

### Flyways of Gray Bats

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### AN ECONOMIC ANALYSIS OF MUNICIPAL GOVERNMENTAL BUDGETING: THE CASE OF THE BIRMINGHAM, ALABAMA GENERAL FUND<sup>1</sup>

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#### ABSTRACT

Classic public finance studies on municipal governmental budgeting have centered on the budgets of large metropolises. This paper examines these studies of large cities and applies similar analysis to Alabama's largest municipality - Birmingham. The Fiscal Year 1986 was selected because while serving as Financial Officer to the Birmingham City Council, the author was in a unique position to observe and collect information regarding the interactions between the City Council, the Mayor, the Budget Office and the Birmingham Citizenry. Also the author kept extensive records on the budget process for that particular fiscal year. At least three economic phenomena were apparent in the Council's passage of a General Fund budget - incrementalism, non-optimal unanimous agreement and agenda control.

#### INTRODUCTION & METHODOLOGY

Municipal governments provide general local government services for specific units such as cities, towns, and villages. Birmingham, Alabama is a city large enough to provide an interesting case study, yet small enough to allow an inclusive study. With a population of 264,984 in 1992, Birmingham is the largest city in the State of Alabama and the 63rd largest municipality in the United States. (U. S. Bureau of the Census, 1994)

"Case studies are the preferred research strategy if one wants to learn the details about how something happened and why it may have happened." Case studies combine sources of information. The investigator "must have access to the people involved." In addition, documentation (such as source documents in producing a budget), participant observation and direct observation are other elements of the case method of research. (O'Sullivan and Rassel, 1995). Using theories on budgeting that have been used in the examination of federal, state and local governmental budgeting practices, this

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case study examines the Birmingham General Fund Budget. Table 1 summarizes the total City budget approved on May 21, 1985. Of these individual budgets, the General Fund is the largest and defines the scope of this paper. The General Fund's revenue comes from the sales and use tax, the occupational tax, and fees from licenses and permits. The General Fund Budget represented the greatest total expenditure (67%) of all the City Budgets.

TABLE 1  
CITY OF BIRMINGHAM BUDGET FOR FISCAL YEAR 1986

General Fund	\$127,254,147.39
Airport Operating Fund	\$ 8,119,208.00
Debt Service-Bond Sinking Fund	\$ 13,337,638.61
Community Development Block Grant (An Additional \$5,050,000.00 of CDBG is in the Capital Budget)	\$ 3,360,000.00
Revenue Sharing (An additional \$6,980,710.00 of Revenue Sharing is in the Capital Budget)	\$ 2,100,000.00
Capital Budget	\$ 35,265,727.00
Total of All Budgets	\$189,476,721.00

The next three sections of this article examine the theory and application of three different economic analyses. Following that are some concluding remarks.

#### INCREMENTALISM: THEORY AND APPLICATION

An incrementalist approach focuses upon the percentage changes for line items between years. (Lynch, 1985; Wildavsky, 1986) The motive for public policy makers employing incrementalism is that "policy analysts have an idea of present conditions, present policies, and present objectives," as a reference point for the future. (Braybrooke & Lindblom, 1963). In governments, line item budgeting has gained wide acceptance and provides the analyst with the base which is completely vital to an incrementalist policy. (Wildavsky, 1986) It takes some time for new programs or line items to have

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a base from which to annually start from. After a few years, a base can be developed for a new budget line item and the item becomes entrenched in the incremental process. (Wildavsky, 1986)

Crecine's classic study on the application of the incrementalist model concerned Cleveland, Detroit, and Pittsburgh using data from a portion of the 1960's. (Wildavsky, 1986) These three cities had mayor-council forms of government at the time of the study, with the mayor's office attempted to gain the greatest accuracy possible in revenue estimations, including comparisons with independent, outside estimations. (Crecine, 1969)

On the expenditure side, the executive branch gives "explicit" instruction to the department heads, that reflects any anticipated changes in revenues over the last budget which was passed. The department head first formulates his "regular departmental request," explaining changes in expenditures over a current appropriation. Since department heads may ask for "more than they really need, the mayor's office is expected to cut these requests in order to balance the budget." (Crecine, 1969) To do this, the executive branch determines the expenditures necessary to maintain present programs during the next budget period and makes a comparison to total expected revenues. "If a surplus is indicated, a general salary increase is considered for inclusion in the budget along with increases in various departmental appropriations or special programs of the mayor." The mayor's objective is to put together a proposed budget which is balanced, at least maintains existing service levels, and when possible provides for increases in city employee wages and avoids tax increases. (Crecine, 1969) Having an idea of the mayor's proposed budget, department heads can argue over the department increases or cuts before he presents it to the council. When the Mayor presents his proposal he outlines the local economy, revenue estimates, changes in expenditures from the previous year, and a list of deserving programs or projects that could not be included because of lack of revenue. After the council examines the mayor's proposal, the council tends to approve the mayor's budget "almost exactly as submitted after a series of public hearings where interested parties plead their cases (usually for increased expenditures for some purpose or a decrease or elimination of a tax)." (Crecine, 1969)

The mayor's office is charged with providing a balanced budget. If any change is made in any part of the budget, another part of the budget must be changed in the opposite direction by the same magnitude. The council realizes this, along with the fact, that in Crecine's three city example, approximately 70 percent of the budget goes to pay salaries. Thus, major revisions in salary policies would have to bring about major changes in tax policies. The mayor has staff working in the mayor's office and in the finance department, but "the council has neither the staff nor inclination to undertake such drastic revisions" of the budget. (Crecine, 1969)

In his study of the budgetary process of Oakland, California, Wildavsky found that councilors adamantly disliked cutting personnel. Also the finance department and the city manager endeavor to create a "surplus for unforeseen events." It was clear in Oakland that councilors "do not have time to pay attention to the whole budget." However, if "pet projects" are taken care of, then the rest of the budget "goes by without review." Wildavsky concurs with Crecine's opinion that because of limited time and staff the council "usually rubber stamps" the mayor's or city manager's proposed budget. (Wildavsky, 1986)

#### *Shifting Decisions to Lower Level Bureaucrats*

Municipal government department heads are asked to prioritize requests, increments that differ from the current fiscal year being sent up to the policy-makers for review. (Wildavsky, 1986) Thus, "the higher level is merely shifting part of the responsibility for final decision to the lower level," where there are bureaucrats with a "working knowledge" about "the policy outcomes which these expenditures will purchase." (Wildavsky, 1986; Jackson, 1983) "The government can and does act as an interest group" because the government employees who oversee and administer certain programs are a built-in, self-serving interest group, viewing their programs as worthwhile and naturally wanting to maintain their jobs. (Holcombe, 1986)

Lacking time, information and staff, policy-makers rely on the bureaucrats to "propose new programs and to make a case for larger expenditures in old programs." (Niskanen, 1971) Recognizing the lack of profit maximization in government, Niskanen proposes using the natural competition of bureaus to cut down on costs while still increasing services, by allowing bureaucrats to share in any savings gained in the cost of government programs which the bureaucrats presently do not share in. (Ekelund & Hebert, 1983; Niskanen, 1971) Furthermore, he supports the "periodic random reassignment" of review agents because, over time, they tend to become advocates for particular programs. (Niskanen, 1971)

#### *Incrementalists versus Non-Incrementalists*

Politicians widely use incrementalism to limit the focus of budgetary decisions, to lessen political differences, and to adapt to revenue and service obligation constraints. Choosing to build on the previous year's balanced budget, incrementalism is adaptable to any balanced budget constraint. Steps necessary to maintain existing service needs can be corrected year by year. (Lindblom, 1959, 1965; Wildavsky, 1986; Schick, 1969)

Often "what is feasible politically is policy only incrementally, or marginally, different from existing policies." (Lindblom, 1968) Politicians who disagree over

ideology can agree more easily on the increments of change in the future funding of present government programs. (Lindblom, 1959) The incrementalist approach is helpful in its tendency to lessen conflict (Schick, 1969) by "reducing the area open to dispute." (Wildavsky, 1986) Incrementalism reduces and simplifies decisions to short-run, pragmatic solutions. (Herber, 1975; Sharansky, 1972; Wildavsky, 1986) Incrementalism can be thought of as a "rules of thumb" method to find a satisfying solution, defined as a search for an acceptable rather than an ideal solution. (Heiner, 1983; Simon, 1979; Lynch, 1985) Because of "limited knowledge and ability," individuals or groups suffice because there is lack of "wit" to maximize utility. (Simon, 1955; Jackson, 1983)

A consensus from all the policy-makers is the objective of incrementalist budgeting rather than "some conscious form of pure rationality." (Lee and Johnson, 1977) With no clear public attitudes about the existing budget, incrementalism provides a safe bet, since small changes involve only small risk. (Lindblom, 1959)

With the common practice of line-item budgeting, it is easy to determine increments of change from year to year, allowing the budget office to tell a department "No" on particular items, before a budget is proposed to a city council. (Schick, 1964) The processing of all possible factors of a budget from scratch each year would necessitate "intellectual capacities and sources of information that men simply do not possess." (Lindblom, 1959)

There have been arguments that incrementalism does not produce a thorough examination of the budget, giving too little thought to the question of the government's optimal use of budgetary resources. Schick states that incrementalism employs "fragmented and piecemeal tactics," giving a "partial view," a "retrospective bias," a reliance on and acceptance of the "base." (Schick, 1969) LeLoup dislikes the "bias" of incrementalism "against change," with no complete review of the entire budget. LeLoup thinks that annual revenue constraints and existing service constraints are not evidence of incrementalism. (LeLoup, 1978) Both incrementalists and non-incrementalists accept these budget constraints. It is just that incrementalists refer to policy-maker's behavior regarding these constraints as incrementalism.

Although the annual passage of a budget is not the only budgetary decision made, LeLoup points out that "incremental theories focus on annual appropriation decisions." (LeLoup, 1978) Schick thinks that "increments are negotiated in bargains that neglect the outcome" of the particular program in a budget. (Schick, 1969) Incrementalist approaches to budget decisions are plainly motivated by political forces rather than any comprehensive cost-benefit analysis of programs. (Lee and Johnson, 1977)

The desire to achieve optimality is the supposed major difference between incrementalism and what some scholars refer to as the "pure rationality approach." (Lynch, 1979) In a few words, "using the rational model is merely defining one's goals, analyzing the available alternatives, and selecting the alternative that best meets the goals." (Lee and Johnson, 1977) Unlike a purely rational evaluation of a society's present goals, incremental budgeting is a political approach to budgetary decision-making, which outweighs calculations of optimality. Yet proponents of incrementalism espouse the ability of incrementalism to simplify decision-making, smooth over political differences, and to serve as an adequate description of the municipal budgetary process.

#### *Birmingham General Fund*

The Alabama State Legislature 1955 Mayor-Council Act, as amended, serves as the City of Birmingham's Constitution. It stipulates that the fiscal year is to run from July 1 to June 30 and mandates that departments must supply the finance director with "estimates of revenue and expenditure" for the coming fiscal year. With the departments and other agencies supplying information to the finance director, one can recognize the situation referred to by Crecine, Wildavsky and Niskanen of relying on input from knowledgeable bureaucrats. During the budget hearings, the different departments and other agencies meet with the Finance Department and representatives from the Mayor's Office and the Council Finance Officer in order to review budget requests. After all the material is in, the Birmingham Mayor submits a balanced General Fund budget and the other budgets outlined in Table 1. In presenting the budgets to the Council, the Mayor delivers his budget message, which focuses on changes from the most recent budgets.

In putting together the Mayor's Proposed General Fund for Fiscal Year 1986, the Mayor and his staff begin with the basic premise that present service levels in the City of Birmingham were to continue. Realizing that experts within each department or agency could better understand the specific needs of their individual department or agency, the Mayor and the Council shifted some of the decisions down to the department or agency level. There is much evidence, as well as a self-admission on the part of the politicians, of using an incremental approach to budgeting when considering the General Fund.

Upon reviewing the Mayor's Proposed Budgets, the Council may make amendments to them. However, any additions to the General Fund must be made up with deletions of equal magnitude in another part of the budget so that proposed expenditures will equal estimated revenues. The Mayor-Council Act precludes the Council from estimating revenues, "except to correct omissions or mathematical errors." (Mayor-Council Act) Therefore, the General Fund revenue estimates are the

responsibility of the Mayor and the Finance Department. The presentation of the General Fund in the Birmingham case is similar to what Crecine, Wildavsky and Lindblom found in their studies, in terms of the proposed budget including comparisons to existing revenues, expenditures and program objectives.

Adoption of the General Fund does not mean that it will not change during the year. Additional appropriations can be made, but require approval by the Council and the Mayor, with the Finance Director certifying that such sources of funds are available. (Mayor-Council Act)

Since the Council relies heavily on the Finance Department and Mayor's Office to sift through information presented in formal budget requests, it would be helpful to focus some attention on the major players in the budgetary process. Aside from the Mayor, there were three other major participants who prepared the Mayor's Proposed General Fund for Fiscal Year 1986. Richard Martin was the City's Finance Director, Leonard Adams was the Budget Director, and Len Gedgoudas was the Mayor's Principal Analyst. Information on how these men decided matters through the budgetary process was provided through direct observation and personal interviews. In formulating the Mayor's Proposed General Fund, much of the reliance on a base revolved around appropriations for personnel. Finance Director Martin, Budget Director Adams, and Principal Analyst Gedgoudas have all stated that much more than half of all the General Fund is made up of personnel appropriations. Lay-offs are rarely contemplated. Martin spoke of a base of services, which most local governments provide. If any funds are available, the City can fund programs beyond that base.

Adams stated that 95% of the appropriations are pre-determined due to continuing programs including some mandated by State Law such as the Transit Service appropriation. Martin, Adams, and Gedgoudas spoke of the existence of fixed costs such as utility expenses. In looking at the various budget requests, Martin explained that budget agents will ask for additions and deletions of the different parts of the appropriations to a department, commission, or agency. The changes are based on changes in publicly provided services. Requests are usually for additions, rather than decreases of appropriations. However, unrequested appropriations can be added to a department, commission, board, or agency due to the fact that there may be another program that the Mayor's Office and Finance Department think is desirable, but that the department, commission, board, or agency budget request did not take into consideration.

Gedgoudas compared the different budget agents as members of one family who are able to give up some of their appropriation in order to help a department that has run into unexpected difficulties. If a department or other budgeted program does not spend

all of its appropriation one year, the department or program is not consciously cut the next year. However, according to Martin, each line item appropriation is based largely on an estimate of what is needed. For the most part, this was determined in the case of Fiscal Year 1986 on the latest available line item appropriation for Fiscal Year 1985 and on the actual expenditures of Fiscal Years 1983 and 1984. Although an estimate is made from information of past years, no formal mathematical relationship is used. Added to the base of continuing existing services are any additional appropriations necessary for new programs. Likewise, subtractions can be made from this base if programs are deleted. Yet even with a reliance on the past spending and appropriation patterns, Martin stated that, "The last thing anyone would want to do is punish a department or other agency for not spending all of its appropriation." Adams pointed out that with quarterly reviews of the budget, the Finance Department and elected representatives are able to guide departments into a conservative use of money by sometimes taking away parts of the different department's appropriations which are deemed unnecessary in light of new information.

As to using a program budget or zero-based system, Martin said that the present organization of the Budget Office printouts could be easily used for a conversion from incrementalism to program, or zero-base, budgeting. To him, program and zero-base are roughly the same thing. Adams, Martin and Gedgoudas stated that incrementalism is used to a degree in their budget preparation. In speaking of how actual budget appropriations are spent on different programs, Gedgoudas and Adams stated that the Mayor relies heavily on the judgment of the department heads. In addition, Adams stated that there was the possibility of mayors sometimes rewarding efficient department heads with salary raises and other benefits. Gedgoudas and Martin were not as certain about efficiency being rewarded.

Of course, the principal player in the formation of the Mayor's Proposed General Fund was Mayor Richard Arrington, Ph.D. In regard to starting out each fiscal year's General Fund with a base to add to, Arrington stated that, "Basically, that is the case." He also spoke of "limited parameters" in the formulation of a proposal for a General Fund because the General Fund could be affected by other City budgets. For example, if federal funds to the City were cut, the Capital Budget would be affected first since so much of the federal revenue tends to go toward projects in that budget. Nevertheless, in trying to re-establish the Capital Budget if such federal cuts occur, the revenues normally put into the General Fund could be affected.

Regarding efficiency, Arrington stated, "It is so important that a person elected by the people be accountable for efficiencies and inefficiencies," though it may not be possible to do so as Niskanen suggested. In addition, since the functions of the City

government will continue whether or not they are efficient, there really is little pressure for efficiency. However, Arrington did express the desire to be able to do more for his outstanding employees than was allowed under the current personnel system, which limits the mayor's freedom to choose his department heads. Currently, the Jefferson County Personnel Board provides the City of Birmingham with lists of certified applicants from which the mayor can choose a department head, but only if there is a vacancy. Otherwise, the mayor is saddled with department heads chosen by previous mayors. This effect is compounded by the mayor being saddled with people chosen by those department heads.

As mentioned earlier, Arrington spoke of a special reliance on the Council President and the Council Finance Chairman in getting the budget passed. At the time of the adoption process for the Fiscal Year 1986 General Fund, David Herring was the Council President and William Bell was the Finance Chairman. An incremental approach is accepted by both since they think that a zero-base budgeting system would result in nearly the same appropriations. Herring stated that the amount of an employee pay raise is decided many weeks before the Mayor's Proposed General Fund is presented. (The Council approved the five percent pay raise for Fiscal Year 1986, publicly submitted by the Mayor's Office.) Bell expressed the view that "Ninety percent of the budget is so basic, and thus virtually predetermined." Both men agreed that it was prudent that decisions of how to spend individual appropriations be shifted down to the experts at the department and agency level. Bell stated he "would like to see further decentralization of decisions outside of City Hall." Yet according to Bell and Herring, major policy decisions would still be made by the politicians. Neither of the two men see any way to ensure efficiency under the present civil service system. As Bell stated, "internal controls are given up to protect the City employee under the civil service system." Bell also thought that City employees should be rewarded by elected officials.

One can note the relationship between the previously discussed theories concerning budgeting and Birmingham's budget process. Starting with the Council's reliance on the Mayor and his City employees to construct a budget, the most memorable quote would likely be that of Martin, "The Council reacts to the Mayor's budget." Crecine found, in his studies, that the mayor was charged with the responsibility of putting together a budget for the council to work with. In developing his Proposed General Fund, the Mayor and his budget staff accepted the idea that a new General Fund builds upon the most recently adopted General Fund, due to the City's continuing obligations. Similarly, Lindblom, Crecine and Wildavsky have acknowledged the existence of a base of appropriations, which will continue operations into the coming year. However, one can note that Lance Lefloup, a critic of incrementalism, also acknowledges the existing service constraints which public administrators face in forming a budget. As stated before, since both incrementalists and non-incrementalists accept the

influence of continuing service obligations in the governmental budgeting process, there is really no need to decide if this particular concept is incrementalist or not. The concept of bureaucrats acting as advocates of their own budgets applies to the Birmingham case. In forming a proposed budget, the Mayor and his budget staff counted on the department and agency heads for input. As Gedgoudas, Martin and Adams have pointed out, the department and agency budget requests are concerned primarily with the continuation of employee salaries and other benefits, as well as standard supplies and service expenses. The shifting down of decision-making to the department and agency levels has been described by Niskanen, Jackson, and Crecine.

Outside of weekly Council meetings, the Council had budget negotiation meetings with representatives of the Mayor's office. The first time was on April 8th, 1985. Between the first and second Council budget meeting on April 29th, the Council Financial Officer produced an analysis of the Mayor's Proposed Fiscal Year 1986 General Fund and Airport Operating Budgets based on a comparison to the latest Fiscal Year 1985 appropriation. At that time, as specifically requested by the Council, a comparison was presented using a percentage analysis with Fiscal Year 1985 appropriations serving as the base. The next morning at the weekly Council meeting, the Mayor gave his formal presentation and speech on the entire Fiscal Year 1986 Mayor's Proposed Budget.

Council President Herring was the only Councillor who attended a meeting in regard to the Capital Budget, since the other Councillors had decided to forward their concerns to Herring. Also at the capital budget meeting were Mayor Arrington, Gedgoudas and the Council Finance Officer. Representatives from the press were only at the April 8th and 29th negotiation meetings, where the whole Council met. Of course the press was also at the weekly council meetings and the Public Budget Hearing.

Council's specific request for an analysis using percentage comparisons between fiscal years was surely evidence of incremental analysis. The Council used Fiscal Year 1985 as a base and focused on large increases in the appropriation for Fiscal Year 1986, with decreases given little attention. For their convenience, the Council Financial Officer suggested that the Council use an expected inflation rate of roughly 4%, based on predictions of the Federal Reserve Board and Congressional Budget Office. Many of the appropriations in the Mayor's Proposed General Fund actually increased by 5%.

Based on Finance Director Martin's interpretation of Article III of the Mayor-Council Act, the Council is restricted from cutting any existing personnel, because the Mayor is in charge of all City personnel outside of the Council Office. According to the Finance Department and Mayor's Office, less than ten people have been laid off in ten years. However, on occasion the City will cut out vacant positions.<sup>21</sup> For example, in the Fiscal Year 1986 General Fund, the Mayor proposed and the Council accepted the deletion of one elevator operator position in the Buildings and Inspection Services Department. The Council gives attention to adding personnel to last year's base and

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cutting vacant positions. This would naturally lend itself to the Council adopting an incremental approach, because the base appropriation is so entrenched. Similar situations were found in Crecine's studies.

As the Council looked through the General Fund and asked about line items with large percentage changes, explanations were given to the Council by the Council Financial Officer. These large variations indicated policy decisions regarding those programs funded by the various appropriations. The Council realized that there was still the question of how lapsed funds from the Fiscal Year 1985 General Fund would be used. Funds are transferred out of the General Fund on a quarterly basis, with the third and fourth quarter transfers often used in anticipation of budget requests for capital equipment for the next fiscal year. In order to do this, some funds are transferred from Fund 1, the General Fund, to Fund 45, the Capital Improvement Fund. This is what happened to lapsed funds from the Fiscal Year 1985 General Fund. After the different departments made their budget request, including funds for capital outlay, the Budget Office and Mayor's Office made some decisions agreed to by the Council. Seven departments received transferred funds from other parts of the Fiscal Year 1985 General Fund in order for these departments to receive some capital outlay. Five of these seven departments received amounts very close to what their departments had requested. Only the Police Department and Street and Sanitation Departments had requests far greater than the total given by the Fiscal Year 1985 third and fourth quarter transfers, as well as by the Fiscal Year 1986 Adopted Budget appropriations. In the budget hearings it was apparent that Gedgoudas, Martin and Adams felt that those two departments were asking for too much.

After Fiscal Year 1985 was over, a remaining \$1,323,300 was moved from the General Fund (Fund 1), to Fund 45, the Capital Improvement Fund, which is completely distinct from the General Fund. This was necessary since the Mayor-Council Act states that lapsed funds must leave the General Fund at the end of a fiscal year. At the budget meetings, Council had requested another automobile for the Council Office. That vehicle was paid for out of Fund 45 with lapsed funds from the Fiscal Year 1985 General Fund, one of the ways the departmental or agency requests are met.

When looking at the Fiscal Year 1986 Mayor's Proposed General Fund, the Council came up with a number of questions, which the Council Financial Officer then researched and answered. The Mayor's Office, with its administrative authority over every part of City Government, except the Council Office, was able to demand thorough explanations of the Councillors' inquiries. Councillors had twenty-one specific questions concerning different areas of the Mayor's Proposed General Fund.<sup>22</sup> The responses ranged anywhere from one-half of a typed page to over twenty typed pages. The Council

asked many other questions, but the answers were relatively short and given verbally by either the Council staff, the Mayor's staff, the Budget Director, or the Finance Director. The Council's budget questions are important because of what they reveal about incrementalism. Council made some departures from an incremental analysis, including a comparison of how a City-run animal shelter program would fare in comparison to the present county-run program, the status of all youth programs and the status of some of the City parks. However, the vast majority of the Council's questions revolved around changes between Fiscal Year 1985 and the proposals for Fiscal Year 1986, and thereby suggest an incremental approach. Examples include information requests concerning personnel additions to the Street and Sanitation and Police Departments. There was also a desire by the Council to get a more in-depth incremental analysis over a five-year period for the Municipal Auditorium and the Art Museum.

Yet as LeLoup pointed out, the approval of annual appropriations is not the only financial decision of governments. The quarterly reviews the Council uses for the General Fund are an example of how the budget process, though most intense on an annual basis, is still a process that continues all year.

In presenting a balanced budget that maintains services and fulfills most of the City's and Mayor's commitments, the Mayor is able to create a situation where the Council cannot expect to make drastic changes. One can recall Lindblom's view that drastic changes from one year to the next are usually not possible. Since personnel are such a big part of the General Fund, Birmingham Councillors were put in a position similar to that found in the studies of both Crecine and Wildavsky.

The Birmingham Councillors needed something to compare a proposal to. The base in this case was the most up-to-date appropriation for Fiscal Year 1985, which is important because as previously stated, appropriations can change during the year. For the purpose of the Council analysis, the appropriations as of April 18, 1985 were used as the base with which to compare the Fiscal Year 1986 Mayor's Proposed General Fund.

For the most part, the Council left the Mayor's Proposed Fiscal Year 1986 General Fund intact. This is not unusual in comparing Birmingham to other cities. Crecine found the same phenomena in Cleveland, Detroit, and Pittsburgh, and Wildavsky in Oakland. Once the Birmingham Council realized that the Fiscal Year 1986 Mayor's Proposed General Fund was close to what had been expected, the Council accepted the proposal with a few amendments. This could be thought of as a satisfying decision. As Council President Herring stated, "We wish to thank the Mayor for giving the Council a good budget proposal to work with."

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One of the last formal requirements the Council was legally bound to fulfill before passing the City of Birmingham Budget for Fiscal Year 1986 was the holding of a Public Budget Hearing, which took place on the evening of May 14, one week before the Council would pass a budget. The hearing was attended by less than one hundred people with twenty-three of these individuals actually choosing to speak. Most of the people at the hearing were private citizens, either residents or non-resident taxpayers. Also in attendance were people from various organizations funded or requesting funding by the City. The only appropriation change that resulted from the Public Budget Hearing was the increase in the appropriation for the Jefferson County Board of Health Rabies Control. This only happened after the Board had threatened not to continue existing levels of service. All Council appropriation increases are outlined in Table 2.<sup>19</sup> Reasons for these increases were given in Finance Chairman William Bell's speech, "Council's Response to the Fiscal Year 1986 Budget as Proposed by the Mayor."

TABLE 2  
COUNCIL'S SPECIFIC INCREASES TO EXISTING APPROPRIATIONS  
AND NEW APPROPRIATIONS TO THE MAYOR'S PROPOSED GENERAL  
FUND FOR FISCAL YEAR 1986

Line Item Number	Description	Mayor's Proposal	Council Adopted
2803	Bd. of Education Community Schools.	\$436,000.00	\$493,000.00
2841	DART	\$ -0-	\$ 80,000.00
2823	Jefferson Cty. Board of Health Rabies Control	\$450,000.00	\$541,227.00
2859	Arts & Science	NA	\$ 50,000.00
2861	Marketing & Promotion	NA	\$100,000.00
Sloss Furnace Dept. 88	Added 1 Asst. Director  Added a restroom facility	\$253,730.75	\$325,611.15

The increases Council made to individual line items in the General Fund totaled to \$570,107.40, leaving the Budget Office to figure out how to re-balance the General Fund. Budget Director Adams knew from which parts of the Mayor's Proposed General Fund he could take money, without significantly altering any City provided services and still being able to fund the special projects the Council added to the General Fund. The two line items with the letters "NA" for Non-Applicable, in the Mayor's Proposed column are marked that way to distinguish them as new line items added by the Council. One temporary proposal made by the Council for the Fiscal Year 1986 General Fund was the cutting of the budget for the Art Museum by \$100,000; this occurred at the second budget meeting. It was predicted by many that the Art Museum appropriation would be restored by the Council before the Fiscal Year 1986 General Fund was passed. This prediction was borne out. The Council Financial Officer instructed the Budget Office to hesitate on the cutting of the Art Museum budget because he saw no need to have the Budget Office determine where to cut \$100,000 out of the Art Museum Budget when the Budget Office was, in all probability, going to have to replace the funds at the last minute. The Council's threat to cut the Art Museum's budget was intended solely to send a message to the Museum to not be so independent of the Council. (The Art Museum had neglected to invite the Council to an Art Museum function.) After the Council thought that the Art Museum understood the message, the Art Museum budget was restored to what the mayor proposed.

In addition Council President Herring requested that the City contract out cleaning services for the new building addition to the City Hall. After a comparison of costs was made and two bids submitted by private firms, the City did indeed contract out these services. It would have taken six city employees at a cost of \$100,480.72 to do the work for one year. Instead the City contracted out the service at a price of \$30,673.68, a savings of \$69,807.24, in addition to the cost of cleaning supplies. With the choice of hiring new employees or contracting out the cleaning service, the City could contract out for the services without displacing any existing employees. This is why such a choice was feasible in light of the elected officials' reluctance to lay off City employees. Saving money through the contracting out of janitorial services is a common practice in U.S. municipalities. (Poole, 1980)

The Birmingham Public Budget Hearing was similar to what Crecine found in his studies. Crecine (1969) noted that at "public hearings, interested parties plead their cases" often "for increased expenditures for some purpose." Due to the Jefferson County Board of Health Rabies Control Program representative making it clear that an increased appropriation was necessary for continued service, the Council gave that program an increase from the Mayor's proposal. A striking similarity between Birmingham and other cities concerns the amount of change the Council implemented on the Mayor's Proposed Fiscal Year 1986 General Fund. As mentioned, Birmingham Council's total changes

#### An Economic Analysis of Municipal Governmental Budgeting

amounted to \$570,107.40. The Budget Office knew where cuts could be made in other parts of the General Fund so that it would once again be balanced. As mentioned previously, the Fiscal Year 1986 General Fund totaled to \$127,254,147.39. Therefore changes which the Council made amounted to approximately .43% of the total amount of the General Fund. The studies of Crecine and Wildavsky found similar results, with the city councils changing little in the proposed budgets, as long as individual city councillors projects were taken care of.

TABLE 3  
STATISTICAL ANALYSIS

Category	Mean	Standard Deviation
<hr/>		
Non Departmental:		
FY 1986 with 5% Pay Increase	1.0842	.6695
FY 1985 Appropriation as of April 18, 1985		
<hr/>		
Departmental:		
FY 1986 with 5% Pay Increase	1.1126	.1902
FY 1985 Appropriation as of April 18, 1985		
<hr/>		
All General Fund Items:		
FY 1986 with 5% Pay Increase	1.0938	.5543
FY 1985 Appropriation as of April 18, 1985		
<hr/>		

According to Dempster and Wildavsky, any change between fiscal years of less than 50 per cent would appear intuitively to be incremental. (Dempster and Wildavsky, 1977). The means for appropriation changes for the departmental, non-departmental, and total budget are all well below fifty percent. (see Table 3) Furthermore the mean departmental increase was greater than the mean non-departmental increase. However, standard deviation figures show that the non-departmental increments of change tended to vary more than those of the departmental appropriations. The mean and standard

deviation figures for the total General Fund fell somewhere in between the departmental and non-departmental. A possible reason for the standard deviation being less for the departmental budgets than for non-departmental appropriations could have to do with departmental personnel. Appropriations for personnel constitute a solid base on which to build. Interviews with key players from both the executive and legislative branches revealed the importance of personnel appropriations.

#### NON-OPTIMAL UNANIMOUS AGREEMENT: THEORY AND APPLICATION

Another striking feature of the observed Birmingham budget process is that as the individual projects of different Councillors are added, there comes a greater chance of unanimity in the approval of the budget. A near-unanimous or actual unanimous voting pattern can be looked at in light of Pareto optimality, a state where all resources of a group are allocated so that welfare or utility is maximized for the group as a whole. (Downs, 1957) When Pareto optimality is reached, no re-distribution of resources can be made to make someone better off without making someone else worse off. (Buchanan, 1962; Herber, 1975; Buchanan, 1962; Doe and Friedlander, 1977) Buchanan argues that one should not expect a Pareto optimal solution under a majority rule setting because those citizens who oppose the wishes of the majority representatives are forced to pay for any legislation that is passed by the "dominant coalition" of majority of the political representatives. (Buchanan, 1962) "The larger the majority required, the more closely would the result approach a Pareto optimum." (Tullock, 1959) Whenever there is a "relaxation of the unanimity rule in the strict sense," and it is replaced by a "rule of relative unanimity or qualified majority (this) involves some cost in efficiency," and loss of Pareto optimality. (Buchanan, 1968)<sup>19</sup>.

Yet another view takes into account the motive of increasing the membership of a coalition beyond a bare majority in order to ensure stability. Although supported in an election by a variety of interests, after a politician is elected, each different point of view espoused from supporters vies to be the point of view that actually governs the politician's or his party's official stand on different issues. (Downs, 1957) W. H. Riker has pointed out that if a political group is able to split the benefits of being in power among as small a group as possible, then each member of that group could get the largest share possible so that the smaller a majority while still maintaining its majority power, the better off each member within the majority coalition would be. (Frolich, 1975) However, there is some instability in trying to maintain a majority coalition that is just barely large enough to pass legislation, whether it be legislation for a particular law or an entire budget. (Butterworth, 1976) For example Ferejohn's examination of the Congressional Public Works Committee revealed that Congressmen would support projects outside of their district to support members of the same state delegation and to ensure that such projects would continue to be in a federal budget. (Ferejohn, 1974)

Secondly, whether politicians are elected by districts or elected at large, supporting one another's individual projects brings politicians together in their common goal of being able to have special projects. Regarding unanimity, Brian Barry states, "The nearer a system comes to requiring unanimity for decisions, the more prevalent we may expect to find the 'pork barrel' phenomenon." This is because in order to get each member of a political body to agree to a budget requiring unanimous approval, each member of the group will have to be given some special project within the budget. (Ferejohn, 1974) "To guard against the possibility of cycles, the majority coalition incorporates everyone and provides an equal share of the total distribution to everyone," because "there is no difference between the stability of a less than unanimous coalition here and the stability of an economic cartel." (Holcombe, 1986)

The tendency toward unanimity having been established, it can be shown that a unanimous coalition can bring upon a non-optimal agreement because of "the divergence between the private interests of the representatives and the general public interest." (Holcombe, 1986) If a piece of legislation serves a special interest at the expense of everyone else, it would seem that the special interest legislation would be stopped. Yet it is often not stopped because those who would benefit most from the legislation are well-informed, while those who will receive only minimal benefits or be mildly harmed by it are "rationally ignorant." Each representative in a unanimous coalition is allocated a certain amount of support for his special interest projects in return for his support of other representative's "special interest legislation rather than looking out for the general public interest." (Holcombe, 1986) A non-optimal unanimous agreement occurs because a legislator will be in a "prisoner's dilemma" setting in which an individual legislator has an incentive to remain in the majority coalition and thus be in a position to serve the special interest groups that may aid in his re-election, rather than leaving the coalition and losing his share of special interest legislation. When deciding to vote for a single package type of legislation, Holcombe states, "Every representative has the option of joining the majority coalition or not, and every representative benefits from being a member as opposed to not being a member." If members of a legislative body are forced to vote for a package-type pieces of legislation when they do not agree with all the contents of that package, "an outcome that is not Pareto optimal is unanimously approved." Therefore a unanimous vote does not guarantee a Pareto Superior move because of the coercive power of a majority coalition. (Holcombe, 1986)

In taking into consideration the rational ignorance effect on the part of the public and the prisoner's dilemma produced by a majority coalition of elected representatives, one can conceive of a unanimously or near-unanimously approved budget being non-optimal. This does not mean that such a budget would have to be non-optimal but that such a budget would have the same possibility of being non-optimal as a budget passed by a simple majority.

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*Birmingham General Fund*

In looking at the case of the Birmingham General Fund one sees that approval comes through voting for or against the entire General Fund. One of the most important concepts concerning the Mayor's Proposed General Fund is the degree of input from the Councillors. Mayor Arrington stated that it is common practice during the year for Councillors to make direct requests of what should be included in the Mayor's Proposed General Fund and in other proposed budgets. These informal negotiations are encouraged so that the budget will come close to being acceptable by all parties involved. Therefore, Mayor Arrington has revealed that many of the items in the Mayor's Proposed General Fund are actually included in order to appease the different Councillors. In return the Mayor's items have a better chance of being approved. At the budget hearings, the Council Finance Officer complied with the request to forward any items that the Council wanted included in the Mayor's proposed budget. As far as efficiency is concerned, Mayor Arrington stated, "It is so important that a person elected by the people be accountable for efficiencies and inefficiencies." Herring and Bell both said that just as the Mayor respects the Council's wishes to include items in a proposed budget and an adopted budget, each Councillor respects the wishes of other Councillors to include their personal wishes regarding appropriations in the General Fund.

The amendments to the Fiscal Year 1986 Mayor's Proposed General Fund can be viewed in light of two other areas of economic analysis. As Niskanen points out, those reviewing a budget tend to become advocates. An example of this is Councillor Germany, who was Chairman of the Transportation and Communications Committee, looking out for the public transit, such as the DART program. Another is Councillor Miglionico wishing to insure the adequacy of funding for the Art Museum. Councillor Miglionico was chairman of the Park and Recreation Committee, which oversees the Art Museum. The Councillors were also respectful to each other's desire to have an input into the adopted budget. Holcombe has spoken of the willingness of elected representatives to support each other's special interest projects and has pointed out that if members of a legislative body are forced to vote for a package type piece of legislation when they do not agree with all of the contents of that package an act that may not be Pareto optimal can be unanimously approved. (Holcombe, 1983) It is uncertain if all the Councillors favored each other's amendments or the entire General Fund, or even the base presented them to work with by the Mayor. Yarbrough was the only Councillor to vote against the budget. All other Councillors secured individually requested additional appropriations in the General Fund. This was even true for the two Councillors absent - Miglionico and Collins.

The Mayor allowed input on the part of the Council, both in the Mayor's Proposed General Fund and in the Adopted General Fund. Likewise, the Council allowed

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individual Councillors to have input into the budget. It is not certain whether the Mayor and the Councillors truly wanted each appropriation that was finally adopted. However, it was demonstrated, in this instance, that in order to get one's own projects included in the Adopted General Fund, elected officials supported other elected officials' projects.

**AGENDA CONTROL: THEORY AND APPLICATION**

Also there is the question of the budget agenda which the Council has to vote on. In trying to understand the way public issues are decided, public choice economists have developed the median voter model which stipulates that "a majority rule system" tends to "select the outcome most preferred by the median voter." (Holcombe, 1983). The closer a candidate is able to come to selecting a platform that is the same as that of the median voter, the greater the chances of that candidate being elected. In public finance, the output produced takes the form of government goods and services. However, in the agenda control model "the agenda setter has the incentive and the power to manipulate the agenda in order to increase public sector output beyond the level most preferred by the median voter." (Holcombe, 1983)

To begin with, part of the agenda of a fiscal issue is often already set. For instance, when no budget is passed, the government's position falls back to a pre-determined position for such circumstances. "Examples of fall-back positions are zero expenditure and the previous year's expenditure," and termed the "reversion point." (Romer & Rosenthal, 1978 and 1979). The agenda setter is the person who determines what issues will be voted upon. "If the agenda setter were elected in a majority rule setting, then the representative government model would predict that the agenda setter would have been elected under the median voter's most preferred platform." This is because "elected agenda setters are likely to have platforms coincidental with the median voter's preference," because that is the action that would be most likely to result in the reelection of the agenda setter. Yet "agenda setters may respond more to special interest groups than to voters in general" who "are relatively uninformed about issues." The agenda control model does a good job of explaining the empirical results of some situations while the median voter can help explain others. (Holcombe, 1983)

*Birmingham General Fund*

The Mayor was able to set the agenda since he had a larger, more experienced staff and because he submits a proposed budget. The General Fund is adopted by a simple majority. The Council must adopt a General Fund Budget by the 20th day of June. There is a provision in the Mayor-Council Act that deals with the budget in case the Council fails to pass a General Fund Budget by that time. If a new budget is not adopted in time, the most recently adopted budget (i.e., the previous year's) will be used

for passage of the budget. Also, an incremental analysis does not question the basic purposes of different programs, so controversy is avoided which further saves time. Non-incrementalists have pointed out that budgeting is more than an annual appropriation process, they emphasize its dynamic aspects. In the case of the Birmingham General Fund this appears to be correct. Both during quarterly reviews and at other times throughout the fiscal year, the General Fund is amended in terms of appropriations and revenue estimates.

There was a reliance of the elected officials and the Finance Department on the different departments and agencies to come up with budget requests. Even the Mayor-Council Act goes a long way towards setting up this relationship. It states that departments and agencies are to submit and discuss proposed individual budgets. Requested increments of change tended to be for increases rather than decreases, which the Mayor and his staff had to decide upon. The municipal government does not have the incentives for efficiency that firms in a perfectly competitive market might have. (The author realizes that a very small percentage of private firms operate in a perfectly competitive market.) Even periodic political elections are no match for the daily tests for efficiency in a perfectly competitive market; consumers are able to "vote" whenever they purchase a good or service. Inefficiently produced goods and services will tend to disappear. However, most people who pay for and consume City goods and services do little to try to influence the production of those goods and services. (Less than 100 people showed up for the public hearing.) The lack of a definitive market mechanism to efficiently allocate government services provides a motivation for the incremental approach. With city officials not having market to define an equilibrium level of services, the least risky decision would be to continue most appropriations at or near the previous year's real level. Bases which are composed largely of personnel expenditures are rarely reduced, due to the concern for preserving City jobs.

Also, service levels are at least maintained at base levels whether they are needed or not. The few instances where the City contracted out to the private sector would only tend to occur if City workers are not displaced. These personnel constraints, along with the lack of a market for most governmental services, are two important reasons why budgetary changes tend to be incremental.

This study provides an example of how a budget is adopted, with the incentive of getting one's special concerns included in that budget. The Mayor has acknowledged that he attempted to include different Councillors' wishes in his proposed budget. Likewise, the Council as a whole was willing to let the individual Councillors and the Mayor have input into the budget. In the end, the Fiscal Year 1986 General Fund was adopted by a near-unanimous vote. Even if there may have been different items that individual Councillors disliked, and that the Mayor too may have disliked, the Mayor and

#### An Economic Analysis of Municipal Governmental Budgeting

most of the Councillors voted for the budget's adoption. It appeared that the most important matter to the Councillors was getting their own projects in the budget. In fact this was a major topic of discussion at Council budget meetings. Therefore the theory of non-optimal unanimous agreement appears to hold in this case study. Elected representatives approved an overall budget even though it contained individual appropriations they may have disliked because the adopted budget contains special interest items of their own and is voted upon as a "package-type" piece of legislation. One Councillor, who did not seek to amend the budget with a special project, voted against the adoption. This illustrates that joining the majority coalition is a method for guaranteeing that one will receive at least a special project in the budget.

Agenda control was found to be a privilege of the Mayor because the General Fund was adopted on the basis of one package vote, where each Councillor could either vote for or against the entire General Fund put up for adoption. The Mayor can get his budget proposal passed essentially intact by including some Council amendments. The Mayor can include Council concerns even earlier, before he ever submits a proposed budget. In this way, the Mayor is able to set the agenda to which the Council reacts. The Mayor-Council Act gives the Mayor the additional advantage of being able to submit the first proposal and thus also to set the agenda. The ability to control the agenda is enhanced by having the current year's budget as the reversion point or temporary alternative to adopting a new budget.

The theories of incrementalism, non-optimal unanimous agreement, and agenda control have evolved through the observation of many different governmental institutions at the federal, state, and local levels. It may be the nature of the political institution itself, rather than of particular politicians, which sets the stage. The budget process of the Birmingham City government has provided an example in which to observe these three theories in action to some degree. These three theories are related because they act together to reduce bargaining and decision costs through politicians employing incrementalism, politicians supporting each other's projects and the Mayor being able to set the agenda. This does not mean that there is no controversy, but that these three phenomena lessen that controversy. In this way, a General Fund is ultimately adopted by pursuing a satisfying solution.<sup>6</sup>

#### ENDNOTES

(2) It was pointed out by Councillor Herring that the Council could eliminate a personnel position, department or governmental function through the budgetary process.

(3) A list of those questions and responses can be found in appendix B of Gentle, 1986.

(4) The Councillors and the FY 1986 projects they lobbied for were: Herring, increasing line item 2823 and the budget of the Sloss Furnace Dept.; Bell, increase in line item 2803; Blakeship, inclusion of line item 2861; Germany, line item 2841 increase; Katapodis, inclusion of line item 2859; Miglionico made sure that funds were restored to the Art Dept. after Council temporarily suggested that the Art budget be cut by \$100,000; Myers made sure a mediation program in the Municipal Court was left intact, prior to the Mayor's budget proposal. Also Herring successfully lobbied for an appropriation of \$100,000 from the Revenue Sharing Budget for the Bear Bryant Building at the University of Alabama. Collins successfully lobbied for a \$10,000 appropriation for education regarding the Domestic violence program, also funded from the Revenue Sharing Budget. The Revenue Sharing budget was approved minutes after the General Fund Budget was approved, by the exact same vote. Yarbrough was the only Councillor to vote against the Revenue Sharing Budget, just as he voted against the General Fund Budget. Also, Yarbrough did not ask for any personal spending amendments to the Mayor's proposed budgets.

Steven Weeks was the Council Financial Officer during the passage of the Fiscal Year 1985 General Fund. At the time that General Fund was adopted, there was a Mayor's proposed tax increase voted upon the same day. According to Weeks, in order to get Councillors to agree to a tax increase, special projects from Councillors were included in the adopted budget. All but one Councillor present, Nina Miglionico, voted for the tax increase and adopted a budget. This shows how inclusion of special interest can result in a near-unanimous approval of a tax increase and budget.

(5) To clarify the cost of majority-rules legislation, Knut Wicksell proposes a "bridge" between government expenditures and specific shares of tax revenue to fund those expenditures, with proposals being required to receive unanimous support. (Buchanan, 1967)

(6) For a very detailed explanation of the adoption of the FY 1986 Birmingham General Fund, see Gentle, 1986. Included in that thesis are a more detailed literature review, a verbal and monetary description of individual line items, explanations for large variations in line item appropriations, questions and answers from the public hearing, speeches from the mayor and finance chair, and interviews from the principle players in the budget process. The Master's thesis committee was composed of Dr. Randall Holcombe, Dr. David Whitten and Dr. Francois Melies. Dr. James Buchanan, Economics Nobel Laureate for 1986, stated in a November 14, 1986 letter to Paul Gentle, that the Master's thesis contained "precisely the sort of empirical research that we need much more of." (Dr. Buchanan had been the dissertation chairman for Dr. Holcombe, who was later the thesis chairman for Paul Gentle.) The author would like to thank the anonymous referees, David Herring and Anita Chaddha for comments on the preparation of this journal article.

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FIRST RECORDS OF THE PYGMY SHREW, *SOREX HOYI WINNEMANA*  
PREBLE (INSECTIVORA: SORICIDAE), IN ALABAMA<sup>1</sup>

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INTRODUCTION

The pygmy shrew, *Sorex hoyi winnemana* Preble was once regarded as one of the rarest mammals in the southeastern United States (Diersing, 1980). More recently, considerable information on its distribution, abundance, and habitat associations has become available from Virginia (Handley et al., 1980; Pagels, 1987; Handley, 1991; Pagels et al., 1992; Kalko and Handley, 1993; Mitchell et al., 1993), Kentucky (Caldwell, 1980; Caldwell and Bryan, 1982; Bryan, 1991; Meade, 1992; Kiser and Meade, 1993), Tennessee (Kennedy et al., 1979; Kennedy and Harvey, 1980; Tims et al., 1989; Harvey et al., 1991; Harvey et al., 1992; Feldhamer et al., 1993), North Carolina (Webster, 1987; Laerm et al., 1994; Laerm et al., in press a; Padgett and Rose, 1994), South Carolina (Mengal et al., 1987), and Georgia (Wharton, 1968; Ford et al., 1994; Laerm et al., 1995; Laerm et al., in press). Because the pygmy shrew has been reported from the Cumberland Plateau of Tennessee (Kennedy and Harvey, 1980) and Georgia (Laerm et al., 1995), and because there appear to be areas of appropriate habitat in northeastern Alabama, we undertook surveys specifically for the pygmy shrew. We report here on the results of those surveys.

METHODS

Pitfall surveys were conducted from 22 July to 9 September 1995 at nine sites in Jackson and Dekab county, Alabama. At each site, 946-cm<sup>3</sup> plastic cups (11-cm lip diameter and 14-cm depth), filled with approximately 0.13 l formalin solution, were

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