Studies Show Consolidating Local Governments Exposes Taxpayers to Many Risks with No Guaranteed Reward

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Executive Summary

This report was compiled over a three-month period from August through October, 2015. The purpose of the report was to analyze peer-reviewed local government consolidation studies in order to provide a summary of the benefits, risks, and/or shortcomings of local government mergers. For purposes of this report, and in keeping with the definitions used in the peer-reviewed literature, "general purpose local governments" refers to counties, cities and villages, and township governments. "Special districts" refers to school districts, library districts, water authorities, parks districts, sanitary districts, and other public entities serving a limited and specific function.

Consolidations are, by definition, a political action. As a result, consolidation agreements contain compromises that impact their ultimate effectiveness and outcomes. Moreover, consolidation itself may also be used to shift power for political gain in ways that may not be clear to the electorate or desirable for all involved. Research shows that, in many cases, consolidation does not end up the way it was presented to the public or even the way it was intended by those involved in the process.

Advocates of consolidation often rely on claims that are ultimately unsupported by research or data. For example, research shows that consolidation does not guarantee financial benefits and any cost savings are speculative at best. In fact, several studies suggest that consolidation can lead to unanticipated costs, higher payroll and increased capital spending; therefore, it may be that special purpose governments have a better chance for fiscal success. Although some scholars, such as Faulk and Hicks (2011) have found statistical evidence that positive financial benefits are *hypothetically* possible from consolidation, most data indicates that human decisions, actions, and necessary compromises do not predictably and reliably lead to cost savings, and in fact may actually lead to increased costs.

Another popular claim is that local government consolidation results in a more effective, efficient, and accountable system, largely because it reduces duplication. However, these claims are also unsupported by data (i.e. Faulk & Hicks, 2011; Funkhouser, 2012; Jimenez & Hendrick, 2010; Leland & Thurmaier, 2014; Martin & Schiff, 2011; Savitch, Vogel & Ye, 2010; Stephens & Wikstrom, 1998), often because duplication of services simply does not exist to the degree suggested by consolidation proponents.

On the whole, consolidation research indicates that the potential benefits from consolidation are limited. In fact, studies find little evidence that consolidation can do true and lasting good for local governments and their taxpayers. Instead, most of the claims made by consolidation proponents lack data to support them and are largely based on false premises, such as the assumptions that local governments are redundant, that a large number of governmental agencies results in higher spending, or that specific governmental agencies themselves are unpopular. Moreover, there is no research demonstrating that local governmental agencies are redundant, nor is there evidence to suggest that the number of local governments in a state has any bearing on that state's government spending. However, there is evidence that local governmental units are popular, and that people like them and think that they do a good job. In particular, Frederickson and O'Leary (2014) suggested that local governments are valuable to their residents because,

> Local governments are at the operating level, the "street level," the place where citizens and residents touch their governments and are touched by them. Local governments are the primary level of applied democratic self-government, the places where the ideals of citizenship meet the realities of place, the families, homes, and neighborhoods where democracy does or does not reside (p. 7S).

It is important to ensure that our governments are putting their energies into the right types of solutions. Functional consolidation through some form of intergovernmental cooperation, such as intergovernmental agreements, may be a good option for Illinois. However, the data examined here suggests that structural consolidation through merging local governments into a larger governmental entity will not save taxpayer dollars, and in fact, may result in higher costs for local taxpayers. As many of the scholars cited in this report have suggested, consolidating local governments is a risky proposition that can have negative results and certainly does not guarantee financial or other rewards.

I. Background

A. Consolidation vs. Intergovernmental Cooperation

When discussing consolidation, it is important to distinguish between "structural" consolidation and "functional" consolidation (Faulk & Hicks, 2011; Leland & Thurmaier, 2014). Structural consolidation is a legal, political, and physical process that involves the combination of two governmental entities as completely as possible. For instance, city-county or city-city consolidation. Functional consolidation, on the other hand, is the slower and more organic process of developing intergovernmental agreements and/or selective service mergers that leave the rest of the involved entities intact. For instance, a city and a county may consolidate their police forces or garbage pickup services, but otherwise remain independent entities.

The lay public may assume that structural consolidation means the full and complete combination of two or more governmental entities, without any excepted services or departments. However, full and complete assimilation is rare. More often, certain entities, groups or subcategories of government are exempted from consolidation (Leland & Thurmaier, 2014). In some cases, such as UniGov Indiana, a large number of services may remain unconsolidated at the city or county level (notably in Indiana's case: police and fire). In other cases, a newly consolidated government will simply turn around and (re)create districts with their own tax rates, often following the old city-county boundaries as was the case in the Nashville-Davidson County, Tennessee consolidation (Leland & Thurmaier, 2014).

The practice of including some areas and excluding others makes it difficult to determine what proponents mean when they advocate for consolidation, and what the real impacts of that consolidation will be. These exclusions are also part of a larger issue - the politicization of consolidation - which will be discussed in further depth later in this report.

B. Regional Government versus Local Government

Consolidation is the byproduct of a philosophical approach to politics called regionalism. Those opposed to consolidation tend to share elements of a common philosophy called localism. Understanding these two schools of thought is crucial to interpreting the local government consolidation literature because often the pros and cons of consolidation are viewed through one or the other of these philosophical lenses. In subsequent sections of this report we will examine the evidence for many regionalist and localist claims.

Regionalists believe in consolidation because they believe that fewer and larger local governments will lead to more responsiveness and better efficiency (Jimenez & Hendrick, 2010). In particular, they believe that consolidation allows governments to access economies of scale, better coordinate efforts and goals, and eliminate the duplication of efforts, staffing, and services (Gaffney & Marlowe, 2014; Jimenez & Hendrick, 2010). A common regionalist sentiment is encompassed by the following from Frederickson and O'Leary (2014),

> U.S. local government is both highly fragmented and dense or thick. Almost every resident of a city is also a resident of a county and of a school district—three distinct jurisdictions, each with their own politics, elections, taxes, statutes, and regulations. Some Americans are residents of six or seven local government jurisdictions. One can reasonably argue about the quality or effectiveness of local government, and we do, but it is difficult to argue that we do not have enough of it (p. 6S).

Localists, on the other hand, believe that a fragmented system of government - that is, a system that allows for multiple, smaller units of locally run government - is best financially, economically, and socially (i.e. Faulk & Hicks, 2011l; Tiebout, 1956). The localist argument is largely founded on Charles Tiebout's seminal 1956 economics-based study of local government expenditures which argued that fragmentation allows for more local control of budgets and services because residents may simply "vote with their feet" and move to a neighboring community if they do not like the services or costs available in their current community. In fact, Tiebout asserted that consolidation could be a violation of consumer choice if it resulted in anything but the exact same or better services for the same or less price. He explained,

> Municipal integration is justified only if more of any service is forthcoming at the same total cost and without reduction of any other service. A general reduction of costs along with a reduction in one or more of the services provided cannot be justified on economic grounds unless the social welfare function is known. For example, those who argue for a metropolitan police force instead of local police cannot prove their case on purely economic grounds. If one of the communities were to receive less police protection after integration than it received before, integration could be objected to as a violation of consumers' choise (Tiebout, 1956, p. 423).

Inherent in Tiebout's argument is the idea that residents in metropolitan areas will want different types and levels of services – an idea that runs counter to regionalists' beliefs that residents want the same types and levels of services (Jimenez & Hendrick, 2010; Tiebout, 1956). A common expansion of Tiebout's argument suggests that, by allowing local government fragmentation and recognizing that people will "vote with their feet," local governments compete with each other, which keeps quality high and costs low (Gaffney & Marlowe, 2014; Jimenez & Hendrick, 2010).

Further aiding the localist argument is Brennan and Buchanan's "Leviathan hypothesis" which was developed in their 1980 book, *The Power to Tax: Analytical Foundations of a Fiscal Constitution.* The Leviathan hypothesis asserts that, as governments grow larger, it is harder for taxpayers to truly understand where their money goes and how much each type of service actually costs. By decentralizing these services (through local government fragmentation), costs become more transparent, and taxpayers are able to hold government accountable (Gaffney & Marlowe, 2014; Jimenez & Hendrick, 2010). In fact, modern localists believe strongly that a fragmented government is the only way to ensure positive market forces as well as efficient and responsive leadership (Jimenez & Hendrick, 2010; Leland & Thurmaier, 2014).

C. Special District Formation and Dissolution

States form local governments for a variety of reasons, and laws and rules at the state level may serve to either encourage or discourage boundary change and local government formation (Bauroth, 2010; McCabe, 2000). In many cases, a general purpose government like a county or city may be unwilling, unable, or ill-suited to provide a needed service and so they create a special district to fulfill that purpose (Bazan, 2015). As a report from the Illinois General Assembly's Legislative Research Unit concluded,

> A special-purpose district might be created to deal with a problem transcending local boundaries, in a way that also leaves local politics behind. Finally, voters may be more willing to support taxes if they believe the proceeds will be used for specific stated purposes instead of going into the general fund of a general-purpose government unit (Bazan, 2015, p. 2).

In some instances, state laws empower general purpose governments to oversee their own affairs, and yet those local governments still turn to special districts because doing so enables them to achieve goals and provide services more efficiently and effectively (Bauroth, 2010). In these "home rule" areas, general purpose governments may find that they are "better able to combine their resources and create large special districts to service the entire region" (Bauroth, 2010, p. 570). Bazan's (2015) report for the Illinois General Assembly similarly suggested that "existing local governments may be unable to provide a service individually, so they join together and create a new government to do so" (p. 2).

However, one of the arguments that consolidation proponents often make is that it is too difficult, or simply impossible, to legally dissolve a special district. U.S. Census data from 2006 noted that Illinois has 38 special district categories, and outlined the ways in which they may be dissolved. Specifically, "34.2% require a dissolution petition by voters, 5.3% require a dissolution petition by property owners, 10.5% require a dissolution by a specified government's resolution, and 28.9% have unclear or nonexistent dissolution procedures" (Bauroth, 2010, p. 574). Park Districts are among the 34.2% of special districts that may be dissolved via petition by voters; and while the dissolution process is clearly defined, park districts in particular tend to have staying power when compared to other special districts. For instance, from 1987 to 2003, Bauroth (2010) noted that just 35 park-focused special districts and 6 natural-resource-focused special districts disappeared nationwide in contrast to 249 education districts, 191 water utility districts, 153 fire protection districts, and 125 sewage and water districts (Bauroth, 2010).

D. Role of the electorate.

Beyond concerns about formation and dissolution, local government literature consistently discusses two additional critiques of special districts: 1) Not all special districts require elected officials (and are therefore "undemocratic"); and 2) When elections are held, voter turnout tends to be low (Bauroth, 2005; Stephens & Wikstrom, 1998).

Bauroth (2005) asserted that low voter turnout "implies that the local electorate is either unaware that governing board elections are taking place or does not believe that such elections are important" (p. 194). Political appointees and other indirect board member selection methods in some special districts have also been called into question (Bauroth, 2005; Stephens & Wikstrom). Furthermore, in some areas, voting rights are restricted to those who meet property qualifications regardless of who is actually impacted by the district's decision (McCabe, 2000, p. 129).

These concerns and critiques are not applicable to park districts because park board members are elected by residents of their districts, and those elections nearly always occur as part of a larger public election which helps to ensure sufficient voter turnout. Nevertheless, they are critiques of the larger special district government system of which park districts are a part and therefore deserve mention here.

E. The Consolidation Process

There are two main methods that local governments can use to consolidate: public referendum or (rarely) legislative mandate. The most common path to consolidation is a referendum that begins with the citizenry, and this type of consolidation process is also the focus of the most scholarly research (Leland & Thurmaier, 2014). Studies show that the majority of referendum-based consolidation attempts occur in either smaller rural jurisdictions or larger cities with populations from 150,000 to a million (Leland & Thurmaier, 2014, p. 30S).

II. Key Findings

The primary purpose of this report was to compile a synopsis of consolidation-related outcomes that are well supported by research data. Subsequent sections address commonly suggested outcomes which are either disputed in the scholarly literature, or not supported by data at all.

A. Consolidation is a Financial Risk

Ultimately, this report underscored the complicated, messy, and political nature of local government consolidation. The most commonly cited, yet ultimately unsupported, claims are examined below and should serve as red flags for those considering consolidation measures.

i. Financial Benefits Are Not Guaranteed by Consolidation.

Local governments often undergo consolidation under the assumption that doing so will cut costs and lead to fiscal efficiency. However, available data does not support that claim (i.e. Faulk & Hicks, 2011; Gaffney & Marlowe, 2014; Hendrick, Jimenez & Lal, 2011; Hendrick, 2010; Savitch, Vogel & Ye, 2010). At best, local government consolidation research has suggested the hypothetical (but usually not actual) existence of cost savings, or in some cases demonstrated that one department or service within a larger unified government showed financial improvement. Crucially, research does not show consistent, all encompassing, and sustained financial improvement after consolidation. In fact, several studies suggest that consolidation leads to unanticipated "startup" costs, higher payroll costs, and increased capital spending (i.e. Faulk & Hicks, 2011; Martin and Schiff, 2011; McCabe, 2000).

Despite a clear lack of evidence for financial benefit, and indeed evidence for financial risk, the fiscal impacts of consolidation remains a hotly contested topic. Aside from the clear political temptation to suggest financial savings, one of the reasons for the ambiguity is that fiscal impacts are difficult to measure and are often conceptualized, defined, studied, and measured in a wide variety of ways (Faulk & Hicks, 2011; Hendrick & Jimenez, 2011), and this variation impacts the conclusions of the studies. Nevertheless, the vast majority of studies conclude that consolidation has no fiscal benefits. For instance, Faulk and Grassmueck (2012) examined per capita local government expenditures in sixty-two cities and counties who have held consolidation referendums since 1970. Their findings indicated that, "per capita expenditures in consolidated communities are not statistically different from those that considered and rejected consolidation. These results suggest that consolidation is not likely to decrease expenditures in the typical consolidated local government" (Faulk & Grassmueck, 2012, p. 196). In their book, *Local Government Consolidation in the United States,* Faulk and Hicks (2011) made a similar assertion stating that,

> Previous studies have examined the impact of city-county consolidation using a variety of research methods from case studies to econometric techniques, and they have found that consolidation has little impact on local government spending or economic development outcomes. The results of the models presented in this [book] concur with the previous research. We found that there are no pre- or post-consolidation differences in the employment, payroll, or expenditures of consolidated local governments (p. 54).

Faulk and Hicks' conclude that, "Consolidation does not reduce local government spending or have a dramatic effect on economic development outcomes" (p. 138). Similarly Gaffney and Marlowe (2014) conducted a review of the impacts of six city-city consolidations that have taken place since 1985. Their study is particularly valuable because it examined rare city-city consolidations (as opposed to the more commonly studied city-county merger). In it, Gaffney and Marlowe (2014) found that,

> Most city–city consolidations result in higher taxing and higher spending on core operations and salaries. Consolidation produced lower overall spending in three of the six jurisdictions, but mostly because it was accompanied by lower intergovernmental revenues and changes in debt management (p. 197).

Faulk and Grassmueck's (2012) conclusions were similar. They noted that, "Consolidation is not likely to decrease expenditures in the typical consolidated local government. It is possible that isolated consolidated governments do reduce spending, but in general this result is not likely" (p. 202). This idea that consolidation may be correlated with, but not act as a causal agent for, financial savings is intriguing. Faulk and Grassmueck (2012) reasoned that,

> Lowering government expenditures is contingent on strategic planning and cooperation, conscious and deliberate. A few case studies indicate that savings from consolidation were

achieved but were the result of improved local government processes not general effects resulting from economies of scale [i.e. consolidation] (p. 202).

Several scholars suggest that the so-called "Leviathan Hypothesis" (initially proposed by Brennan and Buchanan in 1997) may explain why consolidations themselves are not of financial benefit. This hypothesis states that, when a unit of government's power to tax is unlimited, taxation and spending will rise. If the number of local governmental units are reduced by consolidation, there is less competitive pressure to keep taxes and spending low and governments running efficiently. In essence, the bigger the government, the more it will tax and spend without relative checks and balances from competing units of government (as discussed in Faulk & Grassmueck, 2012).

In some instances, scholars assert that consolidation actually results in high startup costs, increased payroll costs, and high capital budget costs (i.e. Faulk & Hicks, 2011; Martin and Schiff, 2011; McCabe, 2000). Martin and Schiff (2011) asserted that these increases are due to the fact that consolidated governments are often in charge of "labor intensive services that do not lend themselves to significant economies of scale," and are often bound to provide uniform wages and benefits to all employees of the merging governments. These factors serve to limit the possibility of financial streamlining (Martin & Schiff, 2011). Funkhouser (2012) also found that payroll costs often increase as a result of equalizing employee salaries. These increases in payroll costs may present a difficult challenge for administrators, and may result in unfair burdens to employees. For instance, a year after the Athens-Clarke consolidation, actual personnel costs were 7% higher than anticipated, but paying out these increases was forbidden in the political climate of the post-merger, and as a result employees were asked to delay the new pay plan, freeze general and merit increases for two fiscal years, freeze hiring, and consider early retirement not only to save money but also due to legal and managerial concerns post-merger (McCabe, 2000, p. 377-378). These findings are in-line with "speculation in the literature as to increased initial personnel costs associated with consolidation" (McCabe, 2000, p. 377-378).

Larry Syverson, president of the North Dakota Township Officers Association, experienced a rise in post-consolidation payroll costs, but for a different reason. He noted that township and other small government employees are often part-time workers with limited benefits. When districts consolidate, the larger area requires full-time employees with benefits, which further drives up costs (as quoted in Maciag, September 13, 2012, p. 2; pp. 12). In fact, Stephens and Wikstrom (1998) noted that, while professionalization and the associated hiring of employees is certainly the trend in special districts, as of 1998, special districts constituted 60% of the 29,522 local governments who employed no full-time employees (p. 130). Of note, park boards are comprised of non-compensated elected officials who volunteer a significant amount of time towards the service of their districts. Even more relevant, park districts employ thousands of part-time and seasonal employees and utilize large numbers of volunteers to deliver programs and services.

In many cases, consolidations are accompanied by a variety of restrictions put into place by a diverse group of stakeholders. In the case of the Athens-Clarke consolidation, as is common in many consolidations, restrictions included strong employee protections (McCabe, 2000). These protections put added pressure on the combined government because it was required to operate under budget that could not exceed the combined budgets of the two previous entities, and yet equalizing employee salaries and benefits resulted in new annual costs (McCabe, 2000). Restrictions protecting employees' wages, benefits, and jobs are common place in consolidation negotiations, and often result in additional barriers to potential financial benefits.

Gaffney and Marlowe (2014) conducted follow up interviews to try and determine why, in the places they studied, taxes and spending are higher after consolidation. They found that in many cases it was by design because the creation of a more robust tax base allows for additional spending on needed, or possibly previously neglected, items like infrastructure, programs, and economic development.

Leland and Thurmaier (2014) found similar evidence of increased costs due largely to needed capital investments. In particular, the need for technology to appropriately merge, streamline, and provide efficient and effective communication within newly formed governments comes at a price. Leland and Thurmaier (2014) explained,

> Although this was not an issue in consolidations prior to the 1960s, today's efforts to merge governments can expect to spend more on merging information technology (IT) systems than any hypothesized savings that might come from fewer IT staff in the short run. Savings from merging systems are far from obvious, quite the contrary. Organizations have different equipment, forms, telecommunication systems, and so forth (p. 34S).

In some cases, consolidation does not result in increased costs so much as increased spending. As a result, Faulk and Hicks (2011) advised that,

> Other areas looking toward consolidation may well be attracted to the example of UniGov but are advised to provide their consolidated government with different financial tools to reach their goals and thereby avoid the fiscal issues that Indianapolis and UniGov must now confront (p. 190).

While some literature has suggested potential cost savings related to consolidation, these savings are typically hypothetical. For instance, Bunch and Strauss (1992) calculated hypothetical costs and savings and determined that, in a very specific group of municipalities, "Consolidation may provide a method for eliminating chronic operating deficits; economies of scale could be realized for small [fiscally distressed] municipalities should they consolidate" (p. 615). Similarly Faulks and Hicks (2011) also conducted a statistical analysis of hypothetical costs and ultimately concluded that, while consolidation has not yet been shown to lead to any fiscal benefits, such benefits are possible. Specifically, they noted that,

> Across Indiana counties, roughly $200 million annually in savings may be available due to the economies of scale in local government services that would come with the consolidation of non-school taxing districts. However, the scale economy savings would be concentrated in the smallest counties, with only about 20% of the savings occurring in the largest counties (p. 138).

On balance, a review of the literature suggests that consolidation is a financial risk and potential savings are only speculative. The ultimate fiscal outcome of consolidation varies significantly by state, region, type of consolidation, and motivation for consolidation. Instead, the literature suggests that special purpose (aka "fragmented") governments may have a better chance for fiscal success than consolidated, regional government. For instance, Grassmueck and Shields (2009) found that "regions with relatively fragmented governments had stronger relative economic performance over the study's time frame" and suggested that fragmentation (and the increased competition it promotes) may in fact drive these better economic outcomes (p. 641). Although some scholars, such as Faulk and Hicks (2011) have found statistical evidence that positive financial benefits are hypothetically possible from consolidation, they are careful to note that "Whether these savings are achieved depends on human decisions and actions" (p. 5). In most currently available studies, the data indicates that human decisions and actions, along with politically necessary compromises, simply will not predictably and reliably lead to cost savings, and in fact may lead to increased costs.

ii. No Evidence to Show that Consolidation Leads to Efficiency, Effectiveness or Accountability.

Another of the more popular claims about local government consolidation is that it results in a more effective, efficient, and accountable system. However, these claims are unsupported by data (i.e. Faulk &

Hicks, 2011; Funkhouser, 2012; Jimenez & Hendrick, 2010; Leland & Thurmaier, 2014; Martin & Schiff, 2011; Savitch, Vogel & Ye, 2010; Stephens & Wikstrom, 1998). Martin and Schiff (2011) found that most city-county consolidations “have failed to achieve the promised gains with respect to efficiency” (p. 174). Kurt Thurmaier, director of the Division of Public Administration at Northern Illinois University, agreed that “while the selling point [of consolidation] is efficiency, that doesn’t happen very often” (as quoted in Funkhouser, 2012, p. 1).

Leland and Thurmaier (2014) also cast doubt on efficiency claims. They asserted that, “Local government reformers have not been able to point to systematic evidence that consolidated governments keep the promises of increasing accountability, equity, efficiency, and effectiveness of local government service delivery” (p. 33S) and they furthermore suggested that neither structural nor functional consolidation will necessarily enhance or worsen the accountability of local government agencies.

It is also interesting to note that consolidation does not necessarily lead to an overall reduction in the number of elected officials (Leland & Thurmaier, 2014), and yet the reduction of elected positions is at times cited as an efficiency-based benefit of consolidation. In fact, in more than 50% of modern consolidation cases, the new, combined city–county elected body contains the same number of elected officials as in the previous city and county, or even more (Leland & Thurmaier, 2014). “Smaller municipalities, which are almost always excluded in city–county consolidations, often continue to retain their elected bodies but also have representation in the new unified government” (Leland & Thurmaier, 2014, p. 31S). In Wyandotte County–Kansas City, Kansas, which consolidated in 1997, one of the mayors of a town that was excluded from the consolidated government (Edwardsville) was then elected to the unified governing body and served in both capacities” (Leland & Thurmaier, 2014). As Jimenez and Hendrick (2010) asserted, “It is tempting to assume that fewer larger governments are more efficient than many small ones, but research shows this is not always the case” (p. 259).

There is also evidence to suggest that post-consolidation areas do not show improvements in efficiency because there are often few or (or even no) real redundancies to be corrected. For instance, despite initially proposing consolidation as a way to remove redundancies, the consolidation committee for Wyandotte County and Kansas City in Kansas ultimately did not find very many areas of service redundancy, and as a result, proponents had to back down from their initial efficiency-based financial impact projections (Leland & Thurmaier, 2000). As Leland and Thurmaier (2014) noted,

> The presumed savings from blending finance and budgeting administrations are often elusive. The administrative service functions in a city and a county do not overlap much. The county's finance department is largely oriented toward collecting taxes on behalf of the constituent governments and the state, involving property assessments and billings that the cities do not perform. In addition, the expanded social service and other state-mandated functions of county government require attention at the budget office level that is not required in a city budget office (p. 34S).

Robert Wood, an associate professor at the University of North Dakota, Department of Political Science and Public Administration, asserted that North Dakota's large number of governmental units is not necessarily inefficient and that the multiple jurisdictions do not cause much conflict (as quoted in Maciag, Sept 13, 2012, p. 2; pp. 10). On the contrary, Wood noted that these local governments collaborate well and that North Dakota's special districts "usually perform a very narrow, specialized service that doesn't overlap with other agencies. The result is a system of local governance responsive to citizens, but at a cost lower than what is typical of other areas" (as quoted in Maciag, Sept 13, 2012, p. 2; pp. 10). Indeed, Faulk and Grassmueck (2012) also suggested that intergovernmental agreements among local agencies may explain why there are few redundancies and few differences between consolidation and non-consolidated governments. They reasoned that, "If major city and county services were functionally merged before consolidation occurs, so that few services are left to be merged, there would be little savings from consolidation" (p. 202).

In fact, the State of Illinois' own Local Government Consolidation Commission Report (2014) found just one potentially duplicative set of local government agencies: County Historical Museum Districts and Museum Districts. No other specific examples of duplication were reported.

B. Consolidating Governments Often Results in Negative Outcomes

i. The Consolidation Process, and Resulting Larger Government, are Susceptible to Politics and Power Plays.

Consolidations are, by definition, a political action. As a result, consolidations often contain compromises that impact their ultimate effectiveness and outcomes. Moreover, consolidation itself may be designed to shift power for political gain in ways that may not be clear to the electorate or desirable for all involved. The end result is that, in many cases, consolidation does not end up the way it was presented to the public or even the way it was intended by those involved in the process.

Savitch and Vogel's (2004) examination of the Louisville and Jefferson County consolidation ultimately focused on the power relations inherent in the merger. Specifically they noted that power determines the types of ideas that become relevant to a consolidation discussion and determines who has a voice in community conversations about consolidation. As a result, consolidation is and should be treated as a change in local power relations (Bauroth, 2010; Savitch & Vogel, 2004). Savitch and Vogel (2004) asserted that, "Altering boundaries changes the kinds of issues that are relevant to decision makers as well as the relative power of different populations" (p. 759). They concluded that,

> Consolidation is essentially a political act that involves reordering of power. Paradoxically, it presents a unifying image while also dividing up the spoils of reorganization. Consolidated governments seek to unify their citizens around a common "vision" or set of ideals. The range of values can be enormous – from populist notions of greater equality to elitist ideas of executive-dominated corporate models. At the same time, consolidations are divisive and confer both

privileges and penalties. Consolidations have an operative quality that magnifies the influence of some groups and diminishes the presence of others (Savitch & Vogel, 2004, p. 763).

As in the case of a large corporate merger involving powerful companies, local government consolidation efforts should be critically examined to ensure that the balance of power remains equally distributed enough to ensure that a variety of stakeholders have a voice. Indeed, research reliably indicates that the more governments there are in region, the more power is diffused in that region because "creating a government puts in play another actor with political power and rights of entry into the decision making process" (Miller, 2012, p. 2; pp 5). Consolidation, on the other hand, reduces the number of political players in an area, and as a result, may exclude key voices and points of view.

ii. Consolidation Can Result in Higher Personnel Costs.

Consolidations are also difficult because they are a political undertaking that requires compromises to succeed. In exchange for needed political support, proponents of consolidation often make promises to avoid layoffs, "level up" salaries and benefits, and allow appointed and/or elected positions to stay in place (i.e. McCabe, 2000). These compromises, while perhaps necessary to pass a referendum, also mean that consolidation is fiscally and politically expensive (Leland & Thurmaier, 2014). The Athens-Clarke consolidation, while not unusual in its compromises (McCabe, 2000 found similar compromises in the Lexington-Fayette County, Kentucky consolidation) nevertheless provides a well-studied example of these types of charter negotiations and compromises. Of note, the Athens-Clarke County Overview Commission reported that constraints and compromises in the unifying charter made cost savings nearly impossible, and rules about layoffs meant that redundant positions could be eliminated only via early retirement or attrition (Durning & Nobbie, 2015).

Illustrative of these kinds of charter restrictions, the Athens-Clarke merging charter stated that employees would get "uniform compensation," but operationalizing this promise proved difficult because, for instance, the county had higher entry-level pay for some positions, but the city workers received up to 10% merit raises annually whereas the county did not award raises on a regular basis (McCabe, 2000). In the end, the consolidation-related cost of combining the county and city payroll systems was $2,250,000 or approximately 6% of the total payroll costs for the former two governments (McCabe, 2000, p. 376). Of note, "a majority of the expenditures to implement the new compensation plan resulted from departments that experienced little or no direct impact from consolidation" and functioned exactly the same after consolidation as they did prior to (i.e. public works, solid waste, and transit) (McCabe, 2000).

iii. Declines in workforce morale and satisfaction. There is some research to suggest that workforce moral and employee satisfaction drop after consolidation, and this in turn can lead to organized and sustained disputes over pay and benefits (i.e. Durning & Nobbie, 2015; Faulk & Hicks, 2011; McCabe, 2000). Of note, and illustrative of these types of studies, McCabe (2000) observed that unification resulted in poor outcomes with Athens-Clarke employees, and hypothesized that the "dysfunctional aspects of the early restructuring of the organization may last for years to come" (p. 381). In addition, low employee morale and overall employee dissatisfaction resulted in the first recorded attempt of Athens or Clarke employees to unionize (McCabe, 2000).

Employee dissatisfaction may negatively impact productivity (Sorenson & Garman, 2013). Recent Gallup data indicated that disengaged and/or dissatisfied employees cost the U.S. $450 billion to $550 billion in lost productivity per year, and that companies with higher employee engagement and satisfaction also see higher production and earnings (Sorenson & Garman, 2013).

C. Potential Benefits of Consolidation

The literature does agree on a limited set of consolidation-related benefits relevant to specific subsets of city-county consolidations. These potential benefits are discussed in further detail below.

i. **Regional planning and infrastructure development**.

Some consolidation studies demonstrate that consolidation leads to both actual or potential regional planning and infrastructure development benefits (i.e. Feiock & Carr, 1997; Funkhouser, 2012; Martin & Schiff, 2011). For instance, Karl Dean, mayor of the city-county consolidated Nashville area (merged in 1962) has stated that consolidation allowed Nashville to pursue broader development projects including sports stadiums because it is able to pull from a larger tax base (Funkhouser, 2012, p. 1). Similarly Fleischmann (2000) found that the leaders involved in North Carolina's Athens-Clarke consolidation believed that consolidation made it easier for the area to "take the lead on regional issues affecting surrounding counties" (p. 224). Indianapolis' consolidation success also makes the concept of consolidation tempting for other areas. In examining UniGov, Rosentraub (2000) found that, if the goal is downtown revitalization on a regional level, a consolidated structure may be of benefit in particular in terms of the preparation, execution, and management of a cohesive plan with buy-in from all necessary entities. Other downtowns have revitalized without consolidation, but in the Indianapolis area, previous attempts at revitalization were not successful prior to consolidation. Nevertheless, Rosentraub noted, regional planning and infrastructure development cannot be successful without capital dollars.

It is worth noting that while regional planning and larger-scale infrastructure projects may benefit from consolidation, the data does not show clear economic development impacts. As Fleischmann (2000) noted, consolidation does not mean that governmental entities will necessarily begin to address issues more regionally or more comprehensively. Consolidation will not solve problems in and of itself; nevertheless, it may be capable of encouraging economic development in some areas given the right conditions.

ii. Aid to areas "in crisis."

There is also some evidence that consolidation may reset or reinvigorate areas in crisis. For instance, Kansas City, Kansas and Wyandotte County merged in 1995, and the city administrator, Dennis Hays, has stated that services have improved, taxes have been cut by 15%, and younger people are looking to move in for the first time in a long time (Funkhouser, 2012, p. 1). Prior to consolidation, Mr. Hays noted that the area was "slipping into the deep abyss" (Funkhouser, 2012, p. 1).

III. Other Findings

The review of available research on the issue of local government consolidation found surprisingly little evidence that consolidation can consistently and overwhelmingly do real good for local governments and their taxpayers. Moreover, the review revealed that most of the claims made by consolidation proponents are not data driven. Instead, the literature demonstrates that factors such as the politicization of consolidation, and its necessary compromises, along with the pre-existence of intergovernmental agreements ultimately inhibit some of proponents' more attractive claims (i.e. effectiveness, efficiency, and financial savings). Other findings are as follows.

A. Counting Government: A Key Assumption

One of the reasons that pro-consolidation claims are not often borne out by the literature may be because they rely on false assumptions. Of note, proponents of consolidation often cite the total number of local governmental entities in a state like Illinois as a cause for concern. As the 2012 Census of Governments indicated, Illinois (6,968), Pennsylvania (4,905) and Texas (4,856) have the most total units of local government. However, many scholars assert that simply counting the number of governments does not provide insight into the contributions, roles, and merit of those governmental units (Faulk & Hicks, 2011; Miller, 2012).

Moreover, while Illinois may lead the nation in total number of governmental units, in a state-by-state comparison of number of local governments *per capita,* Illinois is not even in the top ten. Per capita measurements provide a clear basis for comparison by controlling for variance in population size. Per capita, there are 54.1 local governments per 100,000 residents in the State of Illinois – of these 22 are general purpose and 32.1 are special districts (Maciag, Sept. 13, 2012). Twelve states have higher numbers of special districts per 100,000 residents: Arkansas (32.9), Colorado (48.6), Idaho (57.9), Kansas (63.0), Missouri (39.4), Montana (105.9), Nebraska (83.5), New Mexico (34.5), North Dakota (137.7), South Dakota (84.3), Vermont (69.3), and Wyoming (118.5) (Maciag, Sept. 13, 2012).

Whether they are counted in gross or per capita, a reduction in the number of governmental units has long been assumed to result in a reduction in government spending. However, a report by Eric Scorsone, a Senior Economist with Michigan Senate Fiscal Agency, found that there is no relationship between the number of units of local government and per person spending (Scorsone, 2010). Illinois, in fact, is particularly illustrative of this point. Illinois spends only half as much as New York does on local government, and New York has half as many units of government as Illinois (Scorsone, 2010). The comparisons even stretch into neighboring states such as Michigan, which spends about the same per person as Illinois, but has nearly 1/3rd fewer units of local government (Scorsone, 2010). “The basic problem with these national comparisons,” Scorsone found, “is the difference in the scope of service responsibilities and taxing authority given to local governments” (Scorsone, 2010, p. 3). Scorsone’s report further draws into question the assumption that local government consolidation will result in cost savings (Scorsone, 2010).

B. Popularity of Local Government

In addition to flawed underlying assumptions, another reason that consolidation is often unpopular may be because local governmental units themselves are very popular, and the public generally tends to like them and think that they do a good job. The popularity of local government is particularly evident in the case of special districts. Bauroth (2005 & 2010) reported that special districts – which are nearly always voted into existence by taxpayers - are the most prevalent form of government in the United States (Bauroth, 2005; Bauroth, 2010); and while special district dissolutions are generally easy to perform and relatively common, the trend is still towards more special districts, not fewer (Bauroth, 2010; Stephens & Wikstrom, 1998). In fact, while townships decrease in numbers, special districts have gone through dramatic periods of proliferation (Bauroth, 2005; Stephens & Wikstrom, 1998). Jimenez and Hendrick (2010) noted that, over the last two decades, the total number of governments grew by 7.6%, and special districts made up the majority of that growth (p. 258). Stephens and Wikstrom (1998) explained that, "special districts are able to surmount the geographical, financial, and political barriers commonly associated with many, if not most, general purpose local governments" (p. 135). They continued, "Special district government over the last quarter of a century has shown a much greater relative increase in functional or service-delivery importance than any other level or unit of government" (p. 137).

Maciag (September 13, 2013) asserted that the rise in local government is due to citizens' desire for localized control. Grassmueck and Shields (2009) similarly suggested that, even if inefficiencies did exist, that may not matter to the public because citizens and businesses are willing to give up certain efficiencies in favor of local control over public policies and issues. Leland and Thurmaier (2014) agreed, noting that, "The fragmented system of local government remains as the preferred choice for most citizens, and they seldom vote for any structure that unifies them" (p. 29S – 30S). Frederickson and O'Leary (2014) suggested that local governments are valuable to their residents because,

> Local governments are at the operating level, the "street level," the place where citizens and residents touch their governments and are touched by them. Local governments are the primary level of applied democratic self-government, the places where the ideals of citizenship meet the

realities of place, the families, homes, and neighborhoods where democracy does or does not reside (p. 7S).

Bazan (2015) demonstrated that special districts are created for important, viable, and irreplaceable reasons. Voted into existence by their own communities, these governments solve problems, collaborate freely, and provide services that cannot be done as well in other settings. As a result, they are popular with voters.

C. Intergovernmental Agreements and Shared Services Produce Cost Savings without Financial Risk

The literature shows that, for many reasons, structural consolidation is not likely to improve the effectiveness, efficiency, and financial viability of local governments (i.e. Faulk & Hicks, 2011; Feiock & Carr, 2002; Leland & Thurmaier, 2014). Structural consolidation is also difficult to successfully negotiate and execute precisely because it is a powerful political move; and one that is typically unpopular with voters. Maciag (September 13, 2012; August 30, 2012) noted that a comparison of the 2012 Census of Governments to earlier versions of the census indicates no trend towards structural consolidation in recent years. Maciag (September 13, 2012) also noted that while recent financial strains have prompted localities to discuss consolidation, those discussions are not resulting in a trend towards consolidation.

The State of Illinois' own local government consolidation commission report (2014) stopped short of calling for compulsory structural consolidation, and instead recommended reducing barriers to consolidation and emphasizing intergovernmental agreements (aka functional consolidation). The key solutions the report recommended included merging library districts, clarifying policing powers, identifying the difference between County Historical Museum Districts and Museum Districts, streamlining the number of statutes governing sanitary districts, ensuring that all local governmental units have clear dissolution procedures, and investigating the impact of government mandates on local government efficiency and operating costs (Local Government Consolidation Commission, 2014).

Doug Finke of the *State-Journal Register* (2014, April 5) later quoted the commission's report as stating,

> By reviewing reports from around the country conducted on the topic of local government and consulting with experts who worked on such reports, the Commission realized that simply reducing the number of local governmental units does not necessarily result in a reduction of costs to the taxpayer (p. 1; pp. 7).

Finke (April 5, 2014) also quoted commission chair, Representative Jack Franks (D- Marengo), as stating, "I came in with that mindset that (saving money) would happen. What I found was that many of these taxing bodies had different (tax) rates, they had different assets, they had different calendar years. It was very difficult to try to consolidate" (pp. 9). Instead, he continued, "What we found in other states where it was working best was they would cooperate and share resources. One township road district maybe sharing a plow with another one" (Finke, April 5, 2014, pp. 11). Franks added, "It was clear to me [that residents of Illinois] didn't want Springfield to be telling them what to do with their locals" (Finke, April 5, 2014, pp. 13). As a result, the commission's main focus became local empowerment instead of mandated consolidation (Finke, April 5, 2014).

What happened in the Illinois commission is illustrative of nationwide trends. Instead of broad sweeping structural consolidation, the report suggested a trend towards more nuanced and precise approaches such as functional consolidation and intergovernmental agreements – both of which are better supported by the literature. Feiock and Carr (2002) noted that while city-county consolidation is often assumed to be the best way to achieve efficiency and improve financial outcomes and responsiveness and accountability, in fact the creation of special districts, the formation of new municipal governments, and/or annexations are all “far easier ways to achieve many of these same objectives” (p. 78).

Leland and Thurmaier (2014) suggested that functional consolidations – in other words – allowing local governmental entities to create intergovernmental agreements and service contracts – is better for efficiency because it avoids the political compromises inherent in a full structural consolidation. Similarly Maciag (September 13, 2012) noted that, “Rather than merge, officials seem to be seeking answers to solve mutual problems cooperatively, but are doing so while leaving governmental boundaries and districts largely intact” (p. 1, pp. 3). Likewise Frederickson and O’Leary (2014) noted that, “Interjurisdictional functional collaboration, rather than formal consolidation, in the form of interlocal agreements, is often a more politically acceptable alternative [to consolidation or dissolution of local government units]” (p. 7S). They continued,

> It would seem that Americans do not prefer single metropolitan government if it threatens the continuation of their city or their school district. However, they appear to expect effective metropolitan governance in the form of functional interjurisdictional cooperation, and at times, collaboration (Frederickson & O’Leary, 2014, p. 7S).

Savitch, Vogel, and Ye (2010) suggested that,

> Public officials would do well to consider other types of institutional innovation that do not abolish local governments but collaborate with them and are indeed elastic enough to continually adjust to new suburban growth. We should take time to understand localities around the country that have tried to adapt institutions to new territorial demands. To cite just a few examples, a multitiered government operates in Portland, a city–county compact works in Charlotte, and a complex quilt of interlocal agreements service jurisdictions in Denver. In varying degrees, all of these institutional arrangements are able to expand or contract. We might

> consider that there is no single best way to pursue institutional change, only different options connected to different trade-offs (p. 22).

Hawkins and Feiock (2011) agreed that consolidation is largely unpopular with citizens and local governments, and thereby propose the use of voluntary agreements among local governments that will allow for “bilateral” and “multilateral” cooperation and joint ventures. They noted that cooperation and joint ventures are popular solutions that may aid in both service delivery as well as economic development.

Frederickson and O’Leary (2014) presented an interesting alternative to consolidation. They suggested that, “a growing number of local government managers see their roles as convening ‘experts’ from a wide variety of backgrounds and from different sectors with the public to exchange knowledge, brainstorm ideas, and implement solutions together” (p. 4S).

IV. Conclusions

Local governmental consolidation is a complicated topic with no “one size fits all” solution. The politics and power inherent in government reorganization should not be underestimated, and the lack of data to support real, consistent, and meaningful post-consolidation benefits should not be overlooked. The literature examined in this report suggests that it is unlikely that consolidating local governments in the State of Illinois will lead to financial savings, increased efficiencies, or other powerful benefits for the taxpayer. In fact, it is entirely possible that consolidation will cost local taxpayers more money in the long run. Instead, lawmakers should look towards intergovernmental agreements and other forms of functional consolidation that will provide better benefits at lower political and financial cost.

Savitch, Vogel & Ye (2010) provide some key concluding thoughts. In their 2010 work, they suggested that, “Any city considering merger should first examine where newly formed values lie, whether giving up central city autonomy is worth the return, and how enduring are the benefits to be derived” (Savitch, Vogel & Ye, 2010, p. 21). Once you have decided to consolidate, “Hold your politicians to their promises; create measureable goals for the consolidated government and measure them at regular intervals (Savitch, Vogel & Ye, 2010, p. 22-23). Consolidation is often pursued because it seems like an easy fix when in fact it may be more nuanced, complicated, and time-consuming fixes that are really needed. They continued, “Institutions are also more easily reshaped than radically changing mass attitudes or significantly increasing taxes” (Savitch, Vogel and Ye, 2010, p. 23).

It is important to ensure that our governments are putting their energies into the right types of solutions. Functional consolidation in the form of shared services or resources through intergovernmental agreements may be a good option for Illinois. The data examined here suggests that structural consolidation will not solve the state’s financial woes, and in fact may exacerbate them. As many of the scholars cited in this report have suggested, structural consolidation is often proposed as a quick fix when in fact it often has weaker outcomes than advertised. The premise that a larger number of local governments is inherently bad and will result in increased taxpayer expense, lack of efficiency, or lack of responsiveness is not supported by available research on the issue.

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