteristics and their periodic changes over time. A functional classification is both an informational exhibit and a policy guide, and it will reflect the emphasis and the social and political philosophy of the executive. The functional classification can be used as a framework for discussing municipal administration, municipal government programs, goals and objectives, and for enlisting citizen participation in a consideration of budget proposals. The functional classification of a municipal budget may include the following: police, fire, education, highways, public welfare, hospitals, health, sewage,
sanitation other than sewage, parks and recreation, housing and urban renewal, water transport and facilities, libraries, financial administration, general control, general public buildings, interest on general debt, and other and unallocable expenditures. 19

LOCAL GOVERNMENTS: THE BUDGETARY PROCESS

After examining both the revenue and expenditure sides of a budget, it is obvious that the budget can involve more than just a simple accounting statement for taxes and expenditures. A municipal budget can be viewed from several angles. "In its most literal sense," according to Aaron Wildavsky, "a budget is a document, containing words and figures, which proposes expenditures for certain items and purposes." From a larger social perspective, budgeting is "the translation of financial resources into human purposes (or) a series of goals with price tags attached." 20 Therefore, in its simplest form a budget is a document that refers to the financial condition of a local government, and it includes information on revenues, expenditures, activities, and purposes, and goals. Moreover, the budget is at the heart of the political process of local government. It involves many actors working to deal effectively with problems while trying to resolve conflicts and facilitate cooperation.

Budgetary Process: Actors and Their Inputs

The major actors involved in the budgetary process usually include the chief executive (mayors or village presidents), the legislative bodies (city councils or the boards of trustees),
and the various agencies or departments (police, civil defense). The major actors in the budgetary process proceed through a series of steps and interrelations when formulating the budget. Of enormous importance for actual outcomes is the fact that revenue decisions are made before expenditure decisions. Therefore, estimates of anticipated revenues are submitted to the office of the chief executive and constitute the first significant input in the budgetary process. In the four villages studied, the mayor either presented the budgets to the municipal councils, or the councils themselves played more direct roles in the budgetary process. In general, though, the mayors of each village studied exhibited the greatest amount of authority over their budgetary process in their communities. However, according to John P. Creecy, the problem confronting the executive in his formulation of the budget is largely one of recommending a budget which (1) is balanced, (2) at least maintains existing service levels, (3) provides for increases in city employees' wages if at all possible, and (4) avoids tax increases (especially property tax increases in the belief that increased property taxes cause business and industry to move from the city, reducing its tax base). The balanced budget requirement is the most stringent requirement to meet because the constitution of the State of Illinois specifies that revenues and expenditures for local government budgets must match—there must be no deficit spending. After the mayor receives the revenue estimates he then issues to his department heads a set of budget instructions. He may choose to include guidelines on service increases, levies
of salary and wage increments he proposes to grant, and other matters. His instructions are shaped by the revenue estimates, and they guide the actions of the department heads. The department requests are then returned to the chief executive who then begins his preparation of the budget proposal. The mayor's office will not likely inquire into a department's budget if no increase is requested and if the total city budget is close to being in balance. However, cuts or increases are sometimes necessary to balance the budget. If cuts are necessary, the mayor usually sets up some well-defined priorities which include cuts in maintenance and equipment, operating expenses, and supplies and materials before cuts in nonadministrative or administrative salaries. After the chief executive has reviewed and balanced the budget, the budget is reviewed by the council. After this review, the budget is generally enacted with few changes from the council. 23

Studies of municipal budgeting have revealed that budget-making at the municipal level implies a high degree of reliability. The following five conclusions have been made regarding municipal budgeting:

1. Many items are accepted as uncontrollable because of previous commitments or the feeling that they support essential programs and therefore do not require careful consideration.

2. Municipal budgeting practices focus on the large budget items, and minimize their growth from one period to the next.

3. Decisions tend to be based on concrete aspects of a program familiar to some members of the board, even if they constitute only a small portion of the large budget items.
(4) The focus tends to be on short-range expectations rather than long-range developments that may occur within each field of service.

(5) There is the tendency in municipal budgeting to focus on the dollars and cents of budget requests, rather than on the elements of programs that the funds will purchase.\textsuperscript{24}

The Budget as a Policy-Making Instrument

The budgetary process for communities cannot escape the political process of translating resources, opportunities, preferences, and impulses into goals and programs. In this sense, the budgetary process is an instrument of the policymaking apparatus available to local government officials. The budgetary process is often considered to be an important policymaking instrument at any level of government. Moreover, the budget is an expression of the two-way responsibility of the executive and the legislative units of municipal government. Therefore, it is essential to view budgeting as an extension of policy decisions that have been made and not merely as routine exercise in accounting.\textsuperscript{25}

Students of budgeting in terms of the policy process have generally used one of three basic perspectives described by John P. Crecine, namely (1) the "optimizing process," (2) "budgeting as an externally determined event," and (3) "budgeting as an internal bureaucratic process."\textsuperscript{26}

The notion that budgets "optimize" community values reflects the idea that public budgets are a function of public need and represent decision-makers' efforts to bring public resources into line with overall community goals.
The "externally determined" view is that budgets result from economic and political forces. Citizens' demands for service, the power of community elites, the demands of various groups, and responses to economic pressures are some explanations for a budget's final shape. Demands or request for services and expenditures are channeled through mayors, councils, and agencies, and the sum of these pressures determines the level of public expenditures.

In the third model, that of budgeting as an internal bureaucratic process, external forces are viewed as unimportant, and instead the budget is explained as the outcome of rules and strategies for decision-making employed by agencies, chief executives, and legislative bodies.27

The budgetary process for local governments in general provides the framework for the analysis of the budgetary capacity of the villages of St. Joseph, Mahomet, Tolono, and Savoy. The next step is to describe and appraise the budgetary processes in each of the four villages, while evaluating the capacity of the local governments in terms of their increasing authority within the federal system. With the increasing decentralization of the federal system and the subsequent increase in authority and discretion for the local government level, do local governments have the capacity to fit the needs of the citizens of each community?

MAHOMET, ST. JOSEPH, TOLONO, AND SAVOY: THE BUDGETARY PROCESS

All four villages in this study, Mahomet, St. Joseph, Tolono, and Savoy, have the mayor-council form of government, as opposed to the commission and council-manager forms of governments. The mayor-council is one of the most popular forms of government in the state of Illinois. The governing
body prescribed for villages, however, is the board of trustees. The board of trustees for each of the four towns is composed of six members who are elected at large for staggered four year terms. The voters of each village also elect a village president who presides over the legislative board or council. Also elected in each case are a clerk and a treasurer. The interviews for this study were conducted with the village presidents of Mahomet, St. Joseph, Tolono, and Savoy, who had the primary influence over the budgetary process in their village. In some instances, additional interviews were conducted with certain members of the villages' board of trustees. (See Appendix for names.)

Revenues

St. Joseph, like the other three, receives revenues from three major sources: real estate taxes, sales taxes, and income taxes. The real estate (property) taxes are the major form of local government revenue. After assessments on property are made, Champaign County collects and distributes the tax money to the local governments within that jurisdiction. The second major area for revenue is the 1¢ Illinois retail sales tax that the villages can levy. The villages get the full 1¢ of the sales tax returned to their jurisdiction. The third major source of revenue is the state income tax. Illinois redistributes a certain percentage of the state income tax back to the villages. They also receive revenue from the motor fuel tax and from various
user charges and general obligation bonds. Returns of the motor fuel tax to the villages are generally used to repair and replace streets and sidewalks. In St. Joseph, revenue from the water/sewer building provides a significant amount of revenue for the village.

Federal revenue sharing was another source of revenue for the four villages. However, the four villages considered federal revenue sharing funds to be a windfall of income. The village president of Tolono, for example, tries to avoid the reliance on federal money. He generally does not make federal funds a part of his budget it at all possible. Instead, he uses federal revenue sharing funds to purchase extras for the village (i.e., a new police car). Approximately 10% of local revenue is from federal funding. This lack of dependency on federal funds is a curious phenomenon in an era where most municipal finance is contingent on the availability of federal funds. The four villages could still effectively run without federal funds which is quite a difference from most larger municipalities. The villages have tended to avoid federal revenue sharing as another source of revenue and instead have relied upon the property tax and the sales tax returns. With federal funds being cut, the financial position of many larger cities has been severely limited. At the village level, however, there never has been the extensive reliance on federal funds.

Given the resistance to increases in property taxes, the village presidents agreed that some reforms would be beneficial to the system. The property tax is the mainstay of local
government and has been the major tax system available to local governments over the years given the elimination of the personal property tax in Illinois. The village presidents felt that the property tax simply is not equitable, because everyone is not paying a fair share. The village president of Mahomet, for example, would like to see the property tax abolished. He would prefer taxation based on income alone. The village president of Tolono agrees that more state sales tax, where everyone pays the same amount, would be more equitable. In addition, the major complaint about the property tax is that the state legislature limits the property tax levy while excluding themselves from any comparable limitations.

Budgetary Processes

In each village, the village president has the most input into the budgetary process. However, the board of trustees for each village also interacts with the president in the budgetary processes of all four villages. Each trustee member holds a chairmanship position on a specific functional committee. In Mahomet, there are six committees covering specific village functions. The six committees include (1) water and sewer, (2) transportation, (3) police, (4) finance, personnel and civil defense, (5) economic development and cable TV, and (6) parks, recreation, and public buildings. Each committee is made up of three trustees with one trustee acting as a chairman of the committee. The transportation committee in Mahomet oversees the distribution of the state motor fuel tax funds. Items under the transportation
committee include streets, alleys and sidewalks. The police committee oversees the salaries of the police chief, and the two full-time police officers, and the operation of the three squad cars. The finance, personnel and civil defense committee proposes the budget to the village board, administers personnel policy, and determines employee wages. The committee system found in Mahomet is similar to the functional structure found in the other villages. Generally, the authority of the board of trustees is broken down by various governmental functions. In the villages of Savoy and Tolono, the village president plays a substantial role in the budgetary process with the board of trustees having little actual input into the budgetary process. In the villages of Mahomet and St. Joseph the budgetary process is a result of the two-way interaction between the village president and the board of trustees.

The four villages studied in Champaign County surprisingly have very competent persons holding the important positions within the village. In terms of the budgetary process, the village presidents from all four towns were very knowledgeable about the workings of the budget, and most had been involved in village government for the past ten or so years. One should note that all four villages are in close proximity to Champaign-Urbana and the University of Illinois. The village of Savoy, for example, has a group of extremely well-qualified people serving on the village government. The mayor of Savoy, for example, is an auditor for the state. Moreover, the members
of the board of trustees are all well-educated and often hold prestigious occupations within the limits of Champaign County. For example, the board of trustees in Savoy has members who are certified public accountants, college professors, bankers, and influential businessmen. Therefore, it is easy to conclude that the budgetary procedure in the four villages involves the people who know the most about the operations of the village.

In addition, the people involved in the budgetary procedures generally have additional access to other experts who could provide additional information for review of policy alternatives.

The village president, as noted, usually has the most significant influence over the budgetary process within the village. Each year's budget is generally based on last year's expenditures, plus the new projects which have been proposed by each committee's trustees. In most of the villages, review of the budgetary process is an ongoing process that is accomplished at the monthly board meetings. In the village of Savoy, for example, after a review of the effectiveness of certain program areas as outlined in the village budget, the "Tree Reimbursement" program was evaluated and subsequently terminated because the board of trustees and the mayor felt that the program was no longer an effective part of the budget. The village president in his review of the budget tries to make each item in the budget self-supporting. In addition, the village president tries to "cut out the frills" which may not be necessary to effective village operations.
Each municipality in this study has a population of under 2,500, and one must examine the effect of the size of the municipality in terms of the budgetary process—does the small size help or hinder the budgetary process? The four village presidents tended to agree that the size of the community is a help to the budgetary process. The small size allows for better accountability and less confusion over the needs of the community. The mayor of St. Joseph, for example, felt that the small size of the village allowed for more public input into the budgetary process—and public input is very desirable for any elected official. Local governments, like those in this study, are supposedly “closer to the people,” and can provide the average citizen with more access to the government operations that affect his daily life. However, St. Joseph is the only village of the four where there is substantial citizen input into the budgetary or any other processes of government. The village president of St. Joseph advocates participation, because he feels the “town can only be as good as the people want it to be.” The citizens of St. Joseph are allowed to attend the monthly board meetings to discuss their views on different matters. The substantial citizen output at the current time is over drainage issues, so the attendance at the monthly board meetings has reportedly been very high. The other villages find citizen input nonexistent, at the very least. Each village president wants more active participation and provides for open board meetings—but citizen participation
is very low. Occasionally, citizens will become involved in community politics and in the budgetary process itself, but they are generally fairly ineffective because they really have little or no idea what is going on in the town. Therefore, citizen input is not a major consideration in the budgetary process.

Economic Effects

The current economic scene may have a detrimental effect on the budgetary processes in these villages. Village presidents must face the problems associated with inflation, with the declining level of economic activity, and with the declining tax base when trying to formulate the budget. Inflation causes the revenues from the sales tax to be less—people buy less so the sales tax revenues are less. It is true that the state of the economy may put more pressure on the local government officials to satisfy the increasing demands for governmental services while coping with the decrease in revenues. Savoy is fairly well-off financially and can handle the added stress on the budgetary process with little or no difficulty; over 40% of its available revenue is from the interest on the general fund. True, the other three villages will be hurt by the state of the economy, but many of the village presidents felt that the shortages of revenue will lead to the use of cost-cutting techniques in budgeting. In other words, the village governments will be forced to implement more cost-effective proposals to pay for the services provided. The villages will have
to be much wiser in purchasing than they have been in the past, and this may eliminate some of the wastefulness that is abundant in the system today. Moreover, village governments may have to turn to interlocal cooperation to solve common problems across municipalities. Interlocal cooperation faces many obstacles, one of which being the traditional rivalries among small towns (as well as larger municipalities). However, in times when resources are scarce, village governments may have to be more progressive and take the lead to manage their finances more effectively. The best examples of the desirability of interlocal cooperation comes from the purchasing of equipment. A street cleaner, for example, is a piece of equipment that could be purchased by three or four small towns. There is no conceivable way that any one community could efficiently use a street cleaner all the time. Therefore, it would be more practical to share the costs with other small localities that may have the same needs. Such cost-saving techniques will have to be the coming trend in local government.

CONCLUSION

After examining the budgetary processes for the four villages in Champalain County, I can conclude that the local governments will have the capacity to effectively handle the increases in authority granted to them by Reagan's New Federalism. President Ronald Reagan in his New Federalism proposal wants to streamline the federal government, and return more authority to those closest to the people—the state and local governments.
The proposed trims in the federal budget and the reshuffling of programs have left the mayors, governors, and state legislators in a state of confusion. However, at the village government level, the local governments should be able to adequately adjust to the New Federalism's decentralization of governmental authority. For instance, the village governments are not dependent on federal funds for their day-to-day operations. The village governments have tended to shy away from federal funding and to look instead at revenue sources that are more related to their general jurisdiction (i.e., sales taxes).

The budgetary processes of the village governments exhibit the internal bureaucratic process strategy that is defined by Creceine. These budgets express the policy wishes of the village presidents and the members of the boards of trustees. The budgetary processes of the villages can fall into the bureaucratic process strategy, operating—once revenue estimates are made—as a relatively closed system. These processes are affected by the overall factors of the community's economic resources, social composition, and local government structure, and the constraints imposed upon the village by the state government. Although the budgetary process in each of the four villages is not affected much by citizen inputs, the primary actors in the budget process are those who know the most about the village itself, and the resources that are available to it. For this reason, I conclude that the village governments in this study have the capacity to cope with an
increase in authority that may come with a decentralization of the federal system.

The budgetary processes of the four villages have been described and appraised, and the budget is an important tool for local government officials in their implementation of policy. The four village presidents all agreed to the importance of the budget in their community. However, a few comments must be made on the democratic process that is evident, or in these cases, not evident, at the local government level. The local government level is the foundation for the rest of the federal system. It is the level that is most receptive to the needs of the citizens in each community. The citizens of each village can directly see where their money is being spent, and do have the opportunity for effective participation in the political process. Even still, the citizen of each community in this study have generally stayed away from their opportunity to interact within the political system. In each of the four villages studied, the most influential and knowledgeable persons ran the entire show. The budgetary process is only one example of the lack of citizen participation at the community level. The citizens, therefore, are outwardly neglecting their responsibility to their governments. If a citizen cannot participate at the local government level where the issues are relatively well-defined and uncomplicated, then how can he be expected to participate at any other level of government? This is a question that will plague the American federal system and will probably reduce the overall effectiveness of government. The decisions
in local government are made by only a few "knowledgeable" persons; therefore, the level of government that is the foundation of the federal system is failing to demonstrate its most important characteristic—closeness to the people.
APPENDIX

ST. JOSEPH

Village President----------B. J. Hackler
Trustees-------------------James D. Stout
                      Glenda Morris
                      Michael J. Kurlakowsky
                      Clayton Hardman
                      Terry Witt
                      Donald Appl

MAHOMET

Village President----------Duane C. Wagers
Trustees-------------------James E. Ballard
                      M. D. Cardwell
                      Harry W. Phillippe
                      John Opolka
                      Michael Tilford
                      Dan Tharp

TOLONO

Village President----------Cecil A. McCormick
Trustees-------------------Paul D. Moore
                      Dale L. Reed
                      Oris A. Phipps
                      Helen Summers
                      James Bates
                      Dick Smith

SAVOY

Village President----------John L. Jones
Trustees-------------------Robert J. Bash
                      Medeleine Schweighart
                      Michael L. Terstriep
                      Frank Schooley
                      James V. Buttitta
                      Walter Proksch
FOOTNOTES


4Burkhead, p. 1.


8Ibid., p. 8.

9Ibid., p. 4.

10Burkhead, p. 29.


16Burkhead, p. 36.

18 Burkhead, p. 40.

19 Ibid., p. 41.

20 Wildavsky, pp. 1-3.


23 Lineberry, p. 232.

24 Ibid., p. 236.

25 Burkhead, p. v.

26 Crecine, p. 9.

27 Lineberry, p. 237.
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