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- *A national study produced no evidence that home rule governments have higher per capita tax revenues or government spending*
- *Home rule has little effect on daily government performance*
- *Home rule cities and villages have and use a wider range of strategies to employ in cutting budget deficits*
- *Communities with home rule authority have better bond ratings*
- *Addison, Illinois demonstrates how home rule empowers actions that can protect and enhance the quality of community life*

issue: *Do Home Rule Governments Work Better? A New and Different Perspective*

by Curtis Wood

Editor's Note: *Policy Profiles* has discussed Illinois home rule on a number of previous occasions, always focusing solely on the system of home rule used in Illinois. In this new study, Professor Curtis Wood takes a different approach. His study of home rule does not focus on any particular state, but rather gathers insights into how the use of home rule throughout the nation affects the way that cities and villages operate. With data gathered during the depths of the current national economic recession, the study also offers a first look at local government responses to that downturn.

The rapidly approaching 40th anniversary of Illinois' implementation of its own home rule system makes this study particularly timely and appropriate.

The most contentious issue – the issue that has most frequently confronted voters in Illinois cities and villages in the last half century – has been the desirability of local government home rule. Indeed, the degree to which state government should decentralize power to local government has been a source of major controversy in the United States since the end of the Revolutionary War.[1] Debates over the desirability of such decentralization of governing power to individual Illinois municipal governments have been on-going for nearly a century.

This *Policy Profile* contributes to this debate with information gathered in a national study of the consequences of local government home rule.

What is home rule?

Simply stated, home rule is a legal system for defining the powers which local government may exercise. Local governments have no inherent powers; their ability to take any action at all is dependent on a grant of power from the state in which they are located. Traditionally, local governments may exercise only the powers explicitly given them by state statute. Home rule gives an individual local government – a county, city, or village – the authority to determine for itself what powers it may exercise, subject, of course, to specified constitutional and statutory limitations.

Home rule, thus, is a system under which individual local governments are given a broad scope of authority to determine what powers they need, and what revenue sources they can tap, to provide the services demanded by their residents. The scope of the powers they may exercise, and the limitations to which they are subject, varies widely from state to state.

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What are the arguments in favor of home rule?

Home rule is designed to give local voters, and the local officials they elect, more authority and control over the operation of their local government. It does this by freeing local governments from total dependence on the state legislature for the powers and authority needed to finance and provide public services to local communities. In short, home rule transfers power from state legislatures to city, village, and county governing boards, and to the voters who elect officials to those governing boards. The basic arguments favoring such a transfer of power are summarized in **Table 1**.

What are the arguments against home rule?

Local opponents of home rule base most of their opposition to home rule powers on the fear that locally elected officials will abuse those powers, and especially the power to levy taxes. Other concerns sometimes voiced by students of government, but rarely mentioned during local campaigns for the adoption or removal of home rule powers, are listed in **Table 2.**

The belief that municipal officials cannot be trusted to serve the public interest has its roots in the era of municipal corruption which spanned the last decades of the nineteenth century and the early decades of the twentieth century, chronicled by Lincoln Stephens in his classic *The Shame of the Cities.*[2] Nonetheless, home rule was one of the tools – along with paper ballots, privacy while voting in elections, at-large election of board and council members, professional chief administrative officers (city and county managers), competitive bidding on government contracts, and civil service – that were advanced by those who led the national movement for the reform of local governments.

table*one* **Arguments Made in Favor of Home Rule**

Local government officials and reformers who support home rule argue that local government officials are better able to:

1. Assess local needs and develop solutions to local problems than are officials elected from all over the state.
2. Find the best solutions to local problems because they have more familiarity with such problems and with local residents' preferences for how to solve them.
3. Promote and protect the interests of local residents.
4. Experiment with alternative solutions to local problems.
5. Promote civic education by encouraging local citizens to study issues before decisions are made.
6. Allocate scarce local resources to the highest priority needs of each community.
7. In addition, locally elected officials can be more easily held democratically accountable by local voters for the way in which they manage local affairs.

table*two* **Arguments Made Against Home Rule Powers**

Persons who favor retaining state legislative authority over the powers and functions of all local governments argue that, with home rule powers, local officials will:

1. Act in an arbitrary and capricious manner by favoring political friends when making policy and budgetary decisions.
2. Make it more difficult for state government to address regional problems.
3. Be deprived of the economies of scale made possible by centralized control and by the superior expertise and technical resources available to state government.

Other concerns include suggestions that home rule will:

4. Lead to a lack of uniformity with regard to services, structures, and actions taken by local governments, causing inequities between and within communities.
5. Result in some local governments with fewer resources being unable to solve their own problems because of such income inequalities.
6. Make it more difficult for state government to address regional problems.

Despite the fact that the progressive reform movement eradicated most municipal corruption, particularly in governments employing professional city and county managers, popular support still persists for constraining municipal government powers, especially through limited interpretation of grants of power and the use of state imposed restrictions on local tax and borrowing powers.[3]

Have Illinois' home rule governments misused property taxing powers?

Four separate studies undertaken independently by Illinois researchers have addressed this issue. Robert Albritton[4] and James Banovetz[5] examined the popular notion that elected local officials cannot be trusted with broad powers of taxation by studying the use of tax powers by Illinois local officials in Illinois home rule. The Banovetz-Albritton study comparing home rule and non-home rule municipalities was undertaken 10 years after home rule was made available by the 1970 Illinois Constitution; and the second Banovetz study was made 30 years after home rule came to Illinois. The evidence from both studies refutes the hypothesis that, given sufficient discretion, local government

officials will impose unwarranted property tax increases on their residents.

The Banovetz and Albritton study found that, when controlling for population size and geographic location, there was no significant difference in the average property tax levy for home rule and non-home rule municipalities in Illinois.

Banovetz provides evidence that 1) few home rule communities use their home rule powers to levy higher property taxes or levy sales tax to the statutory limit for home rule cities; 2) the legislature and the courts have felt little need to restrict or constrain the use of home rule taxing powers because, with one exception, they have not found significant patterns of misuse; 3) Illinois voters have chosen to retain home rule in 25 out of 29 elections (86 percent) by an average margin of 3-2; and 4) there have only been two acknowledged examples of proposed or actual unwarranted use of home rule tax powers during Illinois's 30 year home rule experience, and, in both cases, the use of home rule in those communities was taken away by the affected communities' voters.[6]

The third Illinois longitudinal statistical study, conducted by Richard F. Dye and Therese J. McGuire,[7] supports the Banovetz and Albritton finding there is no difference between home rule and non-home cities regarding the use of property tax powers in Illinois. James Banovetz contends that the null results of the Dye and McGuire study show that Illinois municipal officials in home rule communities, with unlimited property taxing powers, do not abuse their authority; they do not levy more property taxes than non-home rule municipalities.[8]

While the Banovetz/Albritton and Dye/McGuire studies treated the fiscal variables as the response (dependent) variables and home rule status as the explanatory (independent) variable, Judy A. Temple's empirical model treated home rule status as the response variable.[9] Temple found empirical support for an inverse statistical relationship between property tax growth and the likelihood of retaining state controls (P=.02), controlling for population. She explains that the rapid increases in property tax burdens per capita likely led residents in municipalities less than 25,000 in population to vote to adopt home rule status as a means of broadening the local tax base and potentially obtaining property tax relief. Temple also found that residents in home rule and non-home rule communities were as likely to retain non-home rule as choose home rule regardless of the amount of property taxes levied per capita.

There have been no studies published since home rule became effective in Illinois which would question or dispute these findings about the use of home rule powers to levy property taxes.

table*three* Performance Variables Used to Measure the Use of Local Government Powers

- Bond rating
- Total FY 2009 revenues/capita
- FY2009 expenditure per capita
- General Fund Deficit (if one)
- Number of performance measures used
- Service quality from the perspective of citizens
- Use of performance measures
- FY2010 property tax levy/capita
- Change in General Fund revenue/capita
- FY2009 FTE employees/1,000 population
- Number of deficit reducing strategies used
- Performance effects of cutbacks
- Quality of state-local relations

How have home rule communities used their expanded powers on other matters?

To answer this question, using the broadest possible focus for the study, a national survey was distributed in the summer of 2010 to determine whether there have been differences in performance between communities that operate using broad grants of discretionary powers from their respective state governments and communities that operate within more traditional, limited grants of such powers. A total of 269 municipalities from 43 states completed the survey. Appendix A describes the study used to measure the range of powers being used by each of the surveyed municipalities.

What did the survey find about the use of home rule powers?

On a national basis, the study found that the daily management of governmental affairs is little affected by the scope of government powers. Undertaken during the governmental fiscal crisis brought on by the "Great Recession" of 2008-10, the national study found that, to use Illinois terms, *the presence or absence of home rule had little effect on the government performance variables of most interest and concern to citizens, but communities with home rule powers were able to use a broader range of strategies to reduce governmental deficits.*

The study correlated the breadth of municipal discretion (home rule) with 13 variables which measure municipal government performance. These variables are listed in **Table 3.** Many of these variables describe performance measures of high interest to citizens, such as taxes and expenditures per capita.

How were home rule cities different from non-home rule cities in this national study?

Home rule cities performed better than non-home rule cities in three significant categories. Home rule cities:

- Had better bond ratings
- Used more deficit reduction strategies
- Established better relations with state officials, leading to greater use of state expertise and resources to solve their problems.

The first significant finding of the study is that public officials in municipalities with broader powers (e.g., home rule powers) were able to use more innovative strategies to reduce local government deficits. They were also able to diversify the kinds of taxes used to raise revenues and keep borrowing costs down by more flexible use of their bonding authority. This corresponds with Illinois' experience in which home rule communities have more diversified tax bases and make more extensive use of lower cost borrowing options.

In what ways were home rule and non-home rule cities shown to be the same in the study?

Table 4 lists the 10 variables studied in which municipal performance was unaffected by the breadth of the powers granted to the municipality (in other words, where the presence of home rule powers had no effect on municipal performance).

As shown in Table 4, in the national study of 269 cities, the presence or absence of home rule powers *did not have any significant measurable effect on:*

- Total revenues collected by home rule and non-home rule communities
- Property taxes levied by the home rule and non-home rule communities
- Government expenditures
- Citizens' views of the quality of services

What does the study show about home rule's effect on taxation and borrowing?

The findings of the national study correspond with what has happened in Illinois. Cities and villages with home rule powers have broader tax powers: they have fewer restrictions on their property tax powers; they have broader powers to levy other taxes (except income taxes which in Illinois they may not levy) and broader power to incur debt. This leads to three consequences:

First, communities with broad taxing powers levy more different kinds of taxes, but neither their property tax levies nor their total tax revenues, measured on a per person basis, are higher. Home rule communities are using their broader taxing powers, not to raise more money, but to keep property taxes from going up even faster.

Second, the study showed that cities and villages with broader powers have higher bond ratings, a key indicator of sound and conservative financial management that reflects positively on communities' fiscal, economic, and managerial performance. The positive link between more powers and better bond ratings is even stronger for municipalities over 2,500 in population.

This suggests that with more flexible and broader financial authority, cities and villages use that power to:

- Expand the sources of revenue available to them;
- Use the absence of a legal debt limit to make better use of general obligation bonds to finance working capital; and
- Manage tax and expenditure levels more wisely.

Third, the study results also suggest that municipalities with more power are more likely to have lower deficits; lower borrowing costs; and enjoy more financial, technical, managerial, and political assistance from state officials to combat local or regional challenges.

How does home rule help municipalities control deficits and reduce the size of government?

The study found that municipal officials who desire more deficit-reducing options can use their enlarged powers toward that end:

1. To reduce their property tax levy, municipal officials can take advantage of the increased options they already have to expand and diversify their community's tax base.
2. Expenditures can be reduced by using their government's authority to reduce the number or scope of their service responsibilities or to devise alternative service delivery methods.
3. Municipal officials who want to increase the probability of avoiding a deficit and diversify or increase their General Fund revenues can focus their attention on improving the quality of

table*four* **Performance Variables Unaffected by the Presence of Home Rule**

- Total FY 2009 revenues/capita
- FY 2009 expenditures/capita
- FTE Employees/1,000 people
- Number of performance measures used
- Citizen perception of service quality
- Use of performance variables
- Effects of cutbacks on service performance
- General Fund deficit (if one existed)
- Changes in General Fund revenue/capita
- FY 2009 property tax levy/capita

their relationships with state officials. They can also work more closely with state officials, and work more closely with other municipalities through professional associations such as the International City and County Management Association, Government Finance Officers' Association, National League of Cities, the National Association of Budget Officers, the League of Municipalities, and other professional associations. With more flexible powers, they can more easily utilize the tools proven more successful in other communities.

Did the study find any relationship between home rule and municipal performance?

The 22 municipalities reporting the greatest use of broad powers were each asked, in a follow-up question, to describe and evaluate one activity or project they had undertaken that would **not** have been possible without their broad (i.e. home rule) grant of powers. Ten responded to the question. Their responses provided evidence that their home rule powers had enabled them to undertake projects which *enhanced their communities' quality of life, economic prosperity, fiscal health, and performance in ways that would not have been possible without the broad kinds of powers made available by home rule or some other similar broad grant of power by the state.*

The experience of the Village of Addison, Illinois (est. 2008 population of 39,917) is a case in point. Addison had the fifteenth highest total municipal discretion score in this study. Thirty years ago, the village used its home rule powers to develop a rental licensing and inspection program designed specifically to protect and enhance the quality of life in the community. At that time, Addison had over 4,300 rental units in the community – about one-third of all residential units in the community were occupied by tenants. Most apartment buildings were under individual ownership – many such owners were part-time, non-professional, and non-residents of the community. There was neither uniform maintenance or leasing standards nor homeowners' associations to help ensure adequate property maintenance. Lacking any clear statutory authority to address the issue, the Village used its home rule powers in an effort to establish a minimum level of property maintenance standards and a healthy living environment in the rental units.

Initially, the Village inspected every unit once a year and assessed licensing fees to cover municipal costs. Over the years the Village has been challenged in court by landlords and tenants, for violating their individual rights, but the Village has always prevailed. In the late 1990's, the Village revised the program significantly to provide incentives for landlords to invest in and maintain their buildings. The Village established a scoring system for inspections and categorized buildings as "Very Good", "Good", and "Unacceptable." Rentals classified as "Very Good" have their inspections and fees waived the following year; "Good" rentals have one inspection per year and an additional exterior-only inspection; and "Unacceptable" properties have a second inspection the same year and two additional exterior-only inspections. Fees are charged for all "re-inspections."

The message to landlords has been to invest in their buildings rather than pay fees. Evidence suggests that the incentive program has been very successful: the percentage of "Very Good" rental units has increased from about 20 percent of all rental units to about 30 percent, and the percentage of "Unacceptable" rental units has decreased from about 20 percent to 10-12 percent.

Last year, the Village added a Crime-Free Multi-Family Training Program (Program) that trains landlords on tenant selection and other management issues. So far, about 90 percent of the landlords have completed the program training. The Village has also recently resurrected the Landlord and Tenant Commission with the purpose of strengthening communication between landlords, tenants, and the Village.

According to John Berley, the Director of Community Development in Addison, "Addison's rental neighborhoods have improved immensely over the years as a result of the rental licensing and inspection program. The program has also made it possible to maintain the increasing number of single family rentals in the community due to foreclosures. Without home rule, the Village could not have done any of this."[10]

Addison's experience with the use of this program to maintain the quality of the community's rental housing supply has been copied by a number of other home rule governments in Illinois. This particular use of home rule power has also generated opposition to Illinois' system of home rule by some state wide realtors' associations.

Conclusion

This study, based on a national survey of municipalities comparing municipalities with broad powers to those with more restricted powers, found no evidence that officials in municipalities with broad grants of power from the state, such as home rule, misuse those powers. Municipalities with more tax and borrowing powers did not levy higher taxes per capita and they enjoyed better credit ratings. Thus, there is no reason to believe that increasing local government powers would cause or lead public officials

to become less trustworthy, responsible, responsive, fair, or effective in using their governmental powers or fulfilling their governmental responsibilities.

Proponents of municipal discretion – home rule – can thus make the case that the results of this study offer evidence that home rule government is no more likely to lead to financial mismanagement, but is more likely to foster programs that protect and enhance the quality of community life.

Finally, this study offers the first real evidence that home rule communities, with their more flexible powers, are better able to use more deficit-reducing strategies to reduce the budget deficit and control the growth of government.

Appendix A: Survey Methodology

Because municipalities vary in their fiscal, cultural, economic, historic, political, and social characteristics, it is also likely that they might vary in the way their government officials use the powers of their office. An index was developed that makes it possible to measure municipal discretion across municipalities. The municipal discretion index includes 22 indicators across five categories. A municipality can earn up to 25 points for each indicator. The scores for the indicators in each category are averaged. The scores for the five categories are added to come up with a total discretion score for each municipality. A maximum municipal discretion score of 125 is possible for each municipality. The higher the municipal discretion score, the more municipal discretion (home rule) that is permitted by the state and used by the municipality.

Table A-1 on the next page, describes the five categories and 22 indicators comprising the municipal discretion index.

Research methods

The study, conducted in summer 2010, examined whether there has been a difference in performance between empowered and less empowered municipalities. With the assistance of the International City/County Management Association, an on-line survey of city managers in municipalities over 2,500 in population was conducted. Out of the 3,014 city managers contacted by ICMA, 269 municipalities from 43 U.S. states completed the online survey, for a response rate of 9 percent. Because the response rate of the survey was only about 9 percent, the author analyzed whether the 269 respondent municipalities were representative of 18,213 U.S. municipalities over 2,500 in population. The analysis demonstrates that the sample is significantly over represented in all population classifications above 5,000 persons and significantly underrepresented in the 2,500-4,999 population. Therefore, the results of the study cannot be generalized beyond the study sample.

The relationship between municipal discretion and 13 performance variables was tested, controlling for 2008 estimated population, percent of population growth from 2000 through 2008, population density, form of government, region, poverty level, per capita income, percent that have a college degree or higher, race, and political culture. Table 3 in the text (page 3) shows the 13 performance variables used in this study.

The author also invited the city managers (administrators) in the 22 municipalities with the highest total municipal discretion scores to describe and explain one project/, program, or initiative that would not have been possible but for the home rule authority granted by state officials, the support and will of the elected officials, citizens, and staff expertise. City managers were also asked to evaluate the impact of the project/program/initiative on the municipal organization and community.

Endnotes

[1]Zimmerman Joseph F. 1995 (Second Edition). State-Local Relations: A Partnership Approach. (New York: Praeger).

[2]Banovetz, James. 2002 "Illinois Home Rule: A Case Study in Fiscal Responsibility." The Journal of Regional Analysis and Policy, Volume 32: 1, 79-98.

[3]Ibid.

[4]Banovetz, James and Thomas W. Kelty. 1987, "Home Rule in Illinois: Image and Reality," Illinois Issues, Springfield, IL: Sangamon State University.

[5]Banovetz, James. 2002 "Illinois Home Rule: A Case Study in Fiscal Responsibility." The Journal of Regional Analysis and Policy, Volume 32: 1, 79-98.

[6]Ibid.

[7]Dye, Richard F. and Therese J. McGuire. 1997, "The Effect of Property Tax Limitation Measures on Local Government Fiscal Behavior." Journal of Public Economics, Vol 66, 469-487.

[8]Banovetz, James. 2002 "Illinois Home Rule: A Case Study in Fiscal Responsibility." The Journal of Regional Analysis and Policy, Volume 32: 1, 79-98.

[9]Temple, Judy A. 1996, "Community Composition and Voter Support for Tax Limitations: Evidence from Home-Rule Elections." Southern Economic Journal, Vol 62, No. 4 (April), 1002-1016.

[10]E-mail from John Berley, October 26, 2010.

table*A-1* Municipal Discretion Index Categories, Indicators, and Points

1. **Legal Definition**
   a. Scope of legal home rule authority. City Charter (25); State Constitution (20); State law/charter (15); State law (10); None

2. **Structural**
   a. Number of state mandates. None (25); Few (15); Many (0)
   b. Authority to exempt itself from a state statute? Yes (25); No (0)
   c. Has the municipality exempted itself from a state statute? Yes (25); No (0)
   d. How often has the state enacted special legislation that constrains municipal discretion? Never (25); Occasionally (15); Frequently (0)
   e. How often has the state enacted special legislation that expands municipal discretion? Frequently (25); Occasionally (15); Never (0)
   f. Difficulty of annexation. Only city ordinance (25); city ordinance and public hearing (20); Property owners affected by annexation must petition the city or a village-wide vote is required (15); Annexation must be approved by the county, a special commission, state legislators, administrative judge, or a state agency (10); Annexation is permitted by law but is not possible due to no unincorporated territory surrounding the city (5); and annexation not permitted by state law (0)

3. **Functional**
   a. The number of programs/initiatives used by the municipality (13 programs/initiatives were identified in the survey). One point for each program. Thirteen or more programs earn the maximum 25 points.
   b. Number of functional responsibilities permitted and used by municipalities. 26 functions/services were identified in the survey plus an option to list other functions performed by the municipality. One point for each function, not to exceed 25 points
   c. Number of approaches to intergovernmental cooperation used by a municipality. 22 methods were identified in the survey plus an option to specify other approaches used. One point for each intergovernmental approach used. 20 or more intergovernmental approaches is equivalent to 25 points.
   d. Types of economic development initiatives used by the municipality. 15 types of economic development initiatives were identified in the survey. One point earned for each initiative through 10 initiatives. Two additional points given for each additional initiative from 11-16 initiatives. 17 or more economic development initiatives earns (25 points)

4. **Fiscal**
   a. Is your municipality subject to a state mandated property tax lid? No (25) and Yes (0)
   b. Is your municipality subject to a state mandated expenditure lid? No (25) and Yes (0)
   c. Does the municipality have authority to issue bonds for working capital? Yes (25) and No (0)
   d. Does the state government require the municipality to approve a balanced budget? No (25) and Yes (0)
   e. What is the municipality's general obligation debt limit according to state law? No debt limit (25); Over 100% of AV (22); 30%-100% of AV (19); 20-29.99% of AV (14);10-19.99% of AV (9);1-9.99% of AV (4); 0% of AV (0)
   f. What percent of the statutory general obligation debt limit is the municipality's current outstanding debt? 100% (25); 80-99.99% (20); 60-79.99% (15); 40-59.99% (10); 20-39.99% (5); 10-19.99% (3);1-9.99% (2); and 0% (0).
   g. The number of revenue sources used by the municipality. 32 revenue sources were identified in the survey. Respondents could also identify other revenue sources used by the municipality. 25 or more revenue sources (25); one point for each revenue source used through 24 revenue sources.

5. **Municipal Officials' Influence with State Officials** (4 indicators that can earn a maximum average of 25 points)
   a. Rate the level of success that municipal officials have with state legislators regarding preservation/enhancement of municipal discretion? High (25); Moderate (15); Low (5); None (0).
   b. Rate the level of success that municipal officials have with the Governor regarding preservation/enhancement of municipal discretion? High (25); Moderate (15); Low (5); None (0)
   c. Rate the level of success that municipal officials have with state bureaucrats regarding preservation/enhancement of municipal discretion? High (25); Moderate (15); Low (5);None (0)
   d. Rate how influential professional organizations are with state officials regarding preserving/enhancing municipal discretion. High (25); Moderate (15); Low(5); Not influential at all (0)

About the Author

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