

**MANAGING LOCAL FISCAL PRESSURES: AN EXPLORATORY
ANALYSIS OF FINANCIAL MANAGEMENT STRATEGIES IN 26
MAJOR OHIO CITIES**

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I. INTRODUCTION

Financial problems are likely to continue for major Ohio cities. While some municipalities, Akron in particular, have been successful in transforming their local economies to offset resource decline (see Dustin, et al., 1986), it is anticipated that many Ohio cities will face additional fiscal pressures due to further reductions in federal funds (including the elimination of general revenue sharing funds), sustained population outmigration, and local tax bases that will not expand rapidly enough to keep pace with expenditure demands (MacManus and Grothe, 1981:1). Consequently, further cutbacks and retrenchment seem inevitable.

MacManus and Grothe (1981) have noted that continued financial pressures will force many Ohio cities to resort to organized, intense lobbying of their legislative delegation, which will be aimed at getting the state to : 1) expand local fiscal discretion; and 2) increase unearmarked state aid to municipalities to compensate for losses in federal monies. Beyond efforts to acquire more state aid, how have Ohio cities responded when confronted with revenue shortfalls?

The research presented here addresses this question to provide some understanding of the retrenchment process at the local level. Moreover, by investigating this question we can begin to monitor the efforts of Ohio communities to cope with revenue decline. The paper begins by discussing the various retrenchment strategies used by local governments to cope with fiscal strain. The next section examines retrenchment strategies used by large Ohio cities. In particular, data from Ohio cities are compared with information from two other neighboring states--Pennsylvania and Indiana. An exploratory analysis is then offered which examines the relationship between retrenchment strategies and municipal

characteristics.

II. COPING WITH FISCAL STRESS: THE USE OF RETRENCHMENT STRATEGIES IN LOCAL GOVERNMENT

Do municipalities react the same way when financial troubles accumulate? What options do cities have when faced with fiscal austerity? Before presenting the findings on Ohio cities, it might be appropriate to address these questions by discussing what we know about the way in which communities manage their resources in times of resource scarcity. To begin, the research on fiscal retrenchment identifies three major types of strategies available to cities when fiscal woes multiply: 1) revenue strategies; 2) productivity improvement/reorganization approaches, and 3) cutting services. The former emphasizes revenue enhancement while the latter two groups focus on reducing expenditures.

Revenue strategies involve seeking new or additional revenue to support established services. Evidence offered by Levine et al. (1981) and Wolman and Davis (1980) suggest that during periods of resource scarcity cities may use a number of tactics to increase revenues. Typically, cities try to sustain revenues for sometime by drawing down their surpluses and borrowing money (Morrison, 1977; Levine et al., 1981). Along with these approaches, cities will also try to raise local revenues. Despite the limitations on taxing property, as exemplified by California's Proposition 13 and Massachusetts' Proposition 2 1/2, one revenue strategy that has been useful in raising money is increasing user fees and charges. Increasing fees is effective, because they can compensate for some of the revenue loss caused by property tax restrictions and, to a certain extent, reductions in federal aid (Florestano, 1981; 123).

In addition to its revenue raising

potential, user fees and charges have non-revenue raising potential as well in that they can reduce the demand for services. The rationale here is if a service is made available at a very low price, the demand is likely to be higher than it would if a price reflecting the true costs were imposed. In effect, reducing demand helps ration services when resources are scarce.

In an effort to generate more local revenue, some municipalities have tried to rearrange their revenue structures in favor of other non property levies such as taxes on income and sales.¹ However, the range of local discretion regarding these kinds of taxes varies considerably.² In many cases, the question of adopting a rate at which these taxes can be imposed is not left to the locality but to the state legislature. Currently, the local income tax is available to cities in about 14 states (Florestano, 1981: 125), but widespread coverage exists in only 3 states--Maryland, Ohio, and Pennsylvania (Morgan, 1984: 230). On the other hand, local sales tax is somewhat more prevalent in municipal revenue structures. Cities authorized to raise their sales tax are more likely to do so because of the relative ease with which this strategy can collect revenues and the apparent "painlessness" the taxpayer feels at the time of collection (Florestano, 1981).

During periods of financial strain cities cannot rely exclusively on taxes to maintain revenues; they must exercise other options to help reduce financial pressures. Some municipalities have begun to initiate productivity improvement programs and develop alternative service delivery arrangements. Productivity improvement refers to attempts to do more with less in order to avoid deep cuts that are likely to trigger the antagonism of cliente groups inside and outside the bureaucracy. In the words of Levine et al. (1981: 126), "improving productivity represents ways agencies stretch resources to resist cutbacks in program activity."

The most widely used productivity programs are those that focus on resource and expenditure control, such as program

budgeting and zero-based budgeting. In a study conducted for the International City Management Association (ICMA), Poister and McGowan (1984) discovered that well over 70 percent of major cities throughout the nation used these practices. Management by Objectives (MBO) and Management Information Systems (MIS) were also found to be prevalent in municipal government. The popularity of these kinds of programs stems from their ability to make subordinate agencies more responsive to top-level management, which improves administrators' capacity to manage resources more effectively.

The introduction of new technology represents another way to increase productivity. Since the use of technology should reduce the need for additional personnel, local governments represent a good place for the application of new technologies because most city functions are labor intensive (Morgan, 1984: 178).

Along with efforts to increase productivity, many cities have attempted to develop alternatives to municipal service delivery. Perhaps the most common form of alternative service delivery is contracting services to the private sector. This strategy introduces an element of competition to the public sector. Some research has shown that it can reduce the cost for services and encourage municipal organizations to operate efficiently (see Ahlbrandt, 1974; Stevens, 1977; Savas, 1977a, 1977b, 1981). Contracting has also enabled cities to avoid the high start-up costs of some services and exercise more flexibility in adjusting program size without worrying about negotiating with recalcitrant municipal employees.

Shifting the responsibility of various services to other levels of government represents another form of alternative service delivery. Transfers of functional responsibility usually are accomplished voluntarily, but they may be mandated by the state legislature. Shifting responsibilities to the state level have generally been mandated by the state in contrast to transfers from the municipality to the county which do tend

to be voluntary. Based on Advisory Commission on Intergovernmental Relations (ACIR) data reported in 1976 out of 1,708 functional transfers, 56 percent went to counties, 19 percent to special districts, and 14 percent to the state (Florestano, 1983: 122).

In many cases, financial austerity demands more than increasing productivity and establishing service arrangements. If fiscal stress cannot be alleviated, cuts inevitably have to be made. Cutting strategies represent the more drastic measures to cope with fiscal austerity, because they involve lowering the activity level of programs and in some terminating various services. Levine (1980: 38) notes that such strategies "may activate affected interest groups to resist reductions in service activity."

Research has pointed out that because of the political repercussions of cutting strategies, cities may employ these tactics in ways that minimize political conflict. For instance, Wolman and Davis (1980) have found that the general response, at least in the short-run, has been to make across-the-board reductions. Establishing an across-the-board policy provides a perceptions of fairness (Biller, 1980: 607).

If budget deficits are prolonged, selective rather than across-the-board cuts are usually made. City officials prefer to cutback where areas are least noticed or felt and where political conflict is likely to be minimal. Capital improvements, since they are relatively invisible, are prime targets for cutbacks.

Only in situations where revenue shortfalls are sudden and severe, such as a tax revolt, do cities resort to aggressive cost-cutting measures. For example, a prevalent response among Massachusetts cities in the first year under Proposition 2 1/2 was straight-forward cost cutting and service reduction (see Greiner and Hatry, 1983). Although considerable variations existed among cities with regard to actual cutbacks, almost all of them initiated reductions in recreation and library services. While it

could be argued that the Massachusetts case is probably not typical of what has happened in other cities, the example indicates that when municipalities find themselves in deep financial trouble they will use more drastic measures in order to stay solvent regardless of the political consequences.

From this discussion, it is clear that cities may use a variety of strategies to cope with resource decline. The choices could range from such approaches as drawing down surpluses and increasing local revenues to other measures that involve reducing resource consumption. Given the range of options available to municipalities, how have Ohio cities reacted to revenue decline? What steps are most commonly pursued? And, specifically what factors of the municipal environment lead cities to adopt austerity strategies? The analysis to follow addresses these questions.

III. DATA

Data for the analysis were drawn from a larger dataset of 528 cities with populations over 25,000. The information was collected as part of the Fiscal Austerity and Urban Innovation project funded partly by the Department of Housing and Urban Development and coordinated by the University of Chicago.

The Ohio component of the project consisted of mailing questionnaires to officials in 46 cities with populations over 25,000. Using multiple mailings and telephone follow-ups the project members produced responses from 31 mayors (67%), at least one council member in 39 cities (85%) and 26 CAO's (57.5%). The survey asked administrators to respond to a list of 11 financial problems facing their cities. The problems ranged from national economic trends (e.g., inflation) to local financial issues (e.g., loss of federal monies, declining tax base). Responses were arrayed on a four-point scale from 1=least important to 4=most important. Next, from a list of 31 revenue and expenditure strategies they were asked to indicate the extent to which those financial management tools are used by

their cities. Responses ranged from 0 (not used) to 4 (most important usage).

Two other attitudinal measures drawn from the questionnaires sent to council members have been included in the analysis. One question asked council members to specify the level of activity of the Democratic party in local politics on a 5-point scale ranging from 1=not active to 5=very active. Another item asked them essentially the same thing, but to indicate the activity level of the Republican party. These items were used to determine if local party politics is related to the use of certain retrenchment actions.

Certain socioeconomic characteristics were derived from the 1983 City County Data Book and the 1983 Municipal Year Book. Population size was used, because it was assumed that perhaps cities with large populations would be more likely than smaller cities to use more retrenchment actions since they have more spending commitments for a variety of municipal services.³ Another measure of a city's socioeconomic condition is the degree of revenue burden (or revenue effort). Revenue burden is operationalized as the ratio of total outstanding long-term debt to total city income for 1983. The expectation is that where the revenue burden is high cities will have to rely more on cutting strategies. A final measure includes a city's form of government. This characteristic is measured as 1=council-manager and 0=mayor-council.

IV. ANALYSIS

The analysis proceeds by examining the reactions of CAOs to the list 31 revenue and expenditure items. Table 1 compares the Ohio sample with major cities in Pennsylvania and Indiana. Looking first at the revenue strategies, CAOs from both Ohio and neighboring states noted that their cities relied heavily on user fees. There is, however, a higher frequency of fee increases among Ohio cities. Moreover, a larger proportion of Ohio communities (80%) were successful in raising taxes than municipalities in

Pennsylvania and Indiana.

Another important step to maintain revenue levels was to draw down surpluses and increase long-term borrowing. Indeed, a sufficient number of Ohio cities (50%) have used these approaches, and an ever greater proportion of cities in neighboring states have resorted to these actions as well (65%). Acquiring more intergovernmental aid does not rank high among major Ohio communities. City officials in these areas now recognize that less federal money will not be available to settle their problems. While this notion might apply to administrators in Pennsylvania and Indiana, many of their cities still rely on intergovernmental aid. In fact, well over half (65.5%) of the cities reporting from these areas said they still rely on federal money. In addition, over 60 percent of these cities deferred payments and sold assets in order to stay solvent, whereas only a third of Ohio communities used these actions. Perhaps cities in Pennsylvania and Indiana had to resort to these kinds of actions more often since they were not as successful as Ohio Municipalities in increasing taxes.

Examination of the productivity/reorganization items suggests that both groups of cities seek to increase productivity either through emphasis on better management or the acquisition of labor saving techniques. A slightly higher proportion of cities in Pennsylvania and Indiana use these approaches than Ohio communities, yet the differences are not great. A major difference is revealed in the usage of joint purchasing programs; less than 40 percent of Ohio municipalities have implemented this strategy, while over 56 percent of cities in the two neighboring states have used this approach. Beyond these differences the findings are fairly consistent.

Turning now to the expenditure strategies, attrition is clearly a popular strategy among both samples of cities. Its popularity may stem from the fact that it is a modest way to reduce expenditures. In fact, many of the top nine strategies

represent subtle ways to control expenses and avoid political conflict, which adds some credence to the argument presented earlier that cities will rely more on modest approaches to control expenditures before implementing more drastic actions. Yet, well over half the cities in the analysis indicated that some tougher actions were necessary. For instance, a considerable proportion of Ohio cities reported laying off personnel (76.9%), eliminating programs (57.9%), and cutting least efficient departments (65.4%). A similar trend is apparent among Pennsylvania and Indiana cities. Much of these actions were probably a result of the recession in the early 1980s.

It might be interesting to note that a very large proportion of cities from Pennsylvania and Indiana stated that maintenance of stock had been deferred whereas only 30 percent of Ohio communities have delayed infrastructural improvements. With the deterioration of infrastructure in some large Ohio cities, one might have thought that the situation had been brought about by inadequate or deferred maintenance. Apparently not; it seems to the contrary, that most Ohio municipalities recognize the necessity of providing maintenance of capital.

It is apparent from Table 1 that Ohio communities use different approaches to cope with financial problems. The implementation of different actions is perhaps influenced by various factors characteristic of the municipal environment. At this point the analysis might investigate this hypothesis. It should be noted that this part of the study is only exploratory given the small sample size and the absence of well developed theory.

From an administrative perspective the use of financial strategies should be affected by administrators' perceptions of financial problems. Studies by Eulau and Eyestone (1968) and Eyestone (1971) have shown that a major impetus behind policy action are officials' perceptions of city problems. In this regard, it is hypothesized that there is a direct association between how severe financial

problems are perceived to be and the adoption of austerity strategies. In this analysis, the principal measure of fiscal stringency is the perceptions of CAOs of fiscal problems.

Administrators obviously do not work in a vacuum. Political factors, for instance, may also influence the choice of austerity actions. Clark and Frequson (1983) posit, for example, that localities with a strong Democratic influence are more likely to pursue new sources of revenue and delay hard cut back decisions. On the other hand, Republican oriented communities would be more apt to pursue strategies such as privatization and expenditure reduction approaches. To some extent this notion is tested here by including council members' perceptions of political party influence.

Administrative and political characteristics should be put in the appropriate community context. Specifically, this procedure would constitute a test of the hypothesis that environmental characteristics are not highly associated with financial policies than perhaps the attitudes of administrators or political party influence. As noted earlier, population size and degree of revenue burden are employed as proxies for community effects. Along with certain community factors, the analysis seeks to assess the relationship between form of government and retrenchment actions. Previous research has shown a linkage between government structure and fiscal policy (see Lineberry and Fowler, 1967; Karnig, 1975). Here, we might expect that council-manager cities would use more productivity and cutting strategies than revenue strategies, whereas mayor-council cities might rely more on increasing revenues.

Prior to testing the above hypotheses, the retrenchment categories presented in Table 1 were converted into three separate composite indices, such that a higher score indicated more usage. Next, the three indices were then correlated with the municipal variables.

Table 2 shows that of the six

municipal variables, administrators' perceptions of financial problems have the strongest and most significant association with all three groups of strategies. The relationship between perceptions and productivity strategies is a bit weaker than the other approaches, but this association is statistically significant. This finding leads some support to the notion that the actions of local officials play a more important role in the use financial strategies than socioeconomic factors. The other five factors, although they have a decidedly mixed relationship to the use of various strategies, do not reach statistical significance. Why does the administrative variable play a more dominant role in the use of austerity action than the other factors, particularly the political variables?

Perhaps this finding is attributed to the nature of strategies used in this analysis. A review of the retrenchment strategies presented in Table 1 suggests that many of these approaches are subject more to administrative approval than political influence. For example, with the exception of raising taxes, strategies such as increasing fees, deferring payments, improving productivity, and contracting out are, for the most part, insulated from political pressures. In other words, they seem to represent policies internal to the municipal bureaucracy, which enable administrators to have greater influence.

Some may argue that simple correlations are suspect since they do not reflect the strength of a relationship when other variables are taken into account. Partial correlations were considered, however because of the small sample size and the presence of missing data for certain variables, this technique caused a further reduction in the sample size precluding an interpretation of the results. Yet, an attempt was made to assess the use of retrenchment strategies in a multivariate context by looking at the possible relationship between form of government and austerity approaches within categories of citysize. The method involved dividing the retrenchment strategies into two population groups,

cities 50,000 and below and cities 50,000 and above, and then grouping the information according to government structure within the population categories. This procedure was used for all three groups of strategies shown in Table 1. The results are displayed in Table 3.

The data reveal a large difference in the number of strategies used between mayor-council cities and council-manager cities with populations over 50,000. As expected, unreformed municipalities have relied more on raising revenues, while reformed cities have done the opposite. No apparent differences are present among cities below 50,000. Looking at the the productivity/reorganization approaches, none of the population or form of government categories produce anything worthwhile. However, the data for the expenditure strategies suggest that regardless of population size, unreformed cities have implemented less expenditure approaches than reformed municipalities.

V. CONCLUSION AND IMPLICATIONS

The Ohio communities analyzed here have implemented a number of strategies in an effort to cope with revenue decline. It is apparent that they were much more successful than their municipal counterparts in Pennsylvania and Indiana in raising taxes. Over 81 percent of the Ohio sample used this strategy, and an even higher number levied additional fees and charges. The dependency on user fees could be a result of earlier attempts to increase taxes. In other words, maybe some of the tax levy increases were initially opposed by the electorate forcing a large proportion of cities to increase fees more frequently to compensate for losses in potential tax revenue. The retrenchment literature has suggested that fees are typically used to replace defeated tax increases. Perhaps this was the case with Ohio cities.

Despite their ability to increase taxes and fees, many Ohio cities had to cut personnel and programs. Yet, the number of municipalities using these approaches was not as high as cities in

neighboring states. Moreover, a larger proportion of cities in Pennsylvania and Indiana had to defer maintenance of their capital stock, whereas only a third of Ohio municipalities said they had to delay infrastructural improvements. Hence, in some respects some major Ohio cities fared better than most cities in surrounding states in that they could hold off on some tough decisions to reduce spending.

The use of various retrenchment strategies was found to be strongly related with administrators' perceptions of financial problems. On the other hand, political factors and certain socioeconomic indicators did not exhibit a significant relationship with the use of austerity strategies. It should be noted that these findings are very consistent with a recent study of retrenchment among a large sample of U.S. cities (see Morgan and Pammer, 1986). So, perhaps these findings have some meaning despite the small sample size. Moreover, they suggest that regardless of the socioeconomic condition of cities, actions will not be forthcoming until administrators are convinced that a problem exists.

When analyzing the relationship between form of government and retrenchment strategies within categories of city-size some interesting patterns emerged. As expected, mayor-council cities with populations over 50,000 used more revenue approaches than council-manager cities with similar populations. The research on government structure indicates that large unreformed governments, because of their politicized nature, exhibit higher spending commitments than reformed cities. Hence, the reliance on revenue approaches is perhaps a way of continuing to meet these commitments in times of resource scarcity. Moreover, unreformed governments implemented a smaller number of expenditure strategies than reformed municipalities. We might gather from these findings that perhaps city-manager cities place more emphasis on minimizing expenditure efforts and resource consumption. It is possible then that reformism could influence retrenchment decisions at the local level, but until we

can obtain more information from other large Ohio cities this conclusion is only tentative.

ENDNOTES

1. The author wishes to thank three anonymous reviewers for their helpful comments.
2. The term sales tax refers to general sales.
3. A few home rule states are exceptions to this in that the courts have interpreted home clauses to give localities a general grant of powers to levy taxes (see Bowman, 1981).
4. It should be noted that the Ohio sample is skewed toward the low end of the population range, with more cities having populations below 25,000. To account for this problem, the population variable was logged to make it more normally distributed.

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TABLE 1 Comparisons of Retirement Strategies Between Major Ohio Cities and Municipalities in Surrounding States

	OH Cities % Cities	PA & IN Cities ^a % Cities
<u>Revenue Strategies</u>		
Increase User Fees	96.2	82.6
Increase Taxes	81.0	69.5
Lower Surpluses	50.0	65.2
Get more I.G.R.	47.7	65.2
Increase Short-term Borrowing	46.2	56.5
Defer some Payments	34.6	65.2
Sell some Assets	38.5	69.6
<u>Productivity Improvement/ Reorganization Strategies</u>		
<u>Improve Productivity by</u>		
Better Management	76.9	86.9
Improve Productivity by Labor		
Saving Techniques	69.2	78.9
Contract-out Services to		
Private Sector	65.4	65.4
Shift Responsibility to Other		
Governments	57.6	56.5
Contract Out Services to Other		
Governments	50.0	47.8
Joint Purchase	23.1	56.5
<u>Cutting Strategies</u>		
Attrition	84.6	95.6
Reduce Overtime	84.6	78.6
Lay-off Personnel	76.9	73.9
Impose Across-the-Board Cuts	73.1	86.9
Reduce Expenditures for Supplies	73.1	86.9
Freeze Hiring	69.2	82.6
Reduce Capital Expenditures	65.4	60.8
Get Least Efficient Department	65.4	69.5
Reduce Administrative Expenses	57.7	78.3
Keep Expenditures Below Inflation	57.6	52.2
Eliminate Programs	57.6	60.9
Freeze Wages	50.0	82.6
Reduce Services funded		
w/own Revenue	50.0	56.5
Reduce Services funded w/IGR	46.2	47.8
Early Retirement	38.5	56.5
Reduce Employee Compensation	38.5	47.8
Deferred Maintenance of		
Capital Stock	30.0	60.8

^a This group consisted of 9 cities from Pennsylvania and 14 cities from Indiana.

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	OH Cities % Cities	PA & IN Cities ^a % Cities		OH Cities % Cities	PA & IN Cities ^a % Cities
Revenue Strategies	Using	Using	Cutting Strategies	Using	Using
Increase User Fees	96.2	82.6	Attrition	84.6	95.6
Increase Taxes	81.0	69.5	Reduce Overtime	84.6	78.6
Lower Surpluses	50.0	65.2	Lay-off Personnel	76.9	73.9
Get more I.G.R.	47.7	65.2	Impose Across-the-Board Cuts	73.1	86.9
Increase Short-term Borrowing	46.2	56.5	Reduce Expenditures for Supplies	73.1	86.9
Defer some Payments	34.6	65.2	Freeze Hiring	69.2	82.6
Sell some Assets	38.5	69.6	Reduce Capital Expenditures	65.4	60.8
			Out Least Efficient Department	65.4	69.5
Productivity Improvement/ Reorganization Strategies			Reduce Administrative Expenses	57.7	78.3
Improve Productivity by			Keep Expenditures Below Inflation	57.6	52.2
Better Management	76.9	86.9	Eliminate Programs	57.6	60.9
Improve Productivity by Labor			Freeze Wages	50.0	82.6
Saving Techniques	69.2	78.9	Reduce Services funded w/own Revenue	50.0	56.5
Contract-out Services to			Reduce Services funded w/IGR	46.2	47.8
Private Sector	65.4	65.4	Early Retirement	38.5	56.5
Shift Responsibility to Other			Reduce Employee Compensation	38.5	47.8
Governments	57.6	56.5	Deferred Maintenance of Capital Stock	30.0	60.8
Contract Out Services to Other					
Governments	50.0	47.8			
Joint Purchase	23.1	56.5			

^a This group consisted of 9 cities from Pennsylvania and 14 cities from Indiana.

TABLE 2 Correlation Matrix of Retrenchment Strategies and Municipal Environmental Characteristics

Strategy	Administrators Receptions	Government Structure	Fiscal Stress Measure	Activity Pop. Size	Activity Level of Dem. Party	Activity Level of Party
Revenue	.40*	-.10	-.01	.23	.30	-.04
Productivity	.20*	.12	.17	.33	.22	.21
Cutting	.35*	.04	.15	.22	.13	.11

* p < .05

TABLE 3 Mean Usage of Retrenchment by Form of Government and Citysize

REVENUE STRATEGIES			
CITIES > 50,000		CITIES < 50,000	
Mayor/ Council	Council/ Manager	Mayor/ Council	Council/ Manager
6.6	3.0	3.8	4.0
PRODUCTIVITY/REORGANIZATION STRATEGIES			
CITIES > 50,000		CITIES < 50,000	
Mayor/ Council	Council/ Manager	Mayor/ Council	Council/ Manager
3.8	3.6	2.0	3.2
CUTTING STRATEGIES			
CITIES > 50,000		CITIES < 50,000	
Mayor/ Council	Council/ Manager	Mayor/ Council	Council/ Manager
9.5	11.5	7.2	10.0