TRENDS AND PATTERNS IN ILLINOIS MUNICIPAL REVENUES AND EXPENDITURES: A FIFTY YEAR PICTURE

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ABSTRACT
This study evaluates the changing sources of revenues and the allocation of expenditures for Illinois municipal governments over the half-century between 1962 and 2012. Using data from the U.S. Census, it considers the evolving mix of intergovernmental and own-source revenues while drawing insights about differing reliance on local property and sales taxes in Illinois versus the 49 other U.S. states. Municipalities (excluding county governments) are shown to have become more dependent on intergovernmental revenues compared to the U.S. as a whole, while county governments are shown to have become less so. This analysis, together with a critique of spending in nine principal categories, provides insights into budgeting going forward.
INTRODUCTION

Illinois municipalities have served the citizens of the State as instruments of governance and service provision since the U.S. Congress granted statehood to the Illinois Territory in 1818.

From a governance perspective, the State’s 1,299 incorporated municipalities (that is, cities, towns, and villages) have provided a sense of promoting an orderly, legitimate, and democratic means to make collective decisions for the optimal good of their citizens, against a backdrop of political, social, and economic differences. From a service provider perspective, municipal governments have delivered a long and seemingly endless list of staple services to millions of Illinoians (at last count, around 10,827,999 people or over 84 percent of the State’s population).

To meet the service needs and expectations of their citizens, municipal governments in Illinois must raise and spend lots of money. In Fiscal Year 2012 (latest available figures), for instance, municipal governments in the State collected approximately $20.8 billion in total revenue, while they spent around $22.5 billion. This means that Illinois’s 1,299 municipal governments, on average, raised $1,929 per capita in revenues and spent $2,077 per capita. But, how do Illinois municipal government revenues and expenditures compare to those of municipal governments in the other forty-nine states or even to county governments in Illinois? And, how do the revenues and expenditures of municipalities in Illinois today compare to the revenues and expenditures of Illinois municipal governments of 10, 20, 30, 40, or 50 years ago? Answers to these questions will certainly be important for both the citizenry and public officials, as the State moves forward in the 21st century.

However, before turning to the central focus of this article, it is important to lay out the context for examining Illinois municipalities.

CONTEXT FOR EXAMINING ILLINOIS MUNICIPAL GOVERNMENTS

There are two types of general-purpose local governments in the United States—county governments and municipal governments. Sometimes, counties and municipalities are also referred to as full-service governments since they provide a much larger number and variety of indispensable services than do the other three of types of local governments (i.e., townships, special districts, and school districts).

Historically, county government has been thought of as the bedrock of local government in the U.S. Although counties and municipalities are “creatures of the state” and thereby exist in a unitary relationship to their respective states, county governments were deemed crucial, in that they were established to manage activities of statewide concern or deliver basically state services at the local level. Simply put, county governments have served as vital appendages to their state governments. From this perspective, counties are often viewed as “branch” or “satellite” offices of the state and, in this role, their customary set of functions traditionally have included such things as property tax assessment and collection, law enforcement services in rural areas, road and bridge construction and maintenance, operation of a court system, administration of welfare and health care programs, supervision of elections, and rudimentary recordkeeping (concerning matters like land
transactions, births, and deaths). However, due to the pressures of population growth, urbanization, and modernization of county government, additional demands have been placed on counties. As a consequence, their service offerings have expanded to include such things as health and hospitals, pollution control and environmental protection, mass transit, solid waste management, industrial and economic development, social services, and consumer protection (Bowman and Kearney 2008, 278).

Municipal governments, which are specific, populated territories usually operating under a charter from their state, differ from counties in terms of how they were created and what they do. The process for an area to become a municipality commences with residents of that area petitioning the state for incorporation. The area designed for incorporation must satisfy certain criteria, like population and density minimums. In most cases, a referendum (where residents are permitted to vote on whether they wish to become an incorporated municipality) is required. If the incorporation referendum is successful, then a charter is granted by the state, and the newly created municipality has the legal authority to elect officials, levy taxes and fees, and provide services to its residents.

In a legal sense, municipalities—whether they are located in any of the fifty states or specifically in Illinois—are actually “corporations” that have been granted charters (some would equate them to birth certificates) by their state governments that specify “municipal boundaries, governmental powers and functions, structure and organization, methods of finance, and powers to elect and appoint officers and employees” (Dye and MacManus 2015, 302).

With this said, municipal governments typically have greater decision making authority and discretion than do county governments. This is true for municipal governments, generally, and for Illinois municipal governments, specifically. In point of fact, it has been inferred by a long-time observer of Illinois local government that the 1970 Illinois Constitution granted some of the most extensive home rule decision-making authority of any state in the U.S. (Banowitz 2002). One legal observer (Kearney 2016, 67) recently summed it up this way: “...the State’s 1970 constitution automatically conferred what are regarded as some of the broadest and strongest powers in the nation upon municipalities of more than 25,000 residents.” And, another legal scholar in interpreting a ruling handed down by the Illinois Supreme Court in 2013 went so far as to say that “home rule, rules [in Illinois]” (Lasker 2013) As a result, Illinois municipal governments typically provide a very large menu of services to their residents.

In retrospect, the conferring of wide-ranging home rule authority to Illinois municipal governments was probably inevitable. With around 80 percent of the state’s population residing within the boundaries of the state municipalities in 1970 (and not in the unincorporated parts of the state) and therefore dependent on them for a large number of necessary services, it was quite logical for the State of Illinois to grant them a larger measure of power and authority so as to enable them to adequately serve their constituents. This situation would automatically and reasonably make Illinois municipalities “first responder” governments or “front-line” providers of most local government services. Consequently, it is plausible to speculate that Illinois municipal governments probably would play a greater role in both the collection of revenues and the expenditure of funds in comparison to both municipalities in the prototypical state and county governments in Illinois.
DATA AND COMPARATIVE ANALYTICAL APPROACH

To highlight significant trends and patterns in revenues and expenditures of municipal governments in Illinois over the fifty year period of 1962-2012, this article utilizes data collected by the highly regarded U.S. Bureau of the Census and made available in what is referred to as its Census of Governments, *Compendium of Government Finances* series. Data is collected by the Bureau at five-year intervals in years ending in “2” and “7.” The time frame for the analyses in this article will be 1962-2012, since 1962 marks the first year that revenue expenditure data for all of the specific local government revenues and expenditures needed for this study became available and 2012 is the year of the most recent publication of these data. The next installment in this data series will be data for 2017, but the U.S. Bureau of the Census estimates that it will not be available until late 2019.

REVENUE AND EXPENDITURE PATTERNS OF ILLINOIS MUNICIPALITIES

**Municipal Revenues**

Local governments, including municipalities, depend on two principal sources of revenue to provide the money necessary to deliver services (that is, own-source and intergovernmental). Own-source revenue can be subdivided into four categories (taxes, utility receipts, charges for services, and miscellaneous), while intergovernmental revenue can be partitioned into revenue received from the federal, state, and local governments.

**Own-Source versus Intergovernmental**

One initial way to gain some useful insight into the revenue profile of Illinois municipal governments is to examine the percentage of monetary resources that these governments derive from own source revenue and intergovernmental revenue. Table 1 provides these statistics, along with comparable figures for municipalities in other states and county governments in Illinois.

Table 1 indicates, as most everyone knows, that both municipal and county governments obtain, by far, the greatest percentage of their revenue from own-source (or internally-derived) means. However, beyond this obvious bit of information, there is more noteworthy information that can be gleaned from Table 1. First, over the 1962-2012 period, the own-source revenue proportion of total revenues of Illinois municipal governments declined noticeably from 85 to 70 percent, while the intergovernmental revenue percentage increased noticeably from 15 to 30 percent. Since it is not very likely that municipal governments were collecting less revenue from own-source sources over this fifty-year period, it is probably more likely that the growth rate of intergovernmental revenues was increasing at a much faster rate than that of the growth rate in own source revenues. Indeed, calculations made by the author but not shown here confirm that explanation.
Figure 1: Changes in Revenue Sources, 1962 vs. 2012

The share of revenue by municipalities (excluding county governments) from intergovernmental sources has fallen dramatically since 1962, while this source comprises a rising share of county revenues. Source: U.S. Census Bureau; see Table 1 for details.
Table 1: Own Source and Intergovernmental Revenue for Municipal Governments in Illinois and the United States and County Governments in Illinois, 1962 and 2012

<table>
<thead>
<tr>
<th></th>
<th>Municipal Governments in Illinois</th>
<th>Municipal Governments in the U.S.</th>
<th>County Governments in Illinois</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own Source</td>
<td>85</td>
<td>70</td>
<td>83</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>15</td>
<td>30</td>
<td>17</td>
</tr>
</tbody>
</table>

County governments in Illinois have become increasingly reliant on “own source” revenue, in contrast to the those in other parts of the country, which have tended to become less reliant on this revenue as a share of total revenues. Source: U.S. Bureau of the Census; see endnote 1.

A closer look at the intergovernmental revenue data for Illinois municipalities reveals additional information and an interesting pattern. First, when breaking down the 30 percent of Illinois municipal revenue that comes from intergovernmental sources, it can be seen that state fiscal assistance accounts for 24 percent of it, with the bulk of the remaining 6 percent originating from the federal government. Second, in looking at state fiscal assistance to Illinois municipalities over the 1962-2012 period, it is evident that the state had begun to share more of its revenue with these governments in the 1960s but especially after 1987 (see Figure 1). According to the data in the figure, state fiscal assistance made up around 10 percent of total municipal revenue in 1962. This percentage rose slowly over time, but rose shapely after 1987 to over 23 percent or over twice as much as what it was in 1962 and marked a major shift in the intergovernmental revenue picture. The state fiscal assistance proportion would peak at 27 percent by 2002 and then decline to 23 and 24 percent, respectively, in 2007 and 2012, in the wake of the Great Recession. Also, notice from the figure that, while the state aid proportion of municipal revenue in Illinois was much less than what it was in other states in 1962 (i.e., 10 percent versus 16 percent), it is now much higher than the national average.

![Figure 2: Share of Municipal Revenues from State and Federal Sources; U.S. Average, 1962-2012](source: U.S. Bureau of the Census; see endnote 2.)
Comparisons of revenue streams of Illinois municipalities with those of municipalities in other states and also counties in Illinois provide additional perspective. For instance, municipal governments in Illinois, which in 1962 collected a slightly larger percentage of their revenues from own-source sources than were municipalities in other states, were collecting a much smaller proportion by 2012 (that is, 70 percent versus 78 percent). Consequently, that also meant that by 2012 Illinois municipalities were obtaining a much larger percentage of their total revenue from intergovernmental sources than were municipalities in other states. Similar trends are also evident from figures in Table 1 when a comparison is made between revenue collection percentages of Illinois municipalities and those for Illinois counties. More specifically, own-sources revenues made up a substantially greater percentage of municipal total revenues in 1962 than they did for counties (85 percent compared to 55 percent). But, by 2012, the proportion of total revenues accounted for by own-sources revenues of Illinois municipalities and counties was virtually the same (that is, 70 percent for municipalities and 69 percent for counties). The same is also the case for intergovernmental revenue comparisons (i.e., 30 percent for municipalities and 31 percent for counties).

BREAKDOWN OF OWN-SOURCE REVENUES
Examination of the various types of revenue streams that make up own-source revenue provides us with additional insight into Illinois municipal governments’ revenues from 1962-2012. There data, along with analogous numbers for municipalities in other states and counties in Illinois, are found in Table 2.

Table 2: Own Source by Type for Municipal Governments in Illinois and the United States and County Governments in Illinois, 1962 and 2012

<table>
<thead>
<tr>
<th></th>
<th>Municipal Governments in Illinois</th>
<th>Municipal Governments in the U.S.</th>
<th>County Governments in Illinois</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td>61</td>
<td>53</td>
<td>74</td>
</tr>
<tr>
<td>Sales and Gross Receipts</td>
<td>23</td>
<td>39</td>
<td>14</td>
</tr>
<tr>
<td>Other(^1)</td>
<td>16</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Supply</td>
<td>22</td>
<td>18</td>
<td>24</td>
</tr>
<tr>
<td>Other(^4)</td>
<td>84</td>
<td>71</td>
<td>44</td>
</tr>
<tr>
<td>Current Charges(^2)</td>
<td>16</td>
<td>29</td>
<td>56</td>
</tr>
<tr>
<td>Miscellaneous(^3)</td>
<td>10</td>
<td>21</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>12</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: See endnote 3.

1 Includes taxes on motor vehicle licenses, death and gift, severance, state licenses, and other miscellaneous items.
2 Includes charges for hospitals, sewage, solid waste management, natural resources, local parks and recreation, housing and urban renewal, air transportation, water transportation and terminals, parking facilities, and other charges.
3 Includes special assessments, sale of property, interest earnings, and other general revenues.
4 Includes, electric and natural gas supply and transit.
From a quick inspection of these figures, one is immediately struck by the fact that during the 1962-2012 period the largest percentage of own-source revenue for municipalities in Illinois has come from some form of taxation. That is, 60 percent (or $6 out of every $10) of own-source revenue was derived from taxes. Even though this percentage had dropped to 49 percent by 2012, it still means that about one-half of this type revenue was generated by a variety of taxes. One will also note that the degree to which Illinois municipal governments rely on taxes as a source of revenue is very similar to that for municipalities in other states. However, this is not the case when comparing to county governments in Illinois. Here, it can be seen that county governments in Illinois have always been much more dependent on tax revenue than have the state’s municipalities.

*Over the years, taxes on sales and gross receipts have steadily increased as a percentage of total revenues for municipal governments in Illinois.*

When looking at the composition of tax revenue for municipal governments in the Illini State, it is clear that the bulk of it is raised from a tax on property (ad valorem). This comes as no surprise, as the property tax historically has been the workhorse of local government tax systems. In 1962, revenue obtained from the property tax constituted 61 percent of all tax revenue amassed by Illinois municipalities. By 2012, following a national trend, the proportion of the tax revenue collected from the property tax dropped visibly to 53 percent. Notice that the drop for municipalities in other states was even sharper (i.e., from 74 to 52 percent). But, by 2012, municipal governments in Illinois were in line with municipalities in other states with the proportion of tax revenue coming from property taxes hovering around 50 percent. In addition, it is instructive to note that county governments in Illinois continue to be dependent on property tax revenue to a greater extent than do their municipal counterparts.

Over the years, taxes on sales and gross receipts have steadily increased as a percentage of total revenues for municipal governments in Illinois—climbing from 23 to 39 percent between 1962 and 2012. At this pace, sales and gross receipts revenue may soon produce as much money as does the property tax. According to analogous figures for municipalities in other states and counties in Illinois, it appears that Illinois municipal governments are following a national trend to give some relief to property owners while also diversifying their revenue base.

As of 2012, property and sales taxes account for 92 percent of all tax revenue, meaning that only 8 percent of it comes from “other” or miscellaneous types of taxes. Notice how this contrasts with the pattern observed for municipalities in other states, where 21 percent of their tax revenue is gathered from an assortment of “other” kinds of taxes.

From 1962 to 2012, the sale of utility services and charges for services to city residents and businesses made up the second and third largest proportions of revenue of Illinois municipal governments. In 1962, the selling of utility services made up 22 percent of total own-source revenue, with charges for services accounting for another 10 percent. By 2012, however, the relative importance of each of these types of own-source revenue had changed appreciably. More specifically, the proportion of own-source revenue accounted for by the sale of utility serviced declined from 22 to 18 percent between 1962 and 2012, while
the proportion attributable to charges for services increased markedly from 10 to 21 percent over this same period of time. This change in the relative importance of each of these two types of revenue is more likely the result of a tremendous surge in collections from charges for services over this period and a slowing of the growth rate in revenues produced by the selling of utility services. The figures in table for municipalities in other states and even for counties in Illinois reveal a similar trend of a significant increase in the importance of charges for services over this fifty-year period.

Rounding out the own-source revenue picture for Illinois municipal governments is the contribution made by a mixture of miscellaneous revenues that includes such things as special assessments, sale of property, and interest earnings. The proportion of own-source revenue that falls into this category changed very little from 1962 to 2012, increasingly moderately from 8 to 12 percent. By comparison, it is useful to note that municipalities in Illinois collect a somewhat higher percentage of funds from this grouping than do either municipal government in other states or county government in Illinois.

**Decomposition of Intergovernmental Revenues**

Local government officials historically have been leery about the dependency on money derived from other levels of government to finance their operations and particularly to deliver a large menu of services. Reasons for their skepticism range from the uncertainty of these funds over time due to the unpredictably of the politics of granting governments to the skewing of their spending and service priorities to “dancing to the tune of the piper” because of burdensome and sometimes costly conditions attached to the receipt of grant money.

The proportion of total revenues of Illinois municipalities—as well as for municipal governments in other states—that comes from another government (federal, state, or local) has conspicuously increased over the last fifty years. As mentioned above, the proportion of intergovernmental revenue of Illinois municipal governments increased from 15 percent in 1962 to 30 percent in 2012. A similar but less dramatic increase was recorded for municipalities in the other forty-nine states, rising from 17 to 22 percent over the 1962-2012 period.

Therefore, to complete this all-inclusive profile of the revenue sources of municipalities in Illinois, it is necessary to examine the proportion of intergovernmental funds that come from the federal and state and local governments. Data for this purpose are found in Table 3, which also contains comparable data for municipalities in other states and county governments in Illinois.
Municipal Governments in Illinois, like those in other states, receive a much larger percentage of their intergovernmental revenue from their state government than they do from the federal government or other local governments in the state. It is noteworthy that the proportion for Illinois municipal governments has remained quite stable over time—83 percent in 1962 and 82 percent in 2012—while it declined visibly in municipalities in other states (that is, from 80 to 69 percent from 1962 to 2012). Equally noteworthy is the fact that as of 2012 the Illinois municipal government proportion was roughly the same as it was for Illinois county governments. While it is not clear what may account for this finding, there are at least two possible explanations. One would be that the Illinois legislature is targeting more of its local fiscal assistance to the state’s municipalities. A second rationalization could be that county governments are generating a larger proportion of its total revenue from own-source revenues than was the case in earlier years. Data in Table 1 would seem to verify the latter explanation.

In addition, it can be seen from Table 3 that Illinois municipal governments have never received more than a very small proportion of their intergovernmental revenue from other local governments in the state. In fact, this proportion is much smaller than for municipalities in other states. The Illinois county government percentage mirrors that of Illinois municipalities. Two other important pieces of information stand out in these data. First, the federal aid proportion of Illinois municipal governments has remained quite stable over time. Second, by 2012, the federal aid proportion for Illinois municipalities was noticeably lower than for municipalities in other states.

**MUNICIPAL EXPENDITURES**

How do municipal governments in Illinois spend the money available to them and what can we infer about the rationale for the way in which they do?\(^1\)

The presentation of expenditure proportions of Illinois municipal governments in Table 4 will hopefully provide us with similar insight. To simplify the analysis, similar type services were grouped together into eight broad functional categories. These categories include the following: public safety, transportation, utilities, general government, physical environment, culture/recreation, economic environment, mental and public health, and debt service. For comparative purposes, the analysis will mirror that used for
revenues. That is, expenditure proportions for municipalities in the other forty-nine states and for counties in Illinois will also be provided.

Table 4: Expenditure Priorities for Municipal Governments in Illinois and the United States and County Governments in Illinois, 1962 and 2012

<table>
<thead>
<tr>
<th></th>
<th>Municipal Governments in Illinois</th>
<th>Municipal Governments in the U.S.</th>
<th>County Governments in Illinois</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Safety¹</td>
<td>25</td>
<td>31</td>
<td>19</td>
</tr>
<tr>
<td>Transportation²</td>
<td>24</td>
<td>18</td>
<td>14</td>
</tr>
<tr>
<td>Utilities³</td>
<td>19</td>
<td>14</td>
<td>24</td>
</tr>
<tr>
<td>General Government⁴</td>
<td>6</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Physical Environment⁵</td>
<td>11</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>Interest on General Debt</td>
<td>4</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Culture/Recreation⁶</td>
<td>4</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Economic Environment⁷</td>
<td>3</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Mental/Public Health⁸</td>
<td>4</td>
<td>3</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: See endnote 5.
* less than 1 percent
1 Includes police, fire, corrections, and protective inspections
2 Includes highways, airports, parking, and sea and inland port facilities
3 Includes water, electric, and gas supply and transit
4 Includes financial and other administration, judicial/legal services, and general public buildings
5 Includes natural resources/conservation, sewage, and solid waste management
6 Includes libraries and parks and recreation
7 Includes welfare and housing and urban development
8 Includes hospitals and health

“Top Three” Priorities

From 1962 to 2012, public safety, transportation, and utilities were the “top three” expenditure priorities of Illinois municipal governments. In fact, spending for services in these three categories consumed around two-thirds of these governments’ budgets—68 percent in 1962 and 63 percent in 2012. Municipalities in the other forty-nine states also made services in these three service areas their top three priorities, although they allocated a smaller total proportion of their budgets (that is, 57 percent in 1962 and 56 percent in 2012) for them. County governments in Illinois, by contrast, made only one of these service categories (transportation) a “top three” expenditure, and that was only for 1962.

Further inspection of the expenditure proportions for Illinois municipal governments’ “top three” priorities reveals some important changes between 1962 and 2012. First, Illinois municipalities were dedicating smaller shares of their budgets to transportation and utilities, meaning that these governments were able to allocate larger percentages to other service areas. One of those areas that benefitted was public safety, as the proportion of the budget allocated to this category increased by 6 percentage points from 25 to 31 percent. This also meant that by 2012, nearly one-third of municipal resources were being
devoted to his one service area. By contrast, the expenditure proportions of the “top three” priorities for municipalities in other states remained fairly stable over this fifty-year period, with only transportation showing a rather modest decline.

In examining the results of a breakdown of the public safety and transportation categories several additional points should be mentioned. First, police protection and fire services make up the bulk of public safety expenditures (98 percent in both 1962 and 2012) and thereby represent a significant part of the overall budget (i.e., 21 percent for police in 2012 versus 17 percent in 1962 and 9 percent for fire in 2012 versus 7 percent in 1962). Second, spending for highways made up two-thirds of all expenditures in the transportation service category in 2012, down from 78 percent in 1962. This resulted in another service in this category—airports—accounting for a higher proportion of the funds expended in the area by 2012 (32 percent in 2012 compared to 18 percent in 1962).

Another point of interest relates to the expenditure breakdown within the utilities service category. Between 1962 and 2012, water supply expenditures as a proportion of all utility spending had increased considerably from 48 to 68 percent, meaning that the electric and gas supply and transit proportion had declined.

“Middle Three” Priorities

Devoting a larger share of paying interest on debt subsequently means that there is less money available to fund a variety of services and passing on debt to future generations.

This category includes general government, physical environment, and interest on the general debt. Services in two of these categories (general government and physical environment) and interest payments accounted for 25 percent of all expenditures made by Illinois municipal governments in 2012 compared to 21 percent in 1962. In the 1962-2012 time period, the changes that are observed for the expenditure proportions for these type services were rather intriguing and suggestive of some important underlying factors and ramifications.

The percentage of Illinois municipal government budgetary resources allotted to general government, like that for municipalities in other states, increased modestly over this fifty-year period. Moreover, the size of expenditure percentages is roughly the same in municipalities across the country, including those in Illinois. This finding is possibly explained by the general growth in the size of governmental bureaucracies over the last five decades, but especially the administrative side of government to include financial and other types of administration. Even county governments in Illinois were apportioning a larger percentage of their budgets for general government services, although their budgetary proportions have been greater than those for municipal governments.

While the Illinois municipal government expenditure percentage for general government increased over time, the proportion for physical environment deceased by the same amount (3 percentage points) from
11 to 8 percent. At the same time, the proportion for municipalities in other states remained the same at 11 percent. Throughout this time frame, county governments in Illinois gave a very low priority to funding services in this category.

The most interesting finding in the “middle three” priority tier was that for the spending proportion of Illinois municipal government for interest on the general debt. The proportion doubled between 1962 and 2012 and was greater than for municipalities in other states (8 percent compared to 5 percent) in 2012. By contrast, the proportion for county governments in Illinois was much lower than that for Illinois municipalities in 2012. Explanations for the increase in the expenditure percentages for Illinois municipalities range from having to borrow money due to the need to replace aging infrastructure to experiencing fiscal stress during the several downturns in the economy during this time span. At any rate, devoting a larger share of paying interest on debt subsequently means that there is less money available to fund a variety of services and passing on debt to future generations.

“Bottom Three” Priorities

The categories contained in this tier—culture/recreation, economic environment, and mental health (and subsequently the specific services grouped in them) represent those that receive the lowest priority of Illinois municipal governments. In fact, expenditure proportions allotted to these service categories were virtually the same in both 1962 and 2012. The low expenditure proportions allocated to the services in these categories suggests that, while still having intrinsic value to residents of municipalities, have always been considered less important whenever limited resources must be dispersed among competing service needs and interests.

As also can be seen in Table 4, two of these same three service categories (culture/recreation and mental/public health) are in the “bottom three” for municipal governments in other states; however, in 2012 culture/recreation and mental public health were granted a modestly higher proportion of resources than was the case for Illinois municipal governments. Moreover, it is important to mention that two of these service categories (economic environment and mental/public health) were in the top tier of priorities for Illinois county governments; only culture/recreation falls in the bottom tier in service priorities for Illinois counties.

However, it is quite possible that the priority assigned to two of these service categories (culture/recreation and economic environment) is greater than what it appears to be. While a comparison of the proportion of municipal government resources allocated to most municipal services may be a reasonable way to gauge the priority assigned to them, that might not be the case for services provided within the borders of municipalities by special purpose taxing districts that serve to augment the efforts of municipalities. Since state constitutions and statutes place limits on municipal tax millage rates and bonded indebtedness, municipalities (and counties), both in Illinois and in other states, increasingly have resorted to encouraging or requesting the establishment of special purpose taxing districts as a means to provide new services or a higher level of current services desired by their resident. Such as been the case for parks and business improvement.

To check for the possibility that money is being spent by special purpose taxing districts in Illinois to augment what is being spent by municipalities for parks and business improvement, relevant Census of
Government data was examined. Ideally, it would be preferable to identify expenditures made by special purpose taxing districts for parks and business improvements. Since these data are not readily available, Census of Governments spending data for categories listed as “parks/recreation” and “housing and urban development” were inspected.

First, data on the proportion of Illinois special district expenditures devoted to parks and recreation from 1962-2012 was examined. These data are limited in two ways—they combine expenditures for both recreation and parks and these expenditures are for parks located within and outside of municipalities. Nonetheless, these data are instructive for the purposes of our analysis and suggest that municipal governments’ efforts to fund parks are aided by spending on the part of special purpose taxing districts. More specifically, the special district expenditure proportion for parks/recreation grew from 22 percent in 1962 to 33 percent in 2007 (it drops, however, to 29 percent by 2012 and likely due to the Great Recession). If we conservatively estimate that two-thirds of the money that special districts spent in 2012 were used to fund parks inside of Illinois municipalities, the proportion of total municipal spending accounted for by culture/recreation as seen in Table 4 would double from 5 to 10 percent. Under this scenario, culture/recreation would belong in the “middle three priorities” category.

Getting access to useful data to test some assumptions about the role played by business improvement taxing districts in assisting municipalities, however, proved more challenging. The U.S. Bureau of the Census does publish expenditure data in its Census of Governments every five years, but unfortunately it fuses spending for housing and community development and there is no way to separate out “community development” expenditures for special analysis. In spite of this handicap, there appears to be ample anecdotal information from people in state and local government in Illinois to safely speculate that to some degree special purpose taxing districts are being used as a tool to augment municipal efforts in this area.

EXPLAINING EXPENDITURE AND REVENUES CHANGES OVER TIME

Since 1962, municipal government expenditures in Illinois like those in cities in other states increased significantly in both actual and constant dollars due to four primary factors. First, citizens’ service expectations of government, in general, and municipalities, in particular, grew enormously. Second, the demand for the expansion of existing services and the initiation of new ones was fueled by the growth in federal programs designed to combat poverty, improve health care and housing, promote economic and community development, counteract rising crimes rates, protect the environment, and upgrade various modes of transportation. Third, the proliferation of federal and state mandates—especially unfunded ones—in areas like racial discrimination, water and air quality, health care, employment safety, public employee compensation and benefits, education, access for people with special needs, among others, also led to the rise in municipal expenditures. A fourth factor was the sizable increase in available revenues.

In point of fact, municipal expenditures in Illinois could not have grown to the extent that they did between 1962 and 2012 if it had not been for the substantial increase in their revenues. As seen in the analytical section on revenues above, municipal governments in Illinois were deriving a larger percentage
of their total revenues from intergovernmental sources over this fifty-year period. But, a closer look at the various streams of intergovernmental reveals that the greatest spurt in this type of revenue was recorded for money received from the Illinois state government in the form of grants-in-aid and revenue sharing. Between 1962 and 1967, municipal revenue from the state grew by around 4 percent. However, over the next five-year interval (1967-1972), the growth rate shot up to 149 percent, and over the next 30 years (1972-2002), state financial assistance to Illinois municipalities grew by an average of around 17 percent per year! Between 2002 and 2007, the growth rate in state aid tapered off to 14 percent and declined further to 11 percent during the next five-year interval (2007-2012) due to the State’s own revenue constraints caused by the Great Recession.

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In addition, it should be noted that federal aid—although historically comprising only a small percentage of total municipal revenue—began to increase by the middle of the 1960s. The launching of programs designed to repair and replace aging inner city infrastructure and housing, encourage greater use of mass transit and regional planning, and spur economic development were part and parcel of efforts of the Johnson administration’s Great Society. As a consequence, the federal aid percentage of Illinois municipal revenue increased from 1.7 to 4.7 percent between 1962 and 1967 and then to 5.8 percent by 1972. Then, the creation of federal revenue sharing under the Nixon administration as well as a number of block grants (most notably, the Community Development Block Grant program) caused a spike in the federal aid percentage to 13.1 by 1977, and it remained at 13.0 percent until 1982. In the aftermath of the cut in federal aid by Congress during the Reagan administration, however, federal aid as a proportion of Illinois municipal revenue has since leveled off to around 4 percent.

Going somewhat unnoticed in the revenue analytical section above was the fact that own source revenue of Illinois municipalities was also growing over the last several decades, although at a somewhat slower pace than that for state aid. That is, beginning in 1977, municipal own source revenue which previously had been increasing by about 2.5 percent per year going back to the late 1950s, began to show increases of around 5 percent per year. That trend continues today and probably attributable to the expanded home rule authority granted to Illinois municipalities in 1970.

REFLECTIVE THOUGHTS

Balancing the municipal government budget in any state, including Illinois, is no simple chore or accomplishment. Having to satisfy the service expectations of the public while being keenly cognizant of both the availability of and constraints on raising sufficient revenues place municipal officials in a political
“pressure cooker” of sorts. Therefore, navigating the “slippery slope” of successfully balancing the municipal budget year after year requires municipal elected and appointed officials to be constantly wary of problematic scenarios that could spell trouble. What are some of these scenarios that could threaten the fiscal stability of Illinois municipalities as they approach the beginning of the third decade of the 21st century?

First, the ever-present potential for sudden and significant reductions in revenues always looms over the horizon. On countless times over the last fifty or more years, the unpredictable and fickle ups and downs of the U.S. economy have wreaked havoc with efforts to make ends meet for even the most creative and resourceful budget staffs and elected officials. The most recent Great Recession from roughly 2007-10 is still a vivid reminder of how the resultant fiscal stress made it difficult for governments everywhere, including municipalities in Illinois, to amass sufficient revenues to maintain services at existing levels. Then, there is also the potential for cuts in intergovernmental funding. Since the largest proportion of such funds come from the state government, state aid cuts would force municipal officials to find a way fill the void with additional own-source revenue or face the prospect of making cuts in services. And, while municipal governments depend much less on federal aid, the proposed “skinny budget” by the Trump administration has already created concern about the future of Community Development Block Grants and funding for a number of public assistance and health care programs.

Second, the possibility for Illinois municipal governments having to make some major investments in an aging infrastructure system could pose a challenge in balancing their budgets. The cost of replacing things such as streets, sidewalks, storm water systems, water supply plants, sewage treatment facilities, general public buildings (e.g., fire and police stations, administrative office space, libraries, public works facilities, etc.) at today’s cost can be staggering. As a result, careful, advanced planning and determining how to pay for these big-ticket items (general fund monies versus borrowing through the sale of bonds) will be necessary.

A third potential challenge could be funding municipal government pension programs at current levels. More than a few municipalities across the country, as well as counties, townships, and school districts and even state governments, have encountered difficulties in recent years in balancing their retirement pension obligations against the fiscal responsibility/accountability they have to municipal taxpayers. Therefore, a key priority for municipal governments should be to carefully and frequently monitor the performance of financial programs (but especially for their interest earnings, cost-of-living formulas, and solvency) where retirement funds have been invested.

Lastly, municipal governments in Illinois like those in other states must deal with what can be a “double-edged” sword or “catch-22” dilemma. On one hand, municipal officials over the last few decades have tried to reduce the burden of financing city services on the backs of property owners by making greater use of user fees and charges for services. On another hand, these officials have been more vigilant in and committed to efforts to insure social equity and social justice in the provision of city services to racial minorities, low-income persons, the elderly, and disabled persons (see Gooden and Rissler, 2017; Rissler and Pynes 2017. The quandary they encounter, however, is like a “damned if you do and damned if you don’t” one with a no win-win outcome. Therefore, this may be the most vexing and challenging of the
four challenges talked about here and one which will require the greatest amount of ingenuity, innovativeness, and political diplomacy that municipal officials can muster.
NOTES

1. Examination of the amount of money spent for sundry services provides a simple, straightforward answer to the first part of the question posed. An acceptable answer to the second part of the question, however, has often eluded students of public finance as well as government officials, the media, and the general public. Indeed, the “reason(s)” behind the particular way that governments divide up or allot funds for various purposes may not be readily apparent. Yet, for some academics who have long studied public finances (Dye 1966; Benton 1983), it has been reasonably contended that the proportion of funds allocated or dedicated to specific services or service areas provides us with insight into the priority or level of importance that governments give or assign to them. Stated differently, it can be logically inferred that governments spend more money for those services that are important to them and the people they represent and serve.

REFERENCES


ENDNOTES


