Concerns about the fiscal problems facing American communities are nothing new. For example, the fiscal crisis of the Nineteenth Century city was examined by Griffith and Adrian (1983: Chapter 11) and found to be a result of ever-increasing demands for public services amid insufficient financial resources to meet them. Interest in a modern urban fiscal crisis grew following the de facto default of New York City in 1975, and the actual default of Cleveland in 1978. The topic has taken on an international dimension as local governments in many parts of the world have experienced fiscal problems in recent years.

Fiscal issues have risen to the top of many American local governments' agendas largely in response to changing federal budgetary priorities during the Reagan era (Gottdiener, 1986; Peterson and Lewis, 1986). The changes, part of a so-called "new federalism," sought to shift more fiscal responsibility to subnational governments and included, in 1986, the elimination of the Revenue Sharing program that since 1972 had sent billions of federal dollars to localities. As a result of these cuts, the value of federal aid to state and local governments, in constant dollars, fell by 39 percent between 1980 and 1987 (Eisinger and Gormley, 1988:3).

While there has been some research on the impact of the new fiscal environment on local governments, little of it has focused on smaller governments. We hope to shed some light on this topic by reporting the findings from a survey of officials from 59 Wisconsin governments, all serving small populations. Seven of them were counties, 18 cities, and 33 villages (one did not indicate type of government). The survey, conducted in spring 1989, was part of National Small Government Research Network (NSGRN) project on fiscal trends in small governments. Our sample of 78 local governments was drawn by the NSGRN national office; our response rate was 76 percent (N = 59). The chief administrative official of each government was mailed a 6-page questionnaire created by the NSGRN national office for use throughout the country. The questionnaire consisted of structured and semi-structured items. The questions were directed at the period 1986-89.

The survey did not reveal a fiscal crisis among the governments sampled. None was in danger of defaulting or had to implement severe service or personnel cutbacks. Nevertheless, many have experienced clear indications of fiscal stress in their attempt to meet increasing demands amid declining resources. Moreover, the findings show that the governments have employed various strategies in adapting to fiscal problems in the late 1980s.
Fiscal Stress Among Wisconsin Small Governments

Most respondents (54 percent) said that their governments have experienced cutbacks in federal programs (Figure 1). Moreover, 46 percent pointed to the difficulties in balancing operating revenues with expenditures. Nearly half stated that their credit-bond rating has been unstable. More than one-third highlighted problems with increasing liability costs. and 42 percent indicated that their governments have felt increasing fiscal pressures caused by state mandates?

Therefore, while no government faced a fiscal emergency, problems were nevertheless evident. The most accurate description of the situation seems to be that many of these small governments have experienced fiscal stress which they have "managed" by adopting a variety of strategies.

Coping with Fiscal Stress

Respondents pointed to two general strategies: direct or those with immediate effect on increasing revenues or decreasing expenditures, and indirect or those which are not obviously fiscal but are generally expected to boost revenues in the short or the long run.

Among the direct strategies designed to increase revenues, by far the most favored was an increase in taxes: 76 percent of our respondents said that their governments have chosen this course (Figure 2). Although the survey did not ask which taxes were raised, we expect that the property tax received the largest increases. Relatedly, 61 percent of the respondents noted an increase in the local property tax base. However, only 5 percent said that their governments have instituted new taxes of any type. Another source of revenue, used much less often, was user fees. Thirty-nine percent pointed to an increase in existing user fees, while 25 percent said that new user fees have been instituted (Mushkin and Vehron, 1981).

The second most common direct response was borrowing. Fully 55 percent indicated that their governments have experienced an increase in borrowing—which we interpret to mean short-term bank notes as well as long-term debt financing through bonding. With regard to the latter, 17 percent specifically indicated an increase in debt financing.

The third most common direct response was an increase in state government assistance. Respondents were asked whether financial aids for all state programs had increased over the past two years. Forty-four percent said it had while 25 percent said it had stayed about the same. Similarly, one-third indicated that their localities have experienced an increase in direct state revenues which, in Wisconsin, can be interpreted as an increase in the "shared revenues" program that is similar to federal revenue sharing. The findings on increased state assistance are not surprising because expenditures for localities have traditionally been the largest single item in the state
budget. Thus, it seems that state government has provided a good deal of the increased assistance required in the tenuous budgetary climate of the late 1980s.

Another set of direct coping strategies was aimed at reduced spending. Twenty-nine percent pointed to a reduction in operating expenditures. A somewhat larger percentage (36 percent) said that capital expenditures have been reduced. Therefore, while some governments have cut expenditures, it was not a pervasive strategy.

On the other hand, there were three major indirect coping strategies (Figure 3). The most prominent was population growth: 49 percent said that the population of their communities had increased in recent years. Among researchers supporting the "growth machine" perspective (Molotch, 1976; Logan and Molotch, 1987), population growth is considered the key element in local economic development and, as such, is integral to the long-term fiscal health of local government.

A second indirect strategy was economic development. Thirty-four percent of our respondents noted that their local governments have increased efforts to find new industries and commerce. Given the wide attention to local economic development in the 1980s, we were somewhat surprised that this figure was not higher. A third indirect method was annexation: 29 percent noted that their local governments have annexed new territory. No doubt some of the aforementioned increase in the local property base was due to annexation.

Summary: A Four-Fold Response to Fiscal Stress

The survey indicates a four-fold response by Wisconsin small governments. First and foremost, there has been an increase in local taxes, particularly the property tax. Second, there has been a greater reliance on borrowing, some of it short-term probably due to cash flow problems, and some of it long-term through bonding. Third, state aids and shared revenues have been increased. Fourth, the governments have used other direct as well as some indirect strategies including reduced capital expenditures, reduced operating expenditures, increased user fees, imposition of new user fees, industrial development, annexation, and population growth.

Importantly, in spite of fiscal stress, the great majority of governments have not enacted significant decreases in public services. We asked officials what level of cutbacks, if any, their governments have made in the following areas: police, fire, emergency services, cemeteries, lighting, roads and bridges, animal control, parks and recreation, economic development, solid waste collection and disposal, water and sewer service, planning, zoning, building inspection, human and social services, and libraries. No more than four respondents indicated "significant" or "moderate" cuts in any one of the areas listed. The overwhelming majority selected "same" or "more service" for all of the areas.

Therefore, in spite of the decrease in federal support, Wisconsin small governments have been working to maintain the high level of public services for which the state is
known. But to pursue this goal as of late, they have been required to raise local taxes, rely on increased state assistance, borrow for the short and long-term, reduce budgets, and adopt other direct and indirect methods of generating revenues.

While local government's coping strategies may have worked well in the relatively good economic climate of the late 1980s, they will probably have to consider other, more innovative and surely more difficult, responses in the more troubled economy of the early 1990s.

Already many local governments across the nation are facing difficult times. Some have resorted to layoffs, freezes, cutbacks in services, and even bankruptcy. To the extent that an economic downturn persists, the situation ripens for political conflict. Tough choices will have to be made in the dilemma of increasing demands for services amid declining resources. In Wisconsin, pressure is being placed on the state as manifested by the outcry for property tax relief. And last fall, public debate emerged around the issue of state mandates. An advisory referendum on the November 1990 ballot to amend the Wisconsin Constitution to require the state to provide full funding for any program, service, or benefit it requires local government to provide passed by a wide margin.
NOTES

1 The authors would like to thank Edward J. Miller, co-director of the Center for the Small City, for consultation on this project; and Melissa Potocki, student intern in the Center, for valuable research assistance.

2 Zimmerman (1983), in a national survey, found that addressing state mandates was the most pressing problem facing local governments.

3 This figure is surprisingly low when considering that Wisconsin county governments have had the authority to impose a sales tax since 1985, while other local governments have had similar authority to impose hotel and other excise taxes. (As of fall 1990, 28 of Wisconsin’s 72 counties have instituted a sales tax.) While we suspect that the figure is low in part because county governments were underrepresented in the sample (N=7), on the whole it seems safe to conclude that smaller governments are simply not using new taping options to any great extent.

4 Long-term debt financing in local government is typically accomplished through municipal bonds. Short-term borrowing, on the other hand, is usually accomplished through notes secured from banks to meet immediate financial shortfalls, often in anticipation of revenues from taxes, bonds, or intergovernmental transfers. These "anticipation notes" are, therefore, at least some indicator of cash flow problems in local government (Miller and Hawkins, forthcoming). Since 55 percent of the officials pointed to an increase in (short-term) "borrowing" while only 17 percent indicated an increase in (long-term) "debt financing," we appear to have a cash flow problem among some local governments. This is actually another indicator of fiscal stress.

5 "State aids" in Wisconsin are the total state transfers to localities including school revenues, property tax credits, returns on gasoline taxes, the "shared revenues" program which is based on utility and income tax receipts, and so forth.
REFERENCES


