

DEMOGRAPHIA

Local Democracy in Ohio

A Review of City, Village and Township Financial Performance by Size



Research Report by
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for the
Ohio Township Association
July 2012

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Financial Performance by Size

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COVER PHOTO

Ohio Statehouse: Columbus (photograph from Wikipedia Commons)

EXECUTIVE SUMMARY

1: Introduction: As governments around the nation have encountered unprecedented financial difficulties, consolidation of local governments has been proposed to reduce spending and taxes. Proponents assume that smaller governments duplicate services and have higher costs and that spending could be reduced by consolidating with other governments. Recent policy reports in Ohio have supported this "bigger-is-better" view of local government.

Proponents often suggest that the larger the number of local governments the greater the overall spending will be. However, local government spending is not measured by the number of governments, it is rather measured by *spending* (and for comparisons, spending per capita).

Some of the "bigger-is-better" reports acknowledge that smaller local governments are more accessible and responsive. Proponents present a purported "trade-off" between more accessible and responsive government on one hand and less expensive government on the other hand, without examining expenditures per capita by government size. Consolidation of local governments is a significant policy initiative. Major policy revisions should not be undertaken unless a preponderance of evidence indicates the likelihood of substantial benefit, in this case lower expenditures and greater efficiency. The "bigger-is-better" reports provide no evidence of lower expenditures.

A complete analysis of local government spending patterns by size is essential. This report provides a detailed financial analysis of Ohio local governments by size, using data from the Auditor of State. The data indicates that smaller units of local government spend *less* per capita than larger units of local government. Hence, overall expenditures are lower with more smaller local jurisdictions than with fewer larger jurisdictions. In addition, smaller governments tend to borrow less per capita and have lower local taxes per capita (see Report, Section 1). Each of these measures indicate greater efficiency, which is a principal goal of efforts to improve local government

2: Local Government in Ohio: Municipality (city and village) and township spending and finance is reviewed in Ohio by population to examine the "bigger-is-better" assumption in local government (the analysis does not include counties). Approximately 59 percent of the state's population lives in cities, 35 percent in townships and 6 percent in villages (see Report, Section 2).

2.1: Local Government in Ohio: In 2008, Ohio's local governments spent approximately \$48 billion. Municipalities spend 21.3 percent of this amount, while townships spent 2.7 percent, with the balance of the spending being by school districts, counties and special districts. An analysis of data reported to the Auditor of State indicates that median per capita expenditures are lower among smaller local governments (cities, villages and townships) than in larger governments. Current expenditures per capita were generally higher with larger governments, statewide, within and outside metropolitan areas.

For example, in metropolitan areas, local governments with more than 100,000 population spent at more than five times the per capita rate of local governments with populations from 1,000 to 2,500. Further, per capita debt service payments in smaller governments were smaller, both statewide and in metropolitan areas. Smaller local governments have also entered the state's Local Government Fiscal Distress program less frequently than larger governments.

Local taxes also tended to be less per capita in smaller jurisdictions, both statewide and in metropolitan areas.

2.2: Townships in Ohio: Ohio townships provide similar services to municipalities outside cities and villages, such as police protection, fire protection, emergency medical services, waste management,

senior centers, parks and recreation, street lighting, zoning, roads, and cemetery maintenance. Townships have been a particular target of "bigger-is-better" proponents, perhaps because of their smaller average population than cities. Yet, despite their much larger average service areas (in square miles), townships represent a far smaller share of local government spending than their population share. Townships account for 11 percent of local general purpose government spending (excluding counties), yet have 35 percent of the state's population.

Townships rely almost exclusively on the local property tax for their funding and, unlike municipalities are not permitted to collect income taxes (Figure ES-1). Moreover, townships must seek voter approval for property tax increases above the state imposed limit (ten mills).

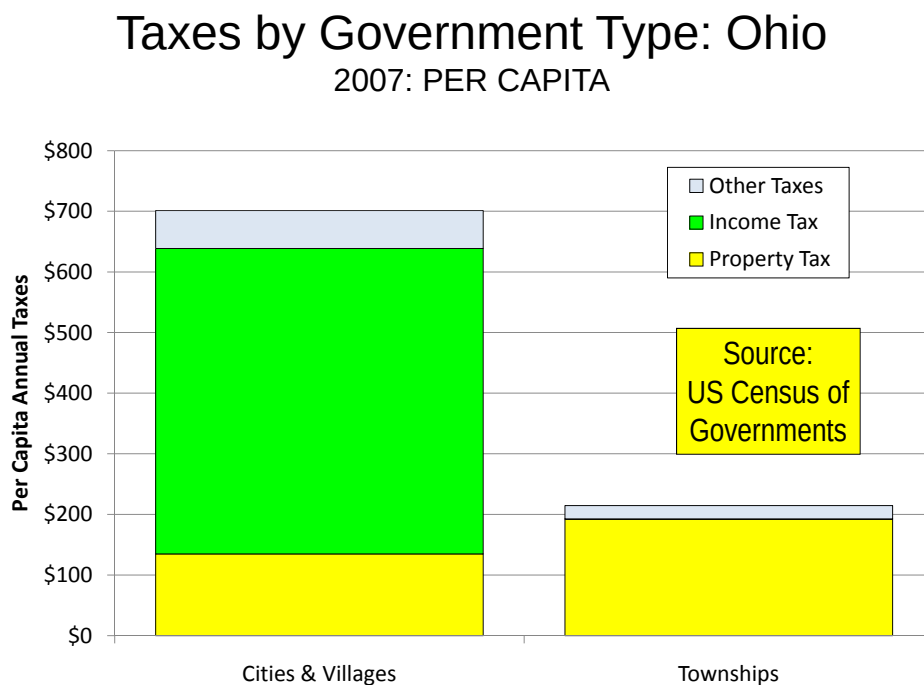


Figure ES-1

Townships have lower current expenditures per capita than villages and cities in all but one population category. In metropolitan areas, townships spend less per capita in all population categories. In addition, townships have lower per capita debt service payments than cities and villages both statewide and in metropolitan areas.

Townships also tend to have lower per capita administrative costs and lower labor costs. The lower spending levels in townships are related, at least in part, to the less expensive service levels that are preferred by their citizens (See Section 2.2).

Perhaps most importantly, townships rarely experienced the extent of fiscal crisis to justify entry into Ohio's Local Government Fiscal Distress Program. In the more than 30 year history of the program, only two out of the 1,308 township governments has been in fiscal distress, a fraction of the municipality rate. Townships have conducted their fiscal affairs with sufficient responsibility to virtually avoid the necessity of state intervention.

2.3: Assessment: The data in Ohio indicates that smaller local governments tend to spend less and borrow less per capita. This virtually universal relationship in the examined geographies is at odds with the impressions underlying the "bigger-is-better" view of local government spending (See Section 2.3).

3: Additional Research on Government Size and Consolidation: Generally, the academic research and studies in other states indicate that smaller governments spend less per capita and that government consolidations do not result in cost savings.

3.1: Academic Research: Contrary to the assumptions underlying the consolidation agenda, the academic research on the *actual* experience indicates that local government consolidations do not generally reduce spending. Further, the research tends to indicate that smaller governments are more efficient than larger governments. For example, recent Nobel Laureate Elinor Ostrom has found that smaller units of local government tend to be more efficient and perform better than larger governments. A literature research commissioned by the state of New Jersey found that "cost savings are not assured" in local government consolidations and that most "fail."

3.2: Government Size in Other States: Examination of local government data in the United States and three states (Pennsylvania, New York and Illinois) indicates that smaller local governments (smaller populations) are associated with *lower* expenditures per capita. The comparison was similar within the metropolitan areas of the three states. This is similar to the situation in Ohio.

4: Larger and Smaller Local Governments: Various factors inherent in government size tend to drive more favorable financial performance by smaller local governments relative to larger local governments (see Report Section 4).

4.1: Dynamics of Larger and Consolidated Governments: Larger and consolidated governments have considerable disadvantages that increase spending and makes them less accessible and less responsive.

As governments consolidate, costs are driven by "leveling up" of labor costs and service levels to match the more expensive consolidating jurisdiction. Larger governments are less accessible, because residents cannot as easily and quickly reach elected officials or administrators with sufficient authority to act. There is also likely to be greater access for spending interests. In many larger local governments, the principal fiscal problem is higher spending, rather than insufficient revenues.

The very size of some larger governments can make them "too big to fail," which can lead to "bailouts" by state taxpayers. The spending pressures in larger local governments can lead to a vicious cycle that drives taxes so high that governments borrow more, followed by proposals to consolidate when the borrowing capacity becomes more constrained.

4.2: Dynamics of Smaller Governments: As proponents of consolidation acknowledge, smaller governments tend to be more accessible and responsive. This advantage arises from the ability of people to more readily contact local government officials. Local government officials are able to more directly manage the affairs of a smaller jurisdiction, because they do not have to rely more on intermediate staff.

4.3: Criticisms of Smaller Governments: It is claimed that Ohio has too many governments, and that they spend more per capita as a result. However, as the data indicates, the many smaller governments in Ohio spend considerably less than larger governments. There were more than 1,500 local governments with less than 10,000 population reporting to the Auditor of State in 2008. Their median current expenditures per capita were less than one-third that of the approximately 225 reporting local governments with more than 10,000 in population.

It is also claimed that more governments result in duplication of services. However, governments have exclusive geographic service areas and do not provide the same services to the same residents. There is no duplication of services. Duplication may also be alleged where it is perceived that adjacent jurisdictions have combined equipment or administrative staffing levels that could be reduced by consolidation. However, such claims are usually based upon egregious or ad hoc examples that are not accompanied by quantitative analyses that take into consideration the cost increasing dynamics of consolidation (such as the leveling up of labor costs) or the context of the claimed duplication relative to the local government budgets.

According to critics, smaller local governments cannot take advantage of quantity discounts and other efficiencies in purchasing materials and equipment. There are, however, established mechanisms for achieving joint purchasing economies without consolidating. For example, the state's Cooperative Purchasing Program permits local governments, such as townships, cities and villages to take advantage of volume discounts by buying goods and services through state contracts. Larger governments, on the other hand, suffer from diseconomies of scale with respect to the largest element of government expenditure, labor compensation. The costs of materials and equipment pale by comparison to the costs of labor compensation.

Finally, Ohio's local democracy has been called "out of date." Democracy is a timeless value and moving government further away from the people is undemocratic. The less costly public services produced by smaller local democracies will never be out of date (See Section 3.4).

5: Local Governments and Competitiveness: It has also been claimed that more decentralized local democracy makes a metropolitan area less competitive. In fact, the drivers of competitiveness are far more complex. For example, the Beacon Hill Institute does not mention local government size in its highly regarded report on state competitiveness.

Further, competitiveness in the United States has been driven by geography for decades. Much of the population and economic growth in the United States has been outside the Midwest and East, which have been disadvantaged by generally less attractive weather, a less favorable business climate (higher labor costs and higher rates of private sector unionization) and higher taxes. Academic research indicates that the recent Louisville, Kentucky government consolidation has delivered on virtually none of its claimed economic competitiveness improvements.

A review of metropolitan areas in the Midwest and East indicates greater local government decentralization (more governments) is associated with *greater* employment growth than in areas with more local government concentration. Because local government consolidation is likely to increase local taxes and spending, it is likely to make Ohio less competitive (See Section 5).

6: Conclusion: Government Closer to the People: Smaller Ohio local governments, including township governments, are successfully delivering on the democratic values of superior accessibility and responsiveness. They are also delivering on the important economic and competitive issue of lower taxes and spending.

The choice is not between governments that spend less and governments that are more accessible and more responsive, but spend more. The choice is between larger governments that are less accessible and less responsive (and spend more per capita) and smaller governments that spend less per capita. Ohio's smaller local governments are more accessible and responsive, *and* they spend less. Smaller governments, which are closer to the people, are better for Ohio (See Section 6).

1: INTRODUCTION

America relies on local democracy. In 2007, there were approximately 36,000 local governments, including cities, towns, villages, boroughs and townships in the nation. This preference for smaller, decentralized local government can be traced back centuries, to the New England town meetings. The local democracy inherent in smaller local governments has proven to be timeless, by providing efficient and effective services in an accountable and responsive manner.

At the same time, there is considerable concern about the difficult financial situation facing governments, both in Ohio and across the nation. In this environment, there is a continuing search for approaches that reduce the cost of government.

There is a widely held impression that "bigger-is-better," such that local government consolidations would reduce expenditures and local taxes. As a result, there have been proposals in Ohio and around the nation to consolidate local governments, with the principal purpose being to reduce expenditures.

A number of reports have been published in Ohio in recent years supporting the "bigger-is-better" view of local government. For example, a Brookings Institution/Greater Ohio Policy Center report contends that Ohio's small local governance structure "creates a staggering array of costs." The report further suggests that Ohio needs to "radically restructure government" and that Ohio's cities and townships have "taken on expenses that are unsustainable."¹ Another report indicates that Ohioans "paid far more than is necessary for the management of thousands of government entities."² A report by the Center for Government Research provides exhaustive detail on costs by category of government service. None of the reports examines the association between the size of governments and spending per capita.³

"Bigger-is-better" is simply an assumption. The "bigger-is-better" reports do not provide detailed analysis of the financial performance of governments by size, but simply deems them to spend more, as if an "article of faith."

Much of the discussion in Ohio and elsewhere has focused on the number of local governments, on the assumption that a larger number of local governments results in higher spending levels. Economist Elinor Ostrom criticized this focus in her lecture accepting the Nobel Prize in Economics in 2009:⁴

Scholars criticized the number of government agencies rather than trying to understand why created and how they performed. Maps showing many governments in a metropolitan area were used as evidence for the need to consolidate.

She went on to indicate that researchers had developed "the concept of polycentric systems to analyze performance rather than criticize messy maps." Polycentric systems involve smaller, rather than larger government jurisdictions. She further indicated that "Small to medium-sized cities are more effective monitors of performance and costs."

¹ Brookings Institution and Greater Ohio Policy Center, *Restoring Prosperity: Transforming Ohio's Communities for the Next Economy*, <http://greaterohio.org/files/quick-downloads/restoring-prosperity-report.pdf>

² Ohio Society of CPAs, *Ohio Budget Advisory Task Force Report*, http://www.ohioscpa.com/docs/ga-docs/oscpa_ohio_budget_advisory_task_force_v-2-10.pdf, 2012.

³ Center for Governmental Research, *A Cost of Government Study for Northeast Ohio*, <http://www.cgr.org/docs/Cost%20of%20Government%20Study%20for%20Northeast%20Ohio.pdf>, 2008.

⁴ Elinor Ostrom, *Beyond Markets and States: Polycentric Governance of Complex Economic Systems*, Nobel Prize Lecture, Stockholm, Sweden, December 8, 2009. http://www.nobelprize.org/nobel_prizes/economics/laureates/2009/ostrom-lecture-slides.pdf.

The appropriate measure of spending is *spending* (per capita), not the number of governments. The focus on the number of local governments misses the point. University of Victoria (Canada) local governance expert Robert Bish notes:

*The ultimate measure of local government efficiency is not a count of jurisdictions or taxing districts, but rather their relative expenditures per capita for quality public services.*⁵

Further, savings in smaller categories of expenditures may not be reflected in total savings if costs rise inordinately in larger categories. Proposals to restructure local governance can reduce spending (or the rate of spending increase) only if reductions are evident at the "bottom line" of total spending per capita.

At the same time, there is a general understanding, even in some of the "bigger-is-better" reports that smaller governments are more accessible and responsive to their residents. For example, the Brookings/Greater Ohio Policy Center report acknowledges the desire of citizens for "accessible and responsive " governments that is associated with smaller units of local government.⁶

This report reviews the financial performance by local governments by size (population) in Ohio. Contrary to the impressions conveyed in the "bigger-is-better" reports, the Ohio data reveals a strong association between *smaller* local governments and *lower* levels of spending and taxation. In other words, the many smaller local governments in Ohio (and elsewhere) tend to spend less per capita than the larger governments.

Thus, Ohio residents in smaller local jurisdictions not only have more responsive governments and more accessible governments, but they *also* have governments that spend less per capita. It is not necessary to choose between the objectives of local governments that spend less and local governments that are more accessible and responsive.

As will be shown, implementing a local government consolidation agenda seems likely to *increase* the cost of local government, which would make Ohio less competitive.

2: LOCAL GOVERNMENT IN OHIO

Ohio has 2,246⁷ local non-county general purpose governments (municipalities, including cities and villages⁸ and townships), including 247 cities, 691 villages⁹ and 1,308 townships, which cover the entire

⁵ Robert L Bish, "Local Government Amalgamations, Discredited Nineteenth-Century Ideals Alive in the Twenty-First", The Urban Paper, C.D. Howe Institute Commentary, No. 150, Toronto, March 2001. <http://www.cdhowe.org/pdf/bish.pdf>

⁶ Greater Ohio Prosperity Center and the Brookings Institution, *Restoring Prosperity: Transforming Ohio's Communities for the Next Economy*, www.brookings.edu/reports/2010/0222_ohio_prosperity.aspx (referred to as the Brookings/Ohio report). Even so, according to William Driscoll and Howard Fleeter, *Review & Critique of Brookings Institution and Greater Ohio Policy Center Report*, the Brookings-Ohio report refers, "with condescension to Ohioans' preferences for 'little box jurisdictions.' Their language reflects a contempt for residents who prefer small local government" (<http://www.etpi-ohio.org/assets/ETPI-brookings-rebuttal-summary-and-full-report-10-21-10.pdf>).

⁷ US Census of Governments, 2007.

⁸ Villages are municipalities with less than 5,000 population. Cities have populations of 5,000 or more. According to the United States Bureau of the Census, municipalities are "Organized subcounty local governments established to provide general government services for a specific concentration of population in a defined area; includes those governments designated as cities, villages, boroughs (except in Alaska), and towns (except in the six

area of the state. Ohio is unlike a number of other states, where local government services outside municipalities (cities and villages in Ohio) are provided by county governments.¹⁰ In Ohio, outside the limits of cities and villages, township governments provide the core local services that are provided by cities and villages within municipalities.

This report focuses on municipalities (cities and villages) and townships. Whenever used in this report, the term "local government" refers to municipalities and townships and *excludes* counties unless otherwise indicated. In Ohio, local governments typically provide services such as police protection, fire protection, emergency medical services, waste management, senior centers, parks and recreation, street lighting, zoning, roads, and cemetery maintenance.

Approximately 59 percent of the state's population lives in cities, 35 percent in townships and 6 percent in villages (Figure 1). Townships have jurisdiction over the largest share of the state's land area among non-county local governments. Based upon 2010 US Census data, it is estimated that townships govern 91 percent of Ohio's land area. Municipalities govern 9 percent of the land area. Cities cover 7 percent and villages cover 2 percent of the land area (Figure 2).¹¹ The average city has a population of 26,900, with a land area of 12.2 square miles. Villages average 1,100 population, with a land area of 1.1 square miles. Overall, municipalities have an average population of 8,000 and a land area of 4.1 square miles. Townships have an average population of 3,100 and an average land area of 28.3 square miles (Table 1, Section A).

Virtually all of Ohio's population growth between 2000 and 2010 was in townships. Overall, the state added 183,000 residents, while the townships added 243,000 residents. Overall, the municipalities lost 59,000 residents, with the cities losing 72,000 and the villages gaining 12,000. The township population growth rate was four times the state population growth rate (Table 1, Section B).

New England states, Minnesota, New York, and Wisconsin)." Generally, the distinction is that municipalities are incorporated. At the same time, while municipalities are "sub-county," they may be in more than one county.

⁹ Ohio Secretary of State, *Secretary of State Husted Announces Ohio City & Village Classifications Based on 2010 Census Data*, April 13, 2011. <http://www.sos.state.oh.us/mediaCenter/2011/2011-04-13.aspx>
<http://www.sos.state.oh.us/mediaCenter/2011/2011-04-13.aspx>.

¹⁰ For example, in the nation's largest county (Los Angeles), approximately 1,000,000 people live in unincorporated areas. Voters must share their county commissioners (county supervisors) with the other 9,000,000 people who also vote in county elections. Unlike Ohio, residents outside municipalities in states without township level government do not have exclusive elected officials.

¹¹ Estimated from 2010 US Census data. The change in the number of cities versus municipalities (as reported by the Secretary of State) following the 2010 US Census is not reflected in this data.

Ohio Local Government: Population 2010

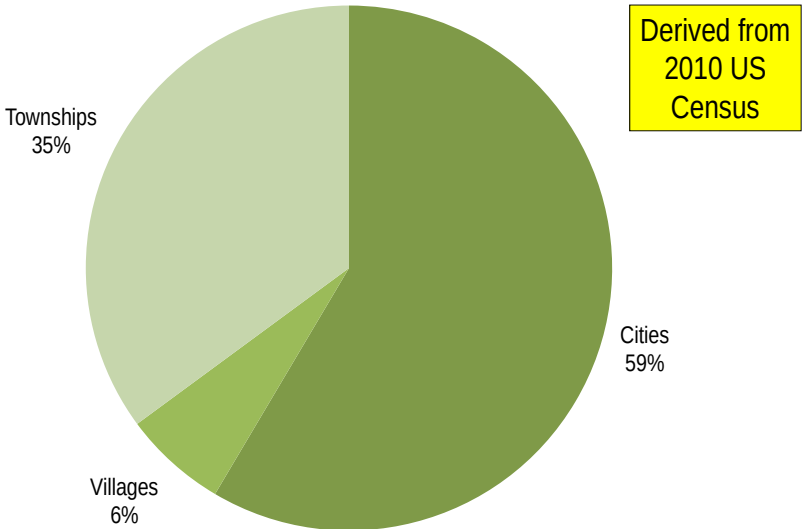


Figure 1

Ohio Local Government: Land Area 2010 (SQUARE MILES)

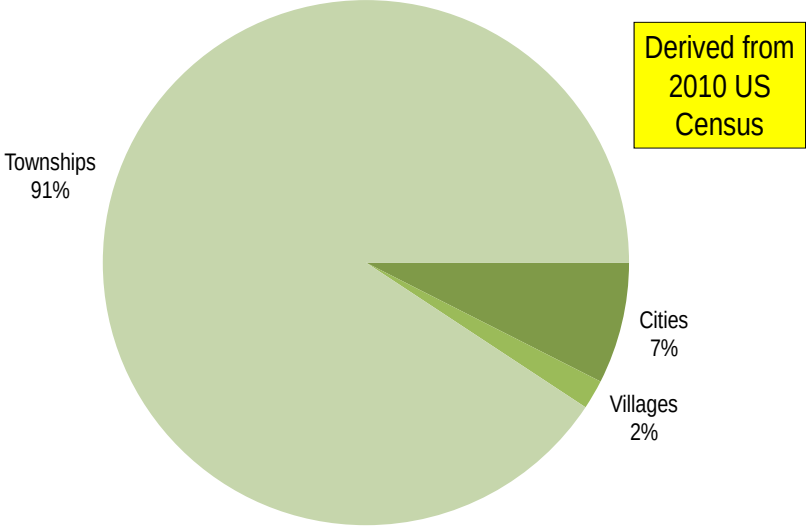


Figure 2

Table 1
Local Government Population, Land Area and Population Change: 2000-2010

Section A:					
POPULATION: 2010 CENSUS	Number	Land Area (Square Miles)	Population	Average Land Area	Average Population
Cities	246	2,961	6,625,338	12.0	26,900
Villages	690	861	856,416	1.2	1,200
Subtotal: Municipalities	936	3,822	7,481,754	4.1	8,000
Townships	1,308	37,038	4,054,750	28.3	3,100
Non-County General Governments	3,180	40,861	11,536,504	12.8	3,600
Section B:					
POPULATION CHANGE: 2000-2010	2000 Census	2010 Census	Change	% Change	Share of Change
Cities	6,697,072	6,625,338	(71,734)	-1.1%	-39%
Villages	843,927	856,416	12,489	1.5%	7%
Subtotal: Municipalities	7,540,999	7,481,754	(59,245)	-0.8%	-32%
Townships	3,812,151	4,054,750	242,599	6.4%	132%
Non-County General Governments	11,353,150	11,536,504	183,354	1.6%	100%
Derived from 2000 & 2010 Census					
Population change adjusted for annexations between 2000 and 2010					
Jurisdiction counts for cities and villages is taken from 2010 US Census (the Secretary of State's count is slightly different)					

2.1: LOCAL GOVERNMENT FINANCIAL ANALYSIS

Overall, Ohio local governments had direct general expenditures¹² of \$48.4 billion in 2007.¹³ School Districts spent \$21.5 billion (44.5 percent of the total), counties spent \$12.4 billion (25.7 percent), cities and villages \$10.3 billion (21.3 percent) and special districts spent \$2.8 billion (5.6 percent). Townships spent the least, at \$1.3 billion, or 2.7 percent of the total (Figure 3).¹⁴

¹² Direct general expenditures exclude utility and government enterprise expenditures.

¹³ Some critics have indicated that Ohio has a higher local tax burden than many other states. It is not valid to compare local tax burdens between states, because of the varying distribution of both taxes and services between state and local governments. For example, while education is a local government function in Ohio, it is a state function in Hawaii. According to the Ohio Department of Taxation, Ohio ranked 26th highest in state and location taxation per capita in 2009. Ohio ranked 18th highest in local taxation per capita, and 36th in state taxation per capita, indicating that Ohio collects more of its state and local taxation at the local level than average. (http://tax.ohio.gov/divisions/tax_analysis/tax_data_series/state_and_local_tax_comparison/tc12/documents/TC12CY09.xls). The distribution of state and local taxation is established by state government (the legislature and the Governor). Approximately 67 percent of local tax revenues (counties, municipalities, townships, school districts and special districts) are from property taxes, 9 percent from sales and gross receipts taxes and 20 percent from income taxes. Among municipalities, 19 percent of tax revenue is from property taxes and 72 percent is from income taxes. Property taxes account for approximately 90 percent of township taxation (calculated from US Census of Governments, 2007).

¹⁴ From the 2007 US Census of Governments (latest information available).

Local Government Expenditures in Ohio

DIRECT GENERAL EXPENDITURES: 2007

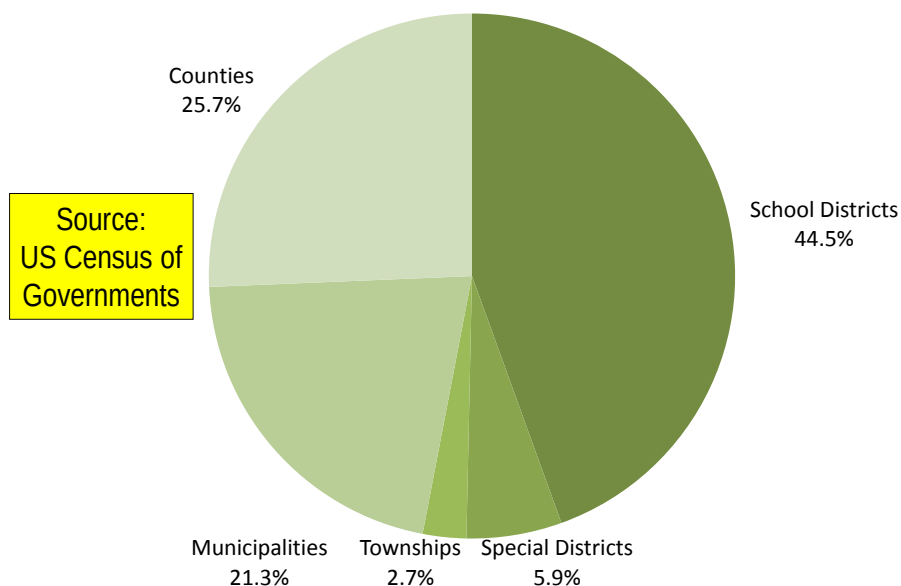


Figure 3

Per capita data for current expenditures (day-to-day operating expenses, such as paying employees and utility bills) and debt service for the more than 1,750 general purpose non-county government units reporting (out of a total of 2,246)¹⁵ was compiled by the Ohio Auditor of State for 2008.¹⁶ This analysis excludes a number of local governments for which the Auditor of State data is either incomplete or not available. The reporting governments represented approximately 95 percent of Ohio's population.

This section analyzes local government financial performance in Ohio by population size, statewide, in metropolitan areas¹⁷ and outside metropolitan areas. The analysis is in the context of claims that local government consolidation would result in lower expenditures by Ohio governments. If this "bigger-is-better" assumption is correct, then the data would show that larger governments spend less and borrow less per capita than smaller local governments.

There is separate coverage of metropolitan areas, since proponents of larger government have claimed that smaller governments are inappropriate in metropolitan areas. In typical fashion, a major metropolitan newspaper in Illinois editorialized that smaller governments (townships) may have a role in those parts of the state "still covered by cornfields. But around Chicago, they're a logical target for taxpayers looking for savings."¹⁸

¹⁵ Data from the US Census of Governments, 2007. A sub-county government is defined as a municipality (in Ohio, this includes cities and villages) and townships. Counties are also general purpose governments, but are not analyzed in this report.

¹⁶ The latest data available on the Auditor of State internet website at the time of the research (November-December 2011). <http://www.auditor.state.oh.us/services/lgs/BenchmarksForLocalGovernments/default.htm>.

¹⁷ A metropolitan area consists of one or more counties that "have a high degree of social and economic integration (as measured by commuting to work)."

¹⁸ *Chicago Sun-Times*, "Townships are one place taxpayers can cut costs," November 8, 2011, <http://www.suntimes.com/opinions/8667927-474/editorial.html>

Statewide: Current Expenditures, Debt Service and Taxes

At the state level, local governments tend to spend less per capita, borrow less per capita, and collect less tax revenue per capita.

Current Expenditures: In Ohio, the lowest median current expenditures (operating expenditures) per capita are in local governments serving a population from 1,000 to 2,500, at \$294 annually. Current expenditures per capita generally rise in larger governments categories, reaching more than six times the 1,000 to 2,500 per capita rate in local governments with more than 100,000 population, at \$1,249 annually. The smallest local governments, with populations below 1,000 spent slightly more than governments with between 1,000 and 5,000 residents and less per capita than all categories with 5,000 or more population (Figure 4).

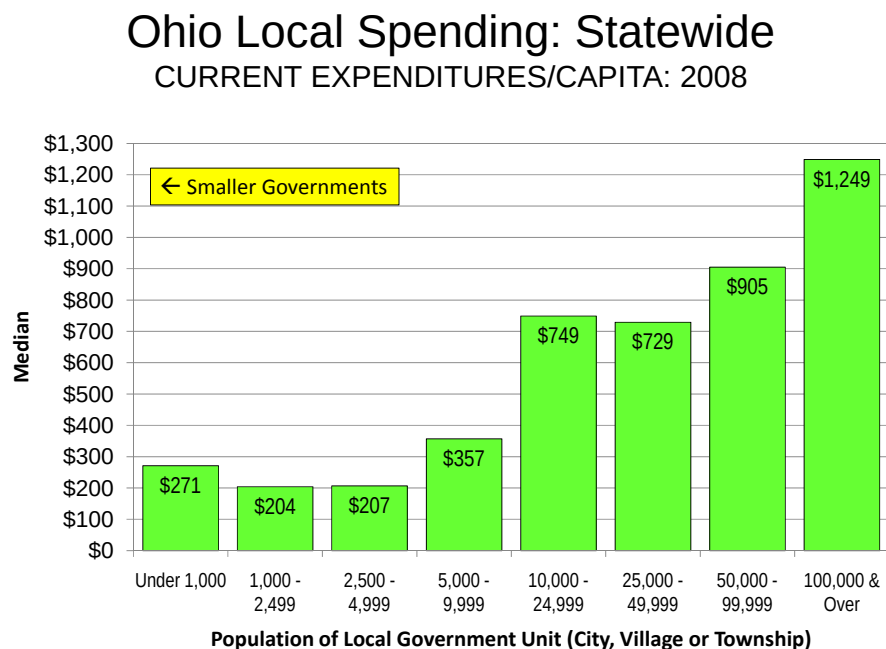


Figure 4

Debt (Debt Service): Smaller, local governments also borrowed less than larger governments, as is indicated by annual debt service data.¹⁹ All of the local government categories with less than 5,000 population had median annual debt service payments of zero. Each larger category of local government paid more in annual debt service, with the largest category, those of 100,000 population and above, paying by far the highest (Figure 5).

The smallest local governments (with under 1,000 population) have the least reliance on debt, with only 32 percent, indicating debt service payments. The incidence of debt increased in each higher population category. All reporting local governments (100 percent) in the 50,000 to 100,000 population category and the over 100,000 population category reported debt service (Figure 6).

¹⁹ Debt service payments are the only debt data reported on Auditor of State reports.

Local Taxes: Smaller local governments also levy lower taxes per capita than larger governments. The lowest per capita local taxation (\$75) is in the smallest governments, with populations under 1,000. Local taxation per capita rises in each larger category. The highest local taxation per capita is in the largest governments, those with 100,000 or more population. These governments have per capita taxation of \$856, more than 10 times the smallest local government population category (Figure 7).

Ohio Local Debt: Statewide

DEBT SERVICE/CAPITA: 2008

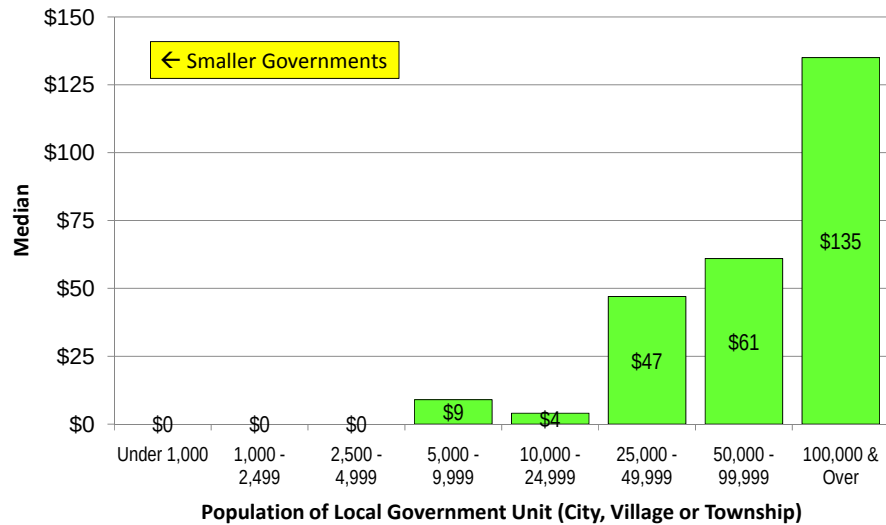


Figure 5

Ohio Incidence of Debt: Statewide

% OF GOVERNMENTS WITH DEBT PAYMENTS: 2008

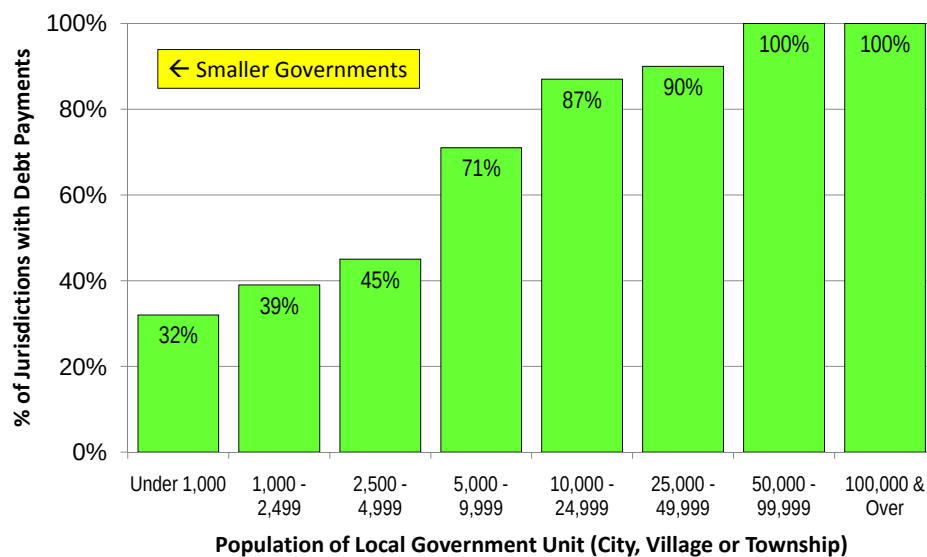


Figure 6

Ohio Local Taxes: Statewide

LOCAL TAXES/CAPITA: 2008

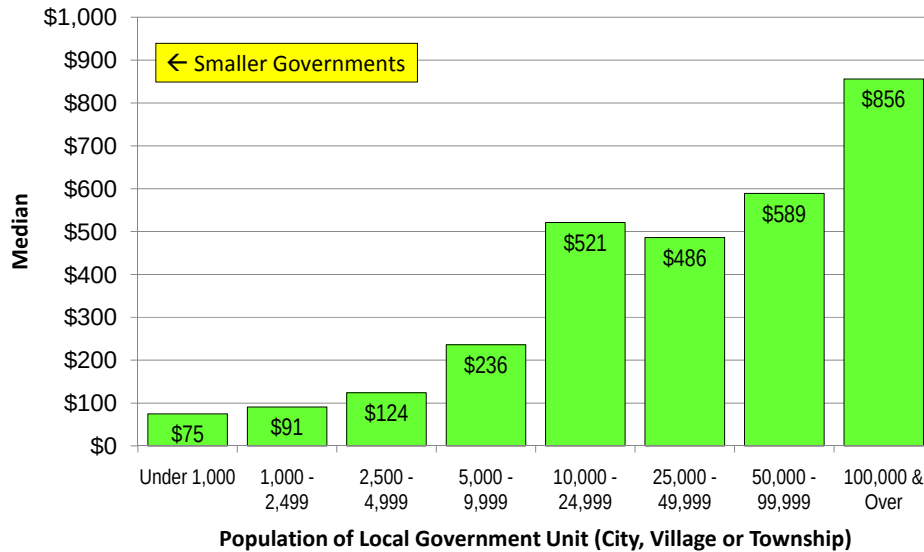


Figure 7

Metropolitan Areas: Current Expenditures, Debt Service and Taxes

Most Ohioans live in metropolitan areas (Table 2). According to data in the 2010 United States Census, approximately 9.3 million of Ohio's 11.5 million people (approximately 80 percent) live in metropolitan areas. Generally, the cost of living and the extent of local government services tend to be greater in metropolitan areas than in the more rural parts of the state. There may be a perception that smaller units of government are more costly in metropolitan areas, as a *Chicago Sun-Times* editorial (cited above) suggested in Illinois.

Table 2 Ohio Metropolitan Areas	
Akron, OH	Mansfield, OH
Canton-Massillon, OH	Parkersburg-Marietta-Vienna, WV-OH
Cincinnati-Middletown, OH-KY-IN	Sandusky, OH
Cleveland-Elyria-Mentor, OH	Springfield, OH
Columbus, OH	Toledo, OH
Dayton, OH	Weirton-Steubenville, WV-OH
Huntington-Ashland, WV-KY-OH	Wheeling, WV-OH
Lima, OH	Youngstown-Warren-Boardman, OH-PA
Note: Analysis in this report is limited to Ohio portions of metropolitan areas. Constituent counties as of 2009 (US Bureau of the Census)	

The financial performance of the 850 non-county local government units that reported to the Auditor of State in 2008 was also analyzed. Even in the metropolitan areas, a similar "smaller-governments-spend-less" relationship was identified. The incidence of debt among smaller governments was less, while their spending, debt levels and taxation per capita were also lower than larger governments in the metropolitan areas. This is evidence that smaller governments continue to play an important role in improving the efficiency of local government, even in the metropolitan areas, with their larger populations and higher costs of living.

Current Expenditures: Overall, median current expenditures were \$320 per capita in metropolitan areas. The lowest current expenditures were in the 2,500 to 5,000 population category, at \$236 per capita, with the 1,000 to 2,500 population category being nearly as low, at \$239 per capita. The smallest local governments, with under 1,000 population again had lower expenditures per capita (\$319) than all local government categories with 5,000 or more population.

Current expenditures per capita were higher in all larger population categories with 5,000 or more population, peaking at \$1,249 per capita in local governments with 100,000 or more population. Local governments with more than 100,000 population had more than five times the rate of the lowest spending government population categories, those with 1,000 to 2,500 population, and with 2,500 to 5,000 population (Figure 8).

Debt (Debt Service): The median annual debt service was zero in the local government population categories below 5,000 population. The debt service per capita rose with each higher category, reaching its peak at \$135 per capita in the local governments with 100,000 or more population (Figure 9).

The smallest local governments in metropolitan areas (with under 1,000 population) have the lowest incidence of debt, with 36 percent, indicating debt service payments. The incidence of debt increased in each higher population category. All reporting local governments (100 percent) with 50,000 to 100,000 population and over 100,000 population reported debt (Figure 10).

Local Taxes: Local taxation was also lower in smaller governments in the metropolitan areas of Ohio. The lowest local taxes are in local governments with 1,000 to 2,500 population, at \$111 per capita and local governments with less than 1,000 population, at \$113 per capita. Local governments with 2,500 to 5,000 residents represented the only other population category with local government taxation per capita (\$142) less than the metropolitan median of \$191. Local governments with 5,000 to 10,000 population had per capita local taxation of \$237. The local taxation per capita in the larger population categories was more than double that of the 5,000 to 10,000 population category. The highest local government taxation per capita was in the largest local governments, those with 100,000 or more residents, at \$856, nearly 8 times the lowest category (1,000 to 2,500 population) and more than four times the \$191 metropolitan median (Figure 11).

Ohio Local Spending: Metropolitan

CURRENT EXPENDITURES/CAPITA: 2008

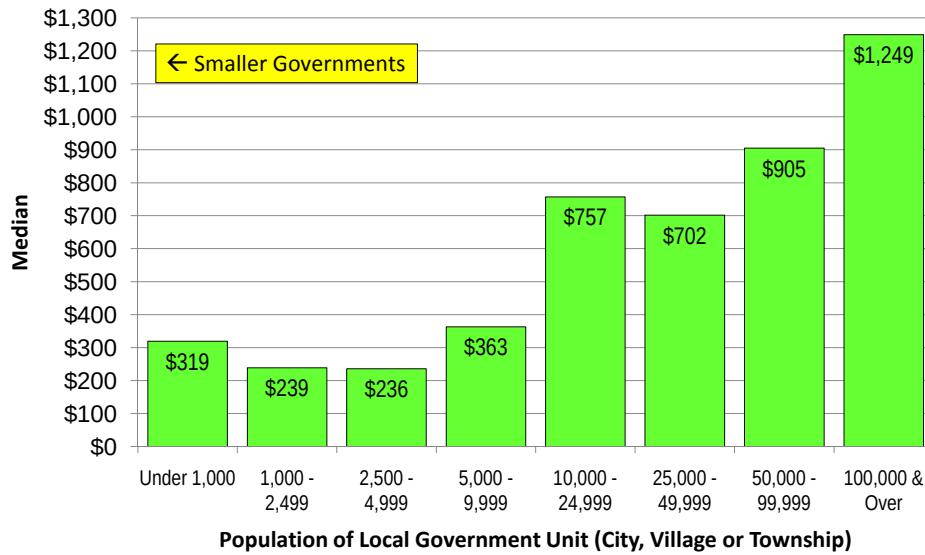


Figure 8

Ohio Local Debt: Metropolitan

DEBT SERVICE/CAPITA: 2008

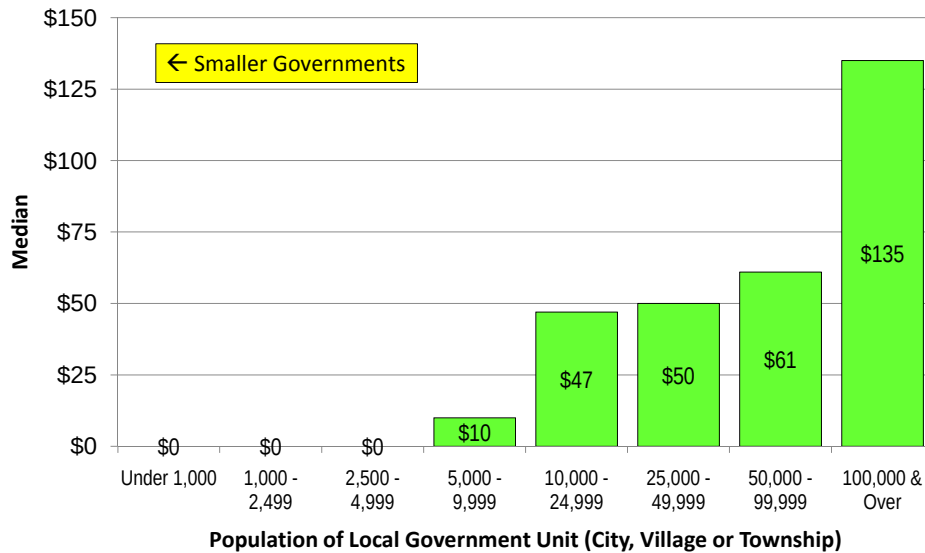


Figure 9

Ohio Incidence of Debt: Metropolitan

% OF GOVERNMENTS WITH DEBT PAYMENTS: 2008

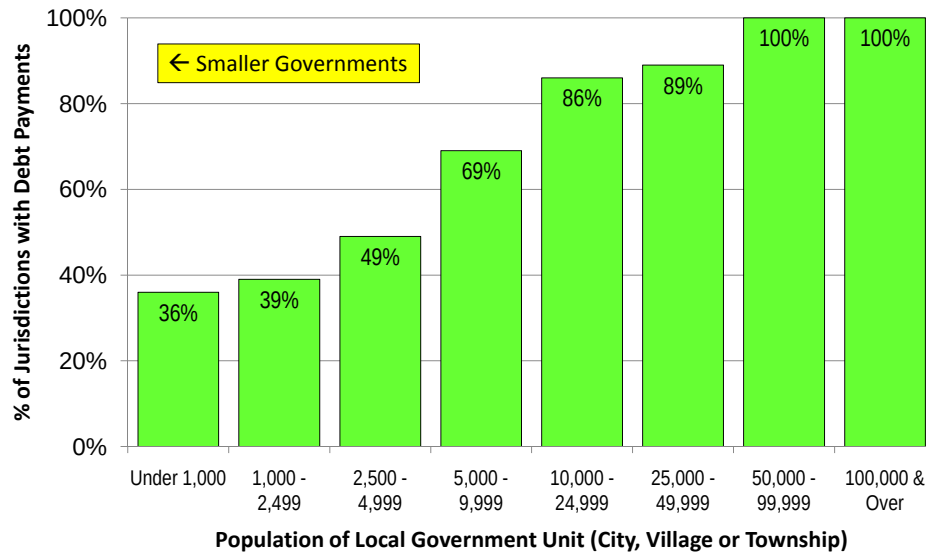


Figure 10

Ohio Local Taxes: Metropolitan

LOCAL TAXES/CAPITA: 2008

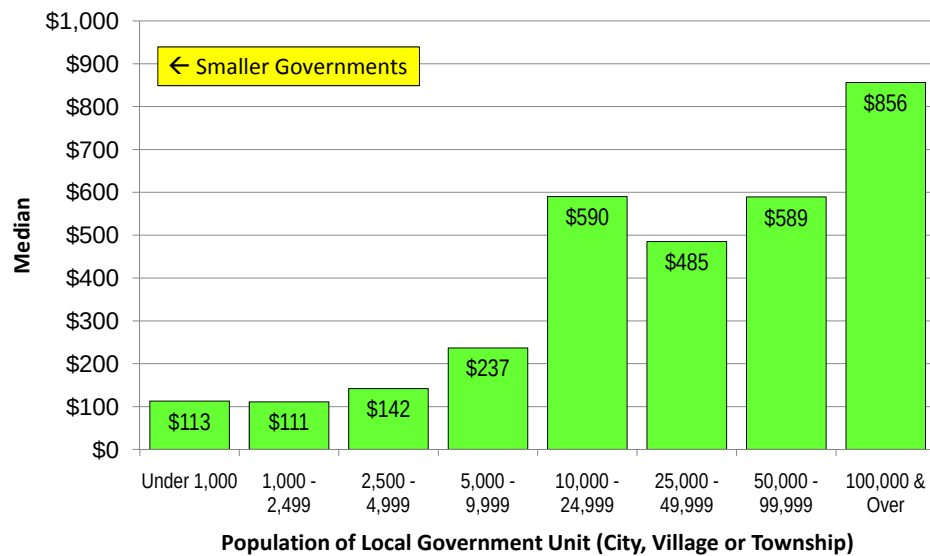


Figure 11

Outside Metropolitan Areas

The association between smaller local governments and lower levels of current expenditures per capita, debt per capita and taxation per capita also applies outside metropolitan areas. Financial data was analyzed for the approximately 900 non-county general purpose local governments included in the 2008 Auditor of State database.

Current Expenditures: The lowest current expenditures were in the 2,500 to 5,000 population category, at \$174 per capita and the 1,000 to 2,500 population category, at \$195 per capita. The smallest local governments (under 1,000 population) had lower expenditures per capita (\$263) than all local government categories with 5,000 or more population (Figure 12).

Debt (Debt Service): Generally, smaller governments outside metropolitan areas rely less on debt. The lowest incidence of debt is in the smallest local governments (under 1,000 population), with 31 percent indicating debt service payments (Figure 13). Less than 40 percent of local governments with 1,000 to 2,500 population, and from 2,500 to 5,000 population indicated debt service payments. All local governments with more than 25,000 population reported debt service (Figure 14).

Local Taxes: Local taxation was also lower in smaller governments outside the metropolitan areas of Ohio. The lowest local taxes are in local governments with under 1,000 population, at \$69 per capita. Local taxes in municipalities with 10,000 or more residents were more than six times that of local governments with less than 1,000 population (Figure 15).

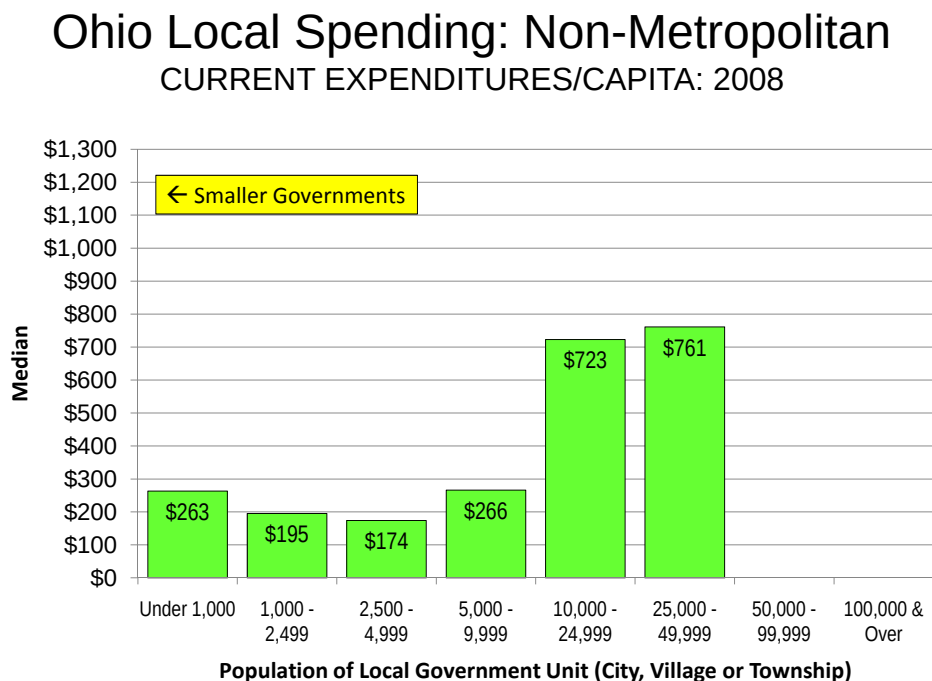


Figure 12

Ohio Local Debt: Non-Metropolitan

DEBT SERVICE/CAPITA: 2008

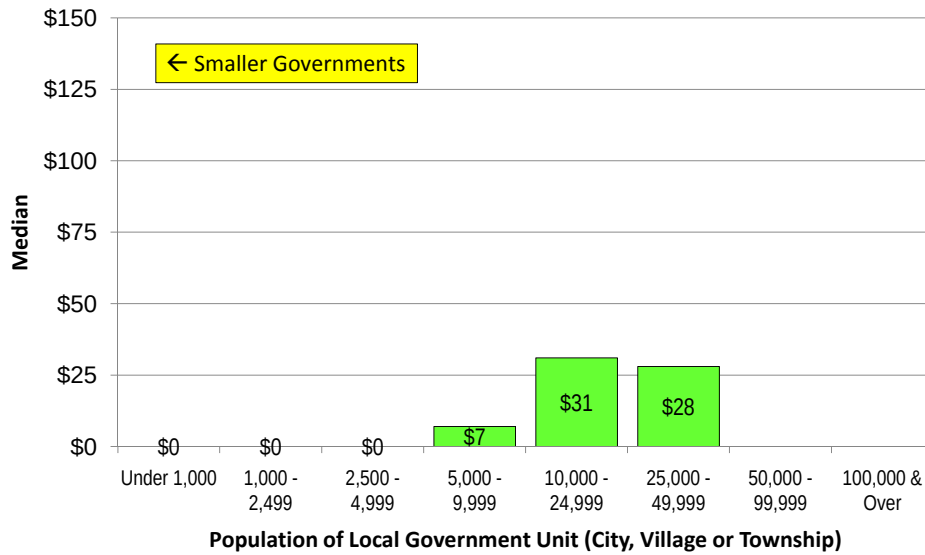


Figure 13

Ohio Incidence of Debt: Non-Metropolitan

% OF GOVERNMENTS WITH DEBT PAYMENTS: 2008

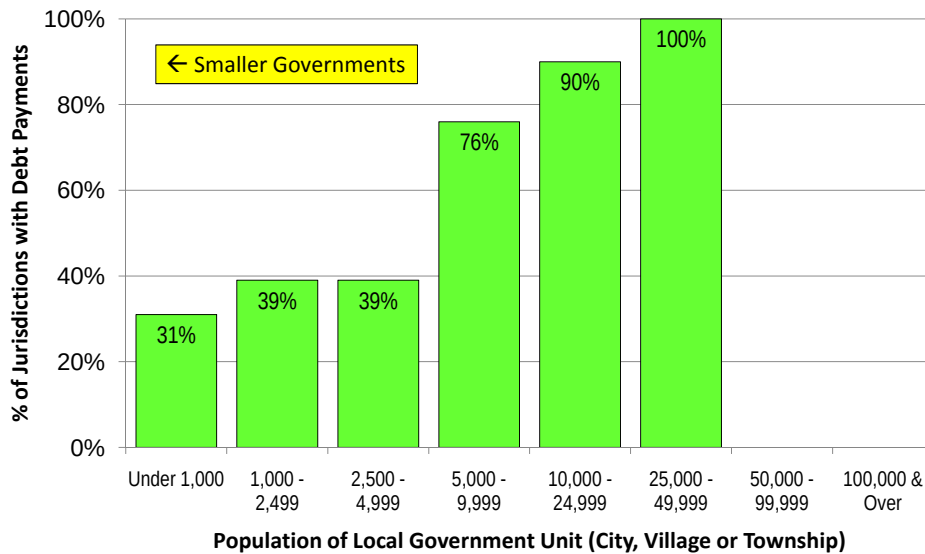


Figure 14

Ohio Local Taxes: Non-Metropolitan

LOCAL TAXES/CAPITA: 2008

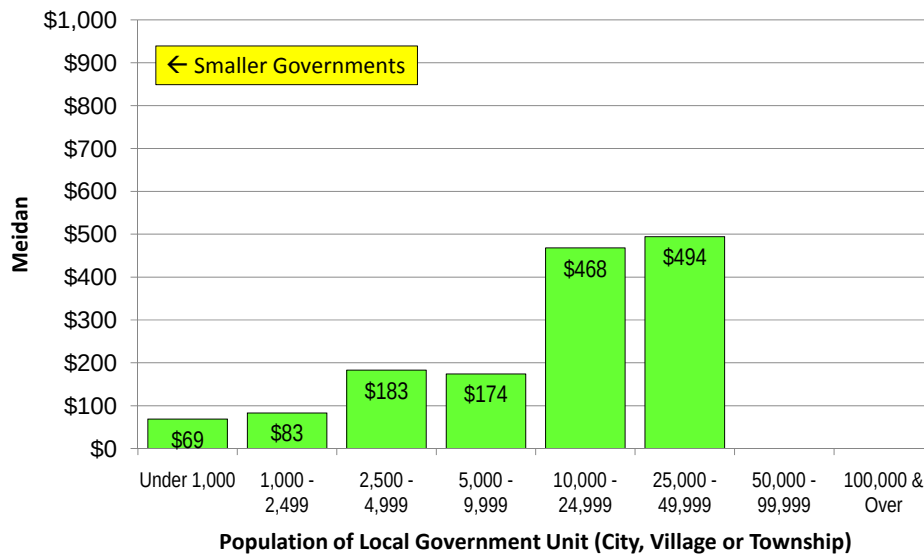


Figure 15

Local Government Fiscal Distress Program

According to the Auditor of State, the Local Government Fiscal Distress program was established in 1979 to provide assistance to municipalities that encounter serious financial difficulty. The program was expanded to counties and townships by the legislature in 1996. In effect, entry into the fiscal distress program indicates that a local government's finances have become so problematic as to require attention by the state on behalf of its taxpayers. The program was established in response to the city of Cleveland's financial problems.²⁰

An analysis of all municipal governments by population size that have been placed in any category of the Fiscal Distress program indicates that the largest governments are most susceptible to serious financial difficulty.²¹ Based upon 2010 population data, citizens of municipalities with more than 100,000 population have been six times as likely to be in a distressed municipality than in ones with 25,000 to 50,000 population. Municipalities with 50,000 to 100,000 are nearly five times as likely to have entered fiscal distress than those with 25,000 to 50,000 population (population weighted). All smaller population categories of municipalities (under 50,000) have a substantially lower likelihood of fiscal distress than the largest categories, on a population weighted basis (Figure 16)

²⁰ Ohio Auditor of State, *Local Government Fiscal Caution/Watch/Emergency Law Fact Sheet*<http://www.auditor.state.oh.us/services/lgs/fiscalwatch/government.htm>

²¹ For township information, See Section 2.2.

Municipalities Ever in Fiscal Distress

SHARE OF POPULATION BY SIZE

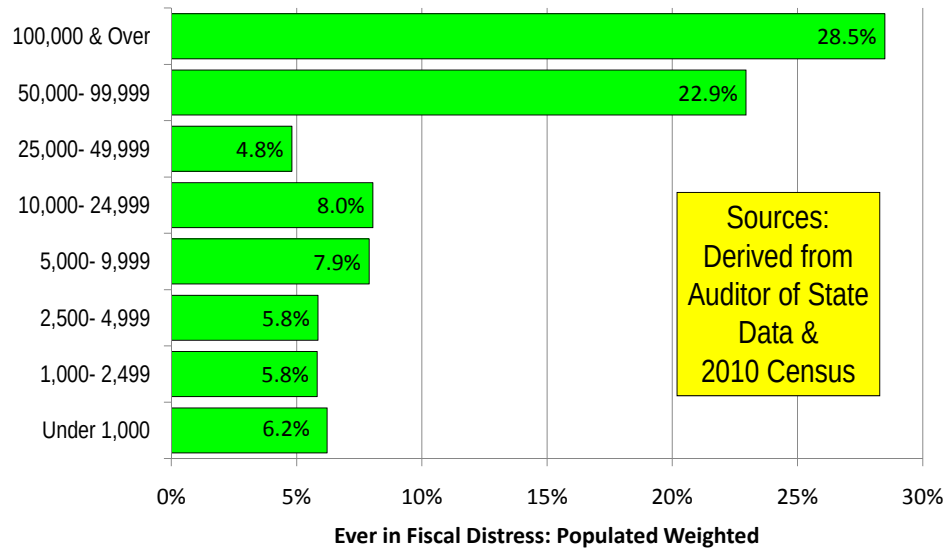


Figure 16

The Ideal Size of Local Government in Ohio?

As noted above, the smallest local governments (under 1,000 population) had somewhat higher expenditures per capita than governments with populations between 1,000 and 2,500 population. The smallest category of governments tends to perform the best in the other categories evaluated.

However, the governments with less than 1,000 residents achieve favorable results in the other categories examined. Their debt per capita, incidence of borrowing and taxation per capita is virtually the same as or below that of governments with from 1,000 to 2,500 resident and all other population categories. Moreover, even with respect to spending, the smallest governments have lower expenditures per capita than all population classifications of local government with more than 5,000 residents.

Even so, the fact that the lowest expenditures per capita are in the 1,000 to 2,500 population category is a strong indication that economies of scale --- a dynamic in which larger governments are able to serve the public at lower expenditures per capita --- are not a large issue in local government, especially in Ohio.

Economies of scale can occur where quantity discounts can be obtained by buying equipment or supplies in larger volumes. However, in Ohio the smallest local governments have virtually the same purchasing advantages as larger governments, though program such as the Ohio "Cooperative Purchasing Program" and the Sourcing Office (See Section 4.3).²²

In local governments, both townships and municipalities, labor costs are the largest item of expenditure (See Section 4.3). Quantity discounts, the principal source of savings on supplies and equipment, are not available in labor.

²² It has often been argued that there is a minimum cost for local governments, regardless of size. This research does not examine this issue and the somewhat higher expenditures per capita could be an indication that such a dynamic occurs among governments with less than 1,000 residents.

Finally, the smallest local governments have a low rate of fiscal distress (above).

2.2: TOWNSHIPS IN OHIO

Ohio's townships provide virtually the same services as cities and villages, and do so in their own exclusive geographical service areas. Further, townships are responsible for the largest share of the state's roadways, at more than one-third of the mileage (Figure 17).

Townships have more limited funding options than municipalities. Nearly all township revenue is collected from property taxes. In contrast, cities and villages rely not only property taxes, but also income taxes (which townships are not allowed to levy). In 2007, townships collected \$214 per capita in local taxes. Cities and villages collected \$701, more than three times township tax collections (Figure 18).²³ Townships are required to obtain voter approval for property tax levy increases above the ten mill limitation (ORC Sec. 5705.02; Sec. 2 Article XII of Ohio Constitution).

Even so, townships collect little of the total property tax in Ohio, accounting for 5.8 percent of collections. School districts raise 66.9 percent of property tax revenues, while counties collect 17.8 percent, municipalities 7.6 percent and special districts 5.8 percent.²⁴

Road Jurisdiction by Government Type

OHIO: 2011: IN MILES

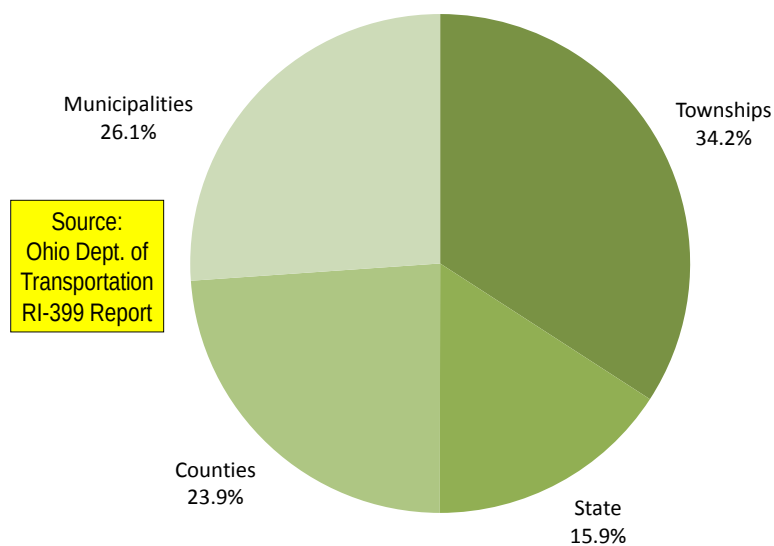


Figure 17

²³ Calculated from 2007 US Census of Governments data.

²⁴ Calculated from 2007 US Census of Governments data.

Taxes by Government Type: Ohio

2007: PER CAPITA

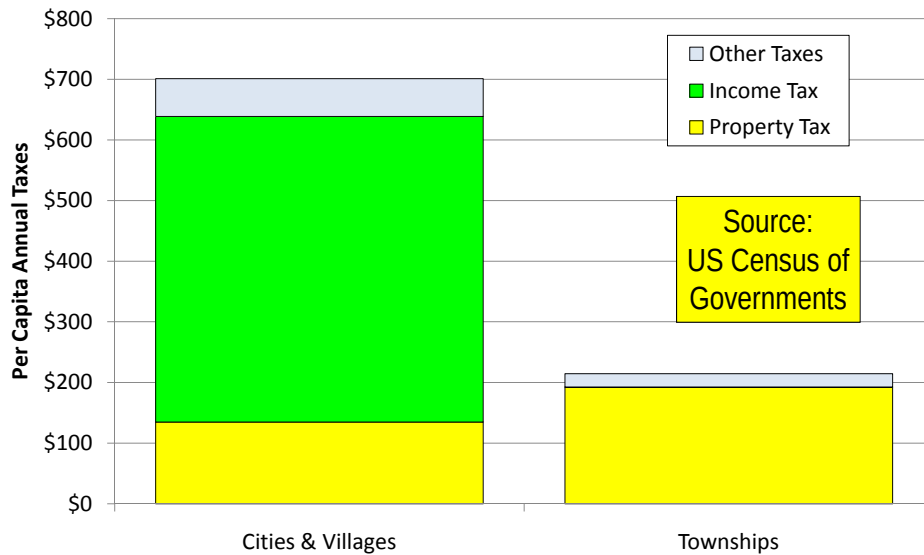


Figure 18

Township Financial Performance

Disproportionate attention has been directed to Ohio townships by the proponents of larger local governments. Part of the reason for this attention is that townships generally have smaller populations than cities and the assumption that smaller units of local government spend more per capita than larger units of local government. Policy makers have even suggested that smaller townships face "ultimate demise" and implied that they use state granted authority for mergers. This anti-township campaign makes it important to compare township spending to that of cities and villages.

Townships provide non-county local government services outside the state's municipalities. Townships comprise 35 percent of Ohio's population (Figure 1, above), yet account for only 11 percent of overall local government expenditures (excluding counties) in 2007. By contrast, Ohio's municipalities, which comprise 65 percent of the population, accounted for 89 percent of the local government expenditures (Figure 19).

The lower comparative spending rate of townships is despite the fact that their average population, at 3,100 is less than one-half that of the municipalities and that they serve much larger geographical areas. The average township has approximately seven times the land area of the average municipality (Table 1, above).

Local Government Expenditures in Ohio

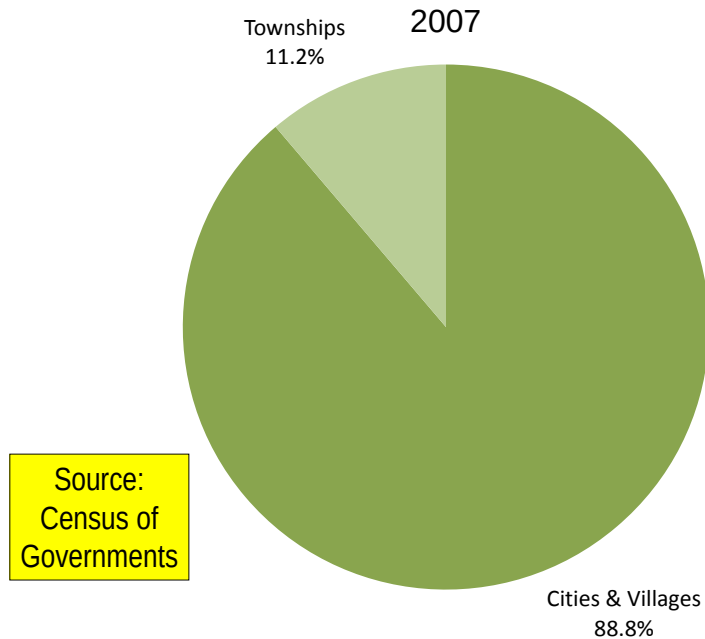


Figure 19

Current Expenditures: Generally, township governments spend less per capita than city and village governments. Overall, at the state level, townships have a median current expenditure per capita approximately one-third that of cities and villages. Townships tend to spend less per capita in all but the smallest statewide population category, where the difference is small (Figure 20).

Current Expenditures: Metropolitan Areas: Townships also spend less per capita in Ohio's metropolitan areas. Median township current expenditures are considerably less than in cities and villages. In every population category townships spend less per capita than municipalities. In all but one category, townships spend less than one-half per capita than in cities and villages (Figure 21). For example, the largest townships (50,000 to 100,000 population) spent less than \$400 per capita in 2008 in metropolitan areas, compared to more than \$900 per capita in municipalities of the same size. These larger townships also spent less per capita than municipalities of all size categories in metropolitan areas.

City/Village & Township Spending

CURRENT EXPENDITURES/CAPITA: 2008

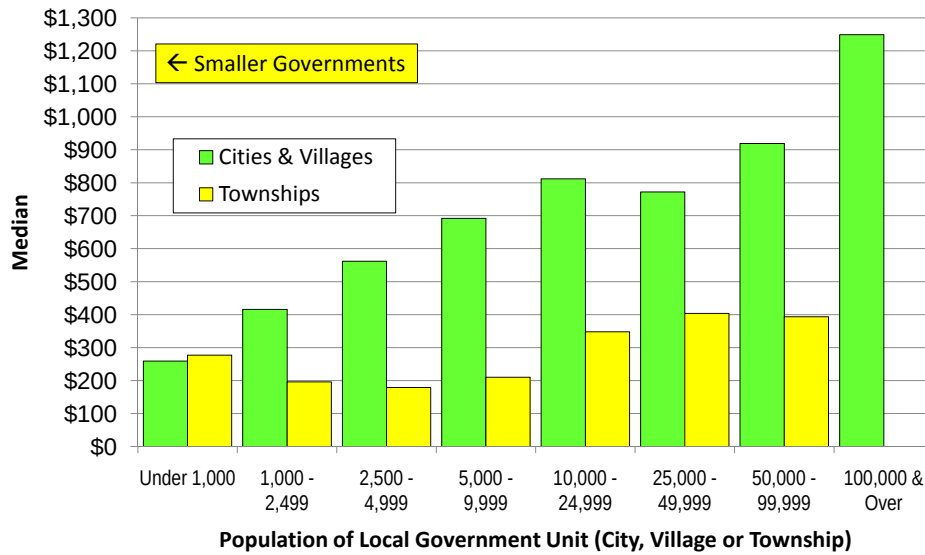


Figure 20

City/Village & Township Spending: MSA

CURRENT EXPENDITURES/CAPITA: 2008

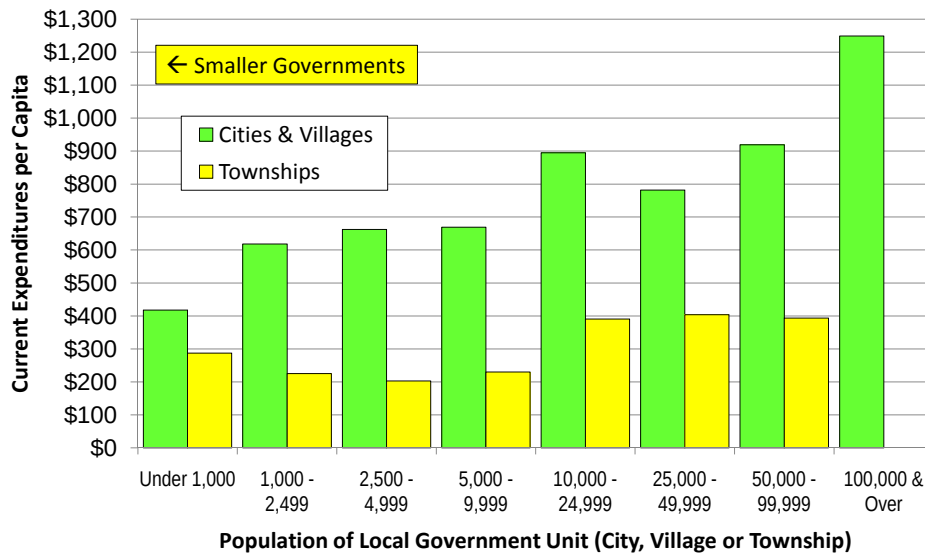


Figure 21

Debt Payment (Debt Service): Townships generally rely on debt to a lesser degree and borrow less than municipalities in each population category. The median per capita debt service level in townships with less than 10,000 residents is zero. The median debt service per capita is also zero in municipalities (villages) with fewer than 1,000 residents (Figure 22).

Debt Payment (Debt Service): Metropolitan Areas: In metropolitan areas, townships also borrow considerably less than municipalities in each population category. Again, the median per capita debt service level in townships with less than 10,000 residents is zero. The median debt service per capita is also zero in municipalities (villages) with fewer than 1,000 residents (Figure 23).

Example: Fire Protection: The "bigger-is-better" literature in Ohio specifically cites fire protection as a service that is less expensive for larger jurisdictions to provide (See Section 4.3). Using the Auditor of State data, it is impossible to analyze fire protection expenditures by size of local government, because fire protection is not separately reported. However, separate data for townships and municipalities is available from the US Census of Governments. In 2007, townships, which average approximately 3,100 population, expended \$87 per capita on fire protection. This is 29 percent below the national average of \$123 per capita. In contrast, municipalities, with an average population of approximately 8,100 spent \$152 per capita on fire protection. This is 24 percent above the national average of \$123 per capita (Figure 24).²⁵

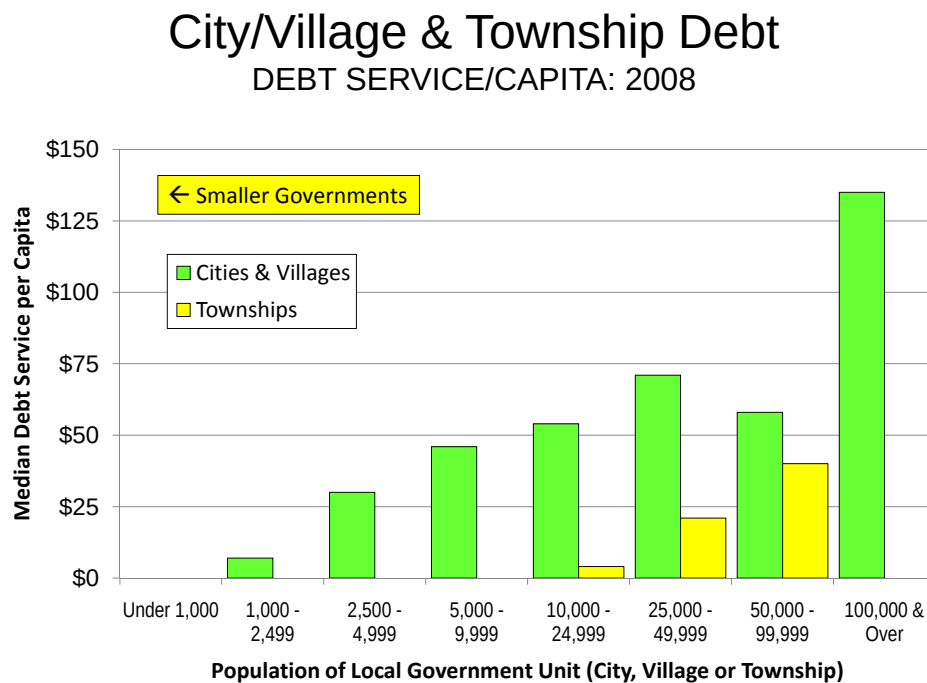


Figure 22

²⁵ Calculated from 200 US Census of Governments data.

City/Village & Township Debt: MSA

DEBT SERVICE/CAPITA: 2008

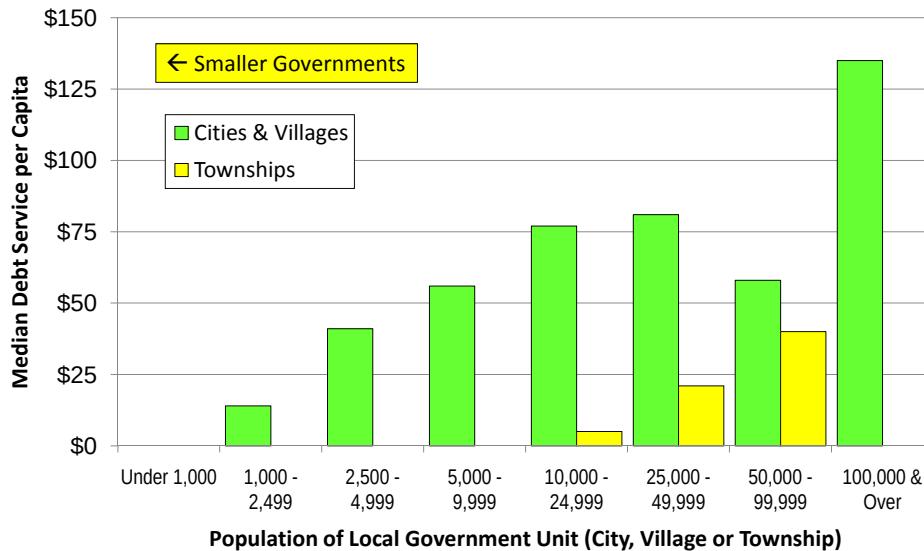


Figure 23

Thus, in Ohio, smaller governments are able to provide fire protection for less than larger governments. At least in part, townships are able to provide fire protection more cost effectively by using volunteers and paid volunteers. According to the National Volunteer Fire Council, 95 percent of the volunteer firefighters in the US serve communities of 25,000 or less. Volunteers save local governments \$128 billion a year.²⁶ Consolidation into government units with paid fire departments could substantially increase the cost of fire protection.

Administrative Costs: The "bigger-is-better" reports cite higher administrative overheads to support contentions that smaller local governments spend more. This is refuted by the fact that townships spent approximately 20 percent of their current expenditures on general government. The share of general government spending in cities and villages was somewhat higher, at 23 percent. This is an indication that townships spend a smaller share of their current expenditures on administration and elected officials (Figure 25).

Labor Costs: Townships have generally lower labor compensation expenditures per capita than cities and villages. Federal government data indicates²⁷ that Ohio townships have annual wage expenditures per capita that are approximately 70 percent per capita lower annually than in Ohio's cities and villages (Figure 26).²⁸

Some of the lower spending by townships is due to their greater use of part-time employees. Part-time employment tends to be less costly, not only because of lower wage rates, but also due to less expensive

²⁶ Dave Finger, director National Volunteer Fire Council. Remarks at the National Association of Towns and Townships (NATaT) Legislative Meeting, March 28, 2012.

²⁷ Includes streets & roads, fire protection, police protection, parks & recreation and administration.

²⁸ Calculated from US Bureau of the Census of Government employment data for 2007 (latest data available by type of government). No data is readily available on municipal wages per capita by size of jurisdiction, however the lower per capita spending levels would indicate generally lower personnel costs per capita.

benefit packages and generally less expensive paid time off arrangements. In 2007, the part time share of township employee work hours was more than double that of cities and villages (Figure 27).²⁹

Fire Protection Expenditures per Capita

2007: ANNUAL

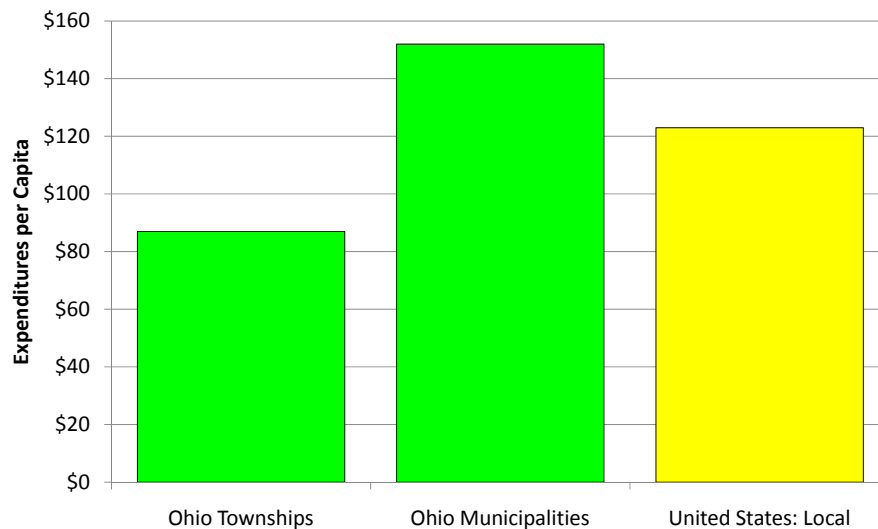


Figure 24

General Government Share of Spending

CURRENT EXPENDITURES: 2008 BY GOVERNMENT TYPE

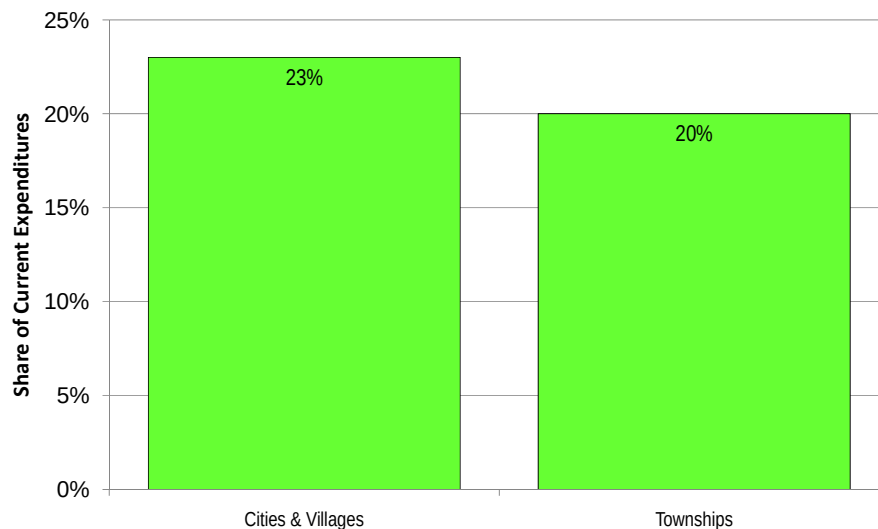


Figure 25

²⁹ Separate data is not available by size of jurisdiction, however it is likely that smaller municipalities (villages and smaller cities) have lower labor costs per capita than larger cities, in light of their lower overall expenditures per capita. While the State Employment Relations Board collects employment data, it only pertains to organized labor in collective bargaining units. The great majority of Ohio townships are not subject to collective bargaining under ORC Section 4117.01(B).

Wages per Capita by Type of Government 2007

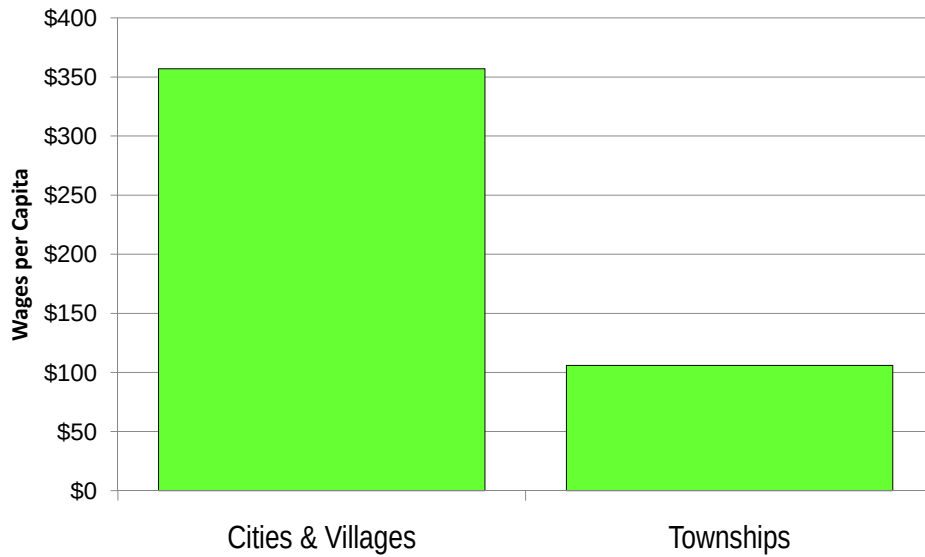


Figure 26

Part Time Share of Work Hours: Ohio BY TYPE OF GOVERNMENT: 2007

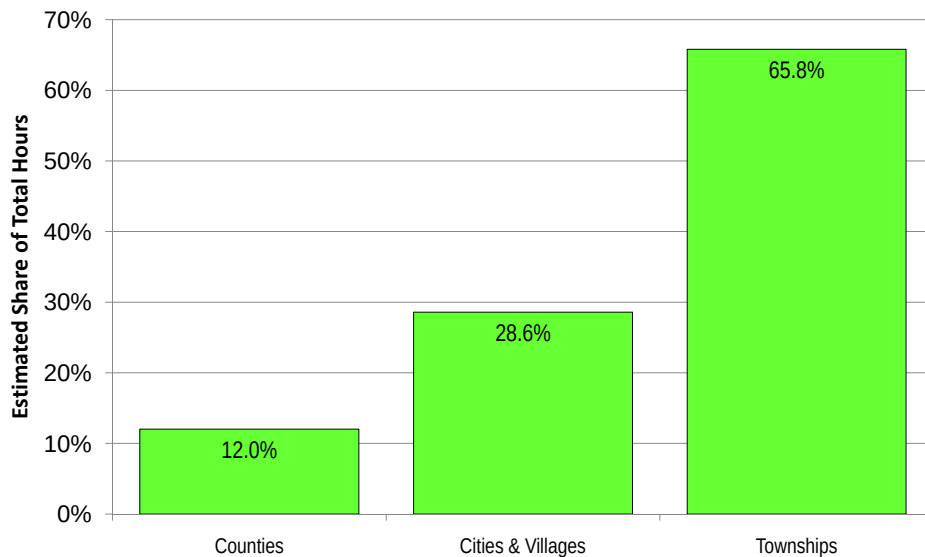


Figure 27

Fiscal Distress: Townships have rarely entered the Local Government Fiscal Distress program. Since becoming subject to the program in 1997, only two townships have entered any three levels of fiscal

distress (emergency, watch and caution). These townships represent only 0.15 percent of the state's 1,308 townships. By comparison, since 1997, 5.04 percent of the state's municipalities have entered fiscal distress, a rate more than 30 times that of townships.

The share of total population of townships that have entered fiscal distress is far lower municipalities of any population category (Figure 28).³⁰ Only 0.06 percent of township residents live in townships that have been placed in the fiscal distress program. Overall, municipalities have been 118 times as likely to enter fiscal distress as townships on a population weighted basis. Compared to townships, this ranges from a 54 times population-weighted propensity for fiscal distress among municipalities of under 1,000 population to a 189 times propensity for fiscal distress among municipalities with 50,000 to 100,000. The largest municipalities, those with more than 100,000 population or more population have been 161 times as likely to enter fiscal distress (Table 3).

It is thus evident that Ohio's generally smaller township governments and which average a population of 3,100, have exhibited superior fiscal responsibility in the conduct of their business. It is virtually inconceivable that their dissolution or consolidation would reduce local government expenditures. On the contrary, based upon their higher per capita spending among larger governments, the dynamics of consolidation that tend to increase per capita expenditures (See Section 4.1, below), it is likely that the cost of local government would rise materially and instances of fiscal distress could increase.

Mergers of townships with other townships or municipalities, as has been suggested, are appropriate only where there is strong evidence that taxpayers would be better served. At a minimum, in the highly competitive environment faced by the state, this would need to mean lower expenditures, debt and taxation per capita. Based upon current local government performance, townships play an important role in keeping the cost of local government lower and contribute to making Ohio more competitive.

Local Governments Entering Fiscal Distress

SHARE OF POPULATION BY SIZE: SINCE 1997

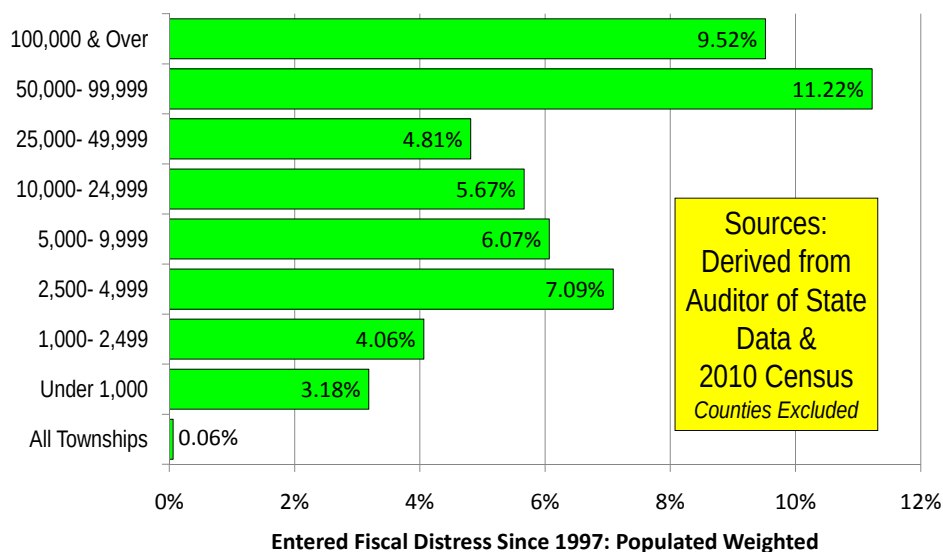


Figure 28

³⁰ No source of population category by size data was identified for townships.

Table 3
Fiscal Distress by Type and Size of Government

	2010 Population	Population of Jurisdictions Entering Fiscal Distress Since 1997	Share of Total Population Entering Fiscal Distress Since 1997	Propensity for Fiscal Distress Compared to Townships
MUNICIPALITIES BY POPULATION				
Under 1,000	188,400	6,000	3.18%	54
1,000 - 2,499	287,900	11,700	4.06%	69
2,500 - 4,999	416,100	29,500	7.09%	120
5,000 - 9,999	593,200	36,000	6.07%	102
10,000 - 24,999	1,743,800	98,800	5.67%	96
25,000 - 49,999	1,593,800	76,700	4.81%	81
50,000 - 99,999	571,100	64,100	11.22%	189
100,000 & Over	2,091,700	199,100	9.52%	161
TOTAL MUNICIPALITIES	7,486,000	521,900	6.97%	118
 ALL TOWNSHIPS	 4,050,500	 2,400	 0.06%	 1
Derived from 2010 US Census and Auditor of State data. Population distribution by township size not readily available				

The Efficiency of Townships: This lower rate of spending and lower incidence of borrowing appears to be strongly influenced by two factors. The first factor is that township citizens tend to prefer a somewhat less expensive array of local government services. By spending less, townships are less likely to have to borrow. All of this contributes to townships having been placed in the state's fiscal distress program far less frequently than municipalities.

The second factor is that township residents have shown a preference for greater efficiency, which is indicated in lower unit costs of operation, such as in lower labor compensation costs and administrative expenditures per capita. This preference of township residents for more modest expenditures per capita reduces the cost of local government in the state (See Section 2.2).

2.3: ASSESSMENT

The assumption that larger local governments spend less per capita than smaller local governments ("bigger-is-better") is disproven by the data in Ohio. Generally, in smaller population classifications, Ohio local governments spend less per capita than larger governments. Smaller local governments also have a lesser incidence of borrowing and borrow less than larger governments.

As a result, it can be expected that local government consolidation in Ohio would lead to higher spending per capita.

3: ADDITIONAL RESEARCH ON LOCAL GOVERNMENT SIZE AND CONSOLIDATION

This section describes the general academic research and research on three other states with respect to local government size and consolidation.

3.1: ACADEMIC RESEARCH

Government consolidation proposals are justified on claims that they will produce spending reductions. However, research generally indicates no "bottom line" spending reductions *after* consolidation, despite feasibility studies that predict savings (such as in Toronto, below).

... the implementation of a local government consolidation or intergovernmental cooperative effort is often very different than the proposed changes. Feasibility studies must be challenged to assess the likeliness that their actual proposals and plans will be carried out and maintained by administrators and elected officials over time.³¹

This is an important distinction and the reason for the emphasis in this section on the reality of experience rather than the theory of forecasts.

In her Nobel Prize lecture, Elinor Ostrom summarized her research in saying: "the most efficient producers supply more output for given inputs in high multiplicity metropolitan areas than do the efficient producers in metropolitan areas with fewer producers."³²

A review of consolidation literature prepared by Mark Holzer at Rutgers University for the State of New Jersey Local Unit Alignment, Reorganization and Consolidation Commission indicates that "cost savings are not assured," and that "most consolidations fail."³³

In a review of the academic literature for the Michigan Senate, economist Eric Scorsone found that: *... there is no clear relationship between spending per person and total number of local governments or number of persons per local government* at the national level. He made a similar conclusion with respect to Midwestern states. Scorsone found that: *the evidence seems to point to the fact that a policy of local government consolidation may not be effective in reducing or slowing the growth rate of governmental costs.*³⁴

A US National Research Council study indicated: *There is general agreement that consolidation has not reduced costs (as indicated by some reform advocates) and, in fact, may have even increased total local expenditures.*³⁵

³¹ Eric Scorsone, "Local Government Consolidation: Assessing the Evidence for Cost Savings and Economic Improvement," *State Notes: Topics of Legislative Interest*, Michigan State Senate, Senate Fiscal Agency, <http://www.senate.michigan.gov/sfa/Publications/Notes/2010Notes/NotesSum10es>, 2010.

³² Elinor Ostrom, *Beyond Markets and States: Polycentric Governance of Complex Economic Systems*, Nobel Prize Lecture, Stockholm, Sweden, December 8, 2009. http://www.nobelprize.org/nobel_prizes/economics/laureates/2009/ostrom_lecture.pdf.

³³ Marc Holzer, *Literature Review and Analysis Related to Municipal Government Consolidation*, State of New Jersey, Local Unit Alignment, Reorganization, and Consolidation Commission, 2009. nj.gov/dca/affiliates/luarcc/pdf/final_consolidation_report.pdf.

³⁴ Scorsone, 2010.

³⁵ Alan Altshuler and William Morrill and the Committee on Improving the Future of U.S. Cities Through Improved Metropolitan Area Governance, *Governance and Opportunity in Metropolitan America*, National Research Council.

A review for the Marion County (Indianapolis) Consolidation Study Commission and the Indiana General Assembly found the academic literature on consolidation to be generally weak, noting that the available reports indicated that "significant gains in efficiency are unlikely."³⁶

George A. Boyne of Glamorgan University (United Kingdom) indicated in research on governance that "the empirical evidence from the USA suggests that fragmentation is associated with lower spending and concentration is associated with higher spending."³⁷

University of Western Ontario governance expert Andrew Sancton concluded that "there is no academic evidence to suggest consolidation produces savings."³⁸

Even researchers who favor consolidation have noted that proponents of consolidations have generally failed to demonstrate cost efficiencies from their proposals.³⁹

After-the-fact case-study evaluations of local government consolidations fall into two basic categories --- those that show spending to have increased and those that do not consider overall spending. Generally, the after-the-fact evaluations of consolidations show no compelling evidence of reduced spending or reduced spending rates.

A study on the consolidation of Jacksonville and Duval County, Florida found that initial savings were quickly erased by an increase in longer term spending. Moreover the study showed that costs rose more quickly than in a comparable metropolitan area in the state that had not consolidated.⁴⁰

Research indicates that the 1960s consolidation of Nashville, Tennessee and Davidson County led to an overall increase in spending.⁴¹

The Ontario government forced six large municipalities to consolidate into a new, larger city of Toronto in 1996. A government sponsored consultant report predicted \$300 million in annual savings. Generally, the central city business community favored consolidation. However, by 2003, the reality of higher costs had become apparent. A leading business organization, the Toronto City Summit Alliance noted that city costs had increased as a result of the consolidation.⁴²

³⁶ Samuel R. Staley, Dagny Faulk, Suzanne M. Leland and D. Eric Shansberg, *The Effects of City-County Consolidation: A Review of the Recent Academic Literature*, 2005.

<http://www.state.in.us/legislative/interim/committee/2005/committees/prelim/MCCC02.pdf>.

³⁷ George A. Boyne, "Local Government Structure and Performance: Lessons from America," http://www.drexel.edu/greatworks/Theme/Fall/~media/Files/greatworks/pdf_FL10/WK3_2_Boyne_1992.ashx

³⁸ Sancton, A. (1996). "Reducing Costs by Consolidating Municipalities: New Brunswick, Nova Scotia and Ontario." Canadian Public Administration.

³⁹ G. Ross Stephens and Nelson Wickstrom, *Metropolitan Government and Governance: Theoretical Perspectives, Empirical Analyses, and the Future*, New York: Oxford University Press, 2000, p. 120.

⁴⁰ J. Edward Benton and Darwin Gamble, "City/County Consolidation and Economies of Scale: Evidence from a Time Series Analysis in Jacksonville, Florida, *Social Science Quarterly* 65, March 1984.

⁴¹ G. Ross Stephens and Nelson Wikstrom, *Metropolitan Government and Governance: Theoretical Perspectives, Empirical Analyses, and the Future*, p. 75.

⁴² Toronto City Summit Alliance, *Enough Talk: An Action Plan for the Toronto Region*, April 2003; http://www.torontoalliance.ca/docs/TCSA_report.pdf, accessed April 14, 2007.

A municipal⁴³ consolidation was forced upon the Halifax, Nova Scotia area by the provincial government in 1996, with claims that the new government would save taxpayers money. However, expenditures have risen, rather than fallen since that time. Between 2000 and 2007, operating expenditures rose 14 percent per capita, inflation adjusted.⁴⁴ Further, the transition costs of the merger were four times what had been projected.⁴⁵

The Indianapolis consolidated city-county government ("unigov"), often cited as a model, required a state rescue of its pension liabilities.⁴⁶ Moreover, the consolidated city-county government has been in perennial financial crises through most of the 2000s.

Finally, local government expenditure growth has been shown to be greater in US metropolitan areas with fewer government units than those with more.⁴⁷

3.2: GOVERNMENT SIZE IN OTHER STATES

This section describes expenditures and other measures by size of local government in the United States generally and in Pennsylvania, New York and Illinois. The results are similar to Ohio. Smaller local governments generally spend less per capita and borrow less, both within and outside metropolitan areas.

Local Government Expenditures per Capita

Generally, expenditures per capita are higher in larger municipalities and lower in smaller municipalities.

United States: According to data in the United States Bureau of the Census governments database (2008), expenditures per capita tended to be lower in smaller municipal governments. For a common core (fire, police, library, roads, parks and recreation) of municipal services, the lowest expenditures per capita were in the second smallest population category, with between 1,000 and 2,500 residents. Expenditures per capita were higher in every population category, reaching a peak in the highest (250,000 and above) population category. Expenditures per capita in this category were 71 percent higher than in the smallest category of municipalities. The largest municipalities spent 70 percent more per capita than municipalities with 1,000 to 2,500 population (Figure 29).

⁴³ Equivalent of a city-county consolidation.

⁴⁴ Calculated from data in Halifax Regional Municipality annual reports and budgets.

⁴⁵ Robert L. Bish and Vincent Ostrum, *Understanding Urban Government: Metropolitan Reform Reconsidered*, Washington: American Enterprise Institute, 1973, p. 74.

⁴⁶ "Pension Shift Saves City \$1 Billion," <http://www.topix.com/forum/indy/TE8SI4I8NDPGMB2A0> reported in the *Indianapolis Star*,

<http://www.indystar.com/apps/pbcs.dll/article?AID=2008803180364>.

⁴⁷ Ronald J. Oakerson and Roger B. Parks, "Citizen Voice and Public Entrepreneurship: The Organizational Dynamic of a Complex Metropolitan County," *Polycentricity and Local Public Economies*, Michael D. McGinnis (editor), (Ann Arbor: University of Michigan Press), 1999.

Spending per Capita by Government Size

UNITED STATES MUNICIPALITIES: 2008

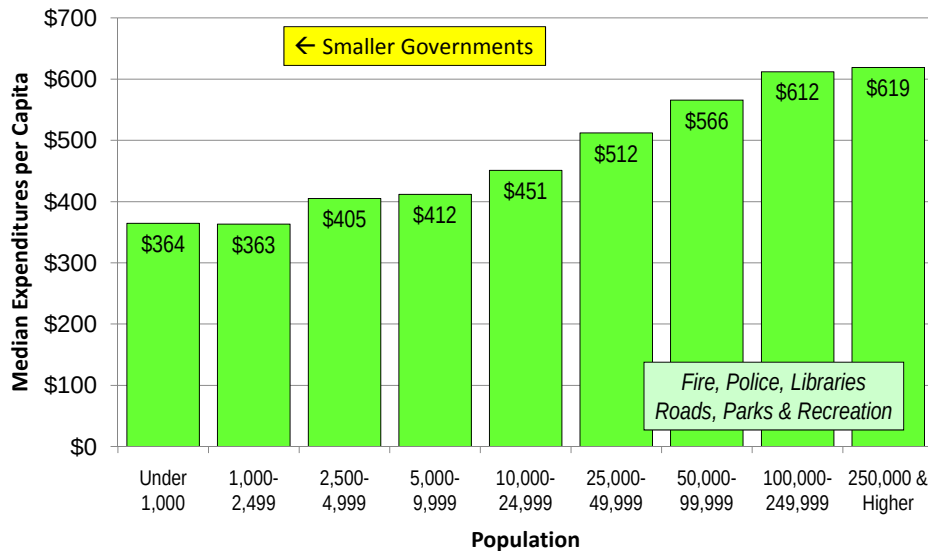


Figure 29

Pennsylvania: The situation is similar in Pennsylvania, where information in the Commonwealth of Pennsylvania database indicated that the smallest municipalities, those with fewer than 1,000 population, had the lowest expenditure per capita in 2001. Expenditures per capita rose in every population category, reaching nearly 4 times that of the smallest category (1,000 or fewer population) in the municipalities with more than 250,000 people (Figure 30).⁴⁸

There was a similar relationship among local governments in the state's metropolitan areas, with larger jurisdictions having higher expenditures per capita. Moreover, the state's largest jurisdictions, the consolidated city-county of Philadelphia and the city of Pittsburgh have the highest per capita spending levels and the highest debt in the state and have experienced significant financial difficulty.

Pennsylvania's Distressed Municipalities Program: At the same time, as in Ohio, smaller jurisdictions have been less likely to allow their financial conditions to deteriorate into a condition requiring attention by the state. Pennsylvania has a program to assist local governments that experience serious financial difficulties. In 2007, 20 years after enactment, 23 of the state's 2,562 non-county general purpose governments (compared to 2,246 in Ohio)⁴⁹ remained in financial distress, including more than 20 percent of the jurisdictions with 50,000 residents. Among the state's more than 1,500 non-county governments with less than 2,500 population, only 0.1 percent were in financial distress.⁵⁰

New York: Information in the state of New York local governments database shows that the lowest level of expenditure per capita in 2005 was in municipalities with between 1,000 and 2,500 residents. This mirrors the national data, above. Expenditures per capita were higher in each of the larger categories of

⁴⁸ Cox, 2005.

⁴⁹ United States Census of Governments, 2007.

⁵⁰ Wendell Cox, *Local Democracy and Townships in the Chicagoland Area*, Township Officials of Illinois, 2012. <http://www.toi.org/Events/documents/CoxChicagolandReport.pdf> (analysis at pages 7-8).

municipalities, with municipalities of 100,000 or more population spending 140 percent more than municipalities between 1,000 and 2,005 residents (Figure 31).⁵¹ The average expenditures per capita in the below 1,000 population are higher because a number of communities large seasonal populations that contribute to the tax base (and require services). The resulting higher cost of service is spread over the smaller permanent population base.

As in Pennsylvania, the association between larger local governments and higher expenditures per capita was also evident in the metropolitan areas of New York. The consolidated government of the city of New York (city and five counties) has particularly high spending level per capita, which has fueled high levels of debt, which resulted in serious financial distress (below).

Illinois: According to data in the Illinois Comptroller's local government database, median expenditures per capita in 2009 were the lowest in the smallest category, municipalities with fewer than 1,000 residents. This mirrors the Pennsylvania data, above. Expenditures per capita were higher in each higher population category. The highest expenditures per capita were in Chicago, the only municipality with more than 250,000 people. Chicago's expenditure per capita was 5.5 times that of the municipalities with fewer than 1,000 residents (Figure 32).⁵² A later report covering nearly 250 municipalities in the Chicago area found a similar relationship in labor compensation. Per capita municipal employee wages were higher per capita in the larger jurisdictions.⁵³

Spending per Capita by Government Size

PENNSYLVANIA: 2001

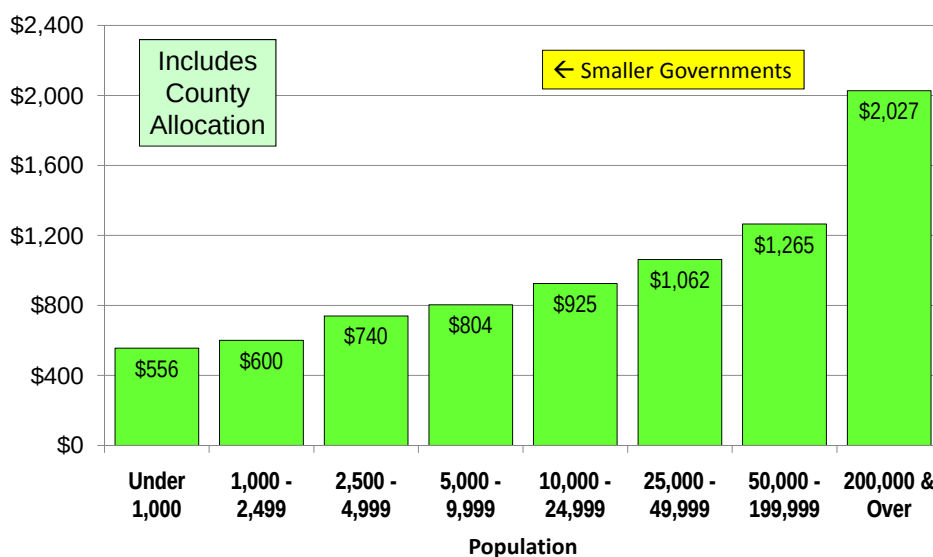


Figure 30

⁵¹ Wendell Cox, *Government Efficiency: The Case for Local Control*, Association of Towns of the State of New York, 2008.

<http://www.nytowns.org/core/contentmanager/uploads/Government.Efficiency.The.Case.for.Local.Control.pdf>

⁵² Wendell Cox, *Local Democracy and Townships in Illinois: A Report to the People*, report prepared for the Township Officials of Illinois. <http://www.toi.org/documents/TOI-ReporttothePeople-20110110.pdf>, 2011.

⁵³ Cox, 2012.

Spending per Capita by Government Size NEW YORK: 2005

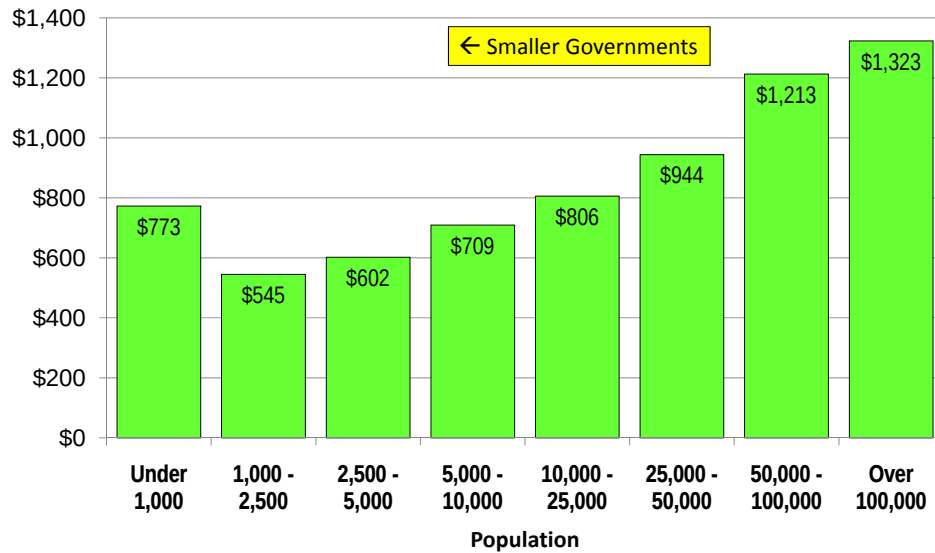


Figure 31

Spending per Capita by Government Size ILLINOIS: 2009

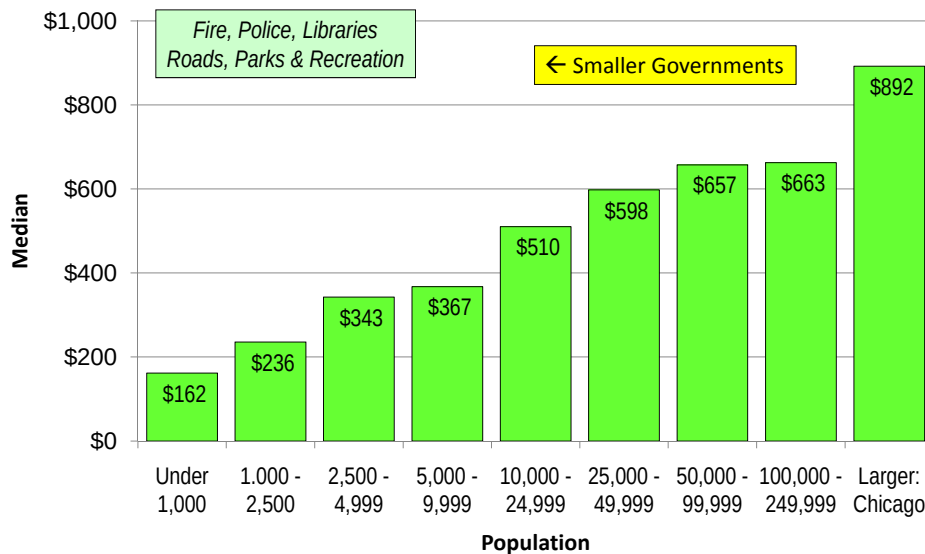


Figure 32

Local Government Debt

As in the case of expenditures per capita, debt measures tend to indicate that smaller governments have less exposure to debt per capita than larger governments. This may be expected in light of the more intense political pressure for higher expenditures in larger jurisdictions. As expenditure levels and tax rates increase, resistance from taxpayers can induce jurisdictions to rely more on debt. The interest paid in servicing this debt also increases government expenditures.

United States: At the national level, the United States Bureau of the Census Government database for 2008 indicates that the lowest level of debt per capita is in the smallest municipalities, those with fewer than 1,000 residents. Debt per capita is higher by at least 60 percent in each of the higher categories than in the smallest municipalities and rises to 85 percent more in municipalities with 50,000 to 100,000 population and to more than double the smallest population category in municipalities with populations between 100,000 and 250,000. The largest municipalities, those with 250,000 or more residents have by far the highest debt levels per capita, at nearly 5 times that of the smallest category of municipalities (Figure 33).

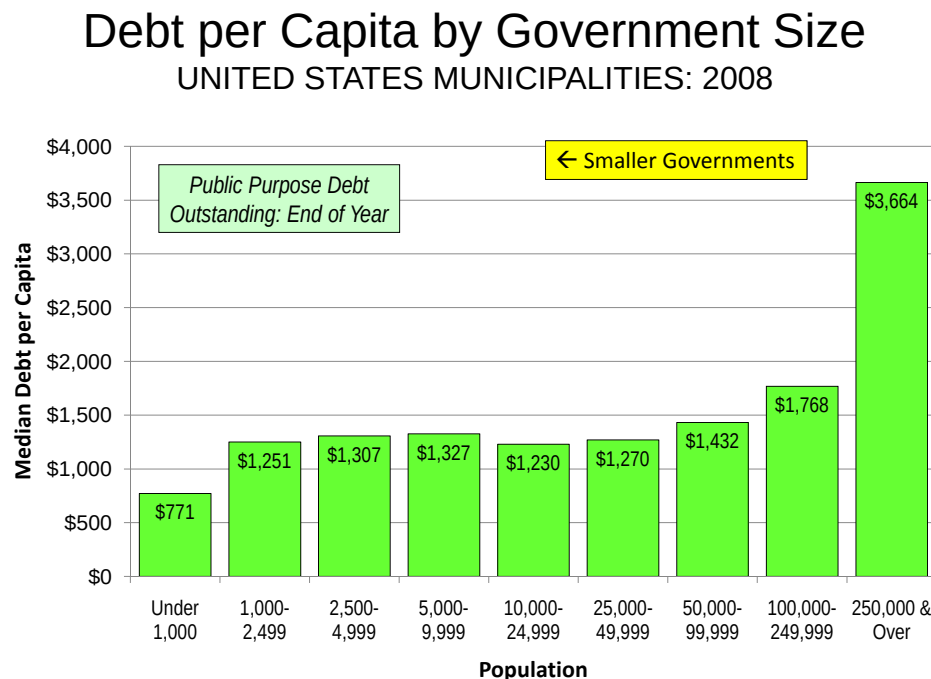


Figure 33

Pennsylvania: According to the state of Pennsylvania local governments database, debt service per capita in 2001 was the lowest in the smallest category of municipalities (under 1,000 residents). Debt service per capita generally rose in higher population categories, with municipalities of 50,000 to 250,000 reaching more than 2.5 times that of the smallest category. The largest municipalities, those with more than 250,000 population, had per capita debt levels nine times that of the smallest municipal categories (Figure 34).⁵⁴

⁵⁴ Cox, 2005.

Debt service per capita was also higher in the larger local governments in metropolitan areas, and lower in the smaller local governments. Further, large debts in part propelled local government crises in the two largest jurisdictions, the consolidated city-county of Philadelphia in the early 1990s and the city of Pittsburgh, which entered (and remains in) the state's distressed municipalities program in 2003.

New York: The state of New York local governments database indicates that per capita debt was the lowest in the smallest category of municipalities (less than 1,000 population) in 2005. Generally, per capita debt rose with each higher population category, reaching 2.5 times the lowest population category in municipalities with between 25,000 and 50,000 population and between 50,000 and 100,000. The highest debt per capita was in the municipalities with more than 100,000 people, at nearly 5 times that of municipalities with less than 1,000 people (Figure 35).⁵⁵

Again, debt per capita was also higher in the larger jurisdictions in the metropolitan areas of New York and lower in the smaller jurisdictions. New York City, which is one of the largest consolidated local governments in the world (city and five counties) has especially high debt and has frequently been in financial difficulty, including a near-bankruptcy in the 1970s, which was precipitated by an inability to meet its Debt Service in a timely manner.

Illinois: According to data in the Illinois comptroller's local government database, the lowest debt levels per capita were in the smaller municipalities in 2009. Generally, median debt levels per capita were zero or near zero in municipalities with less than 25,000 population. Higher debt levels existed among municipalities with 25,000 to 250,000 people. However, by far the highest debt levels per capita were in the one municipality with more than 250,000 people, Chicago (Figure 36).⁵⁶ Debt levels tended to be higher in larger jurisdictions in metropolitan areas.

Debt Service/Capita by Government Size

PENNSYLVANIA: 2001

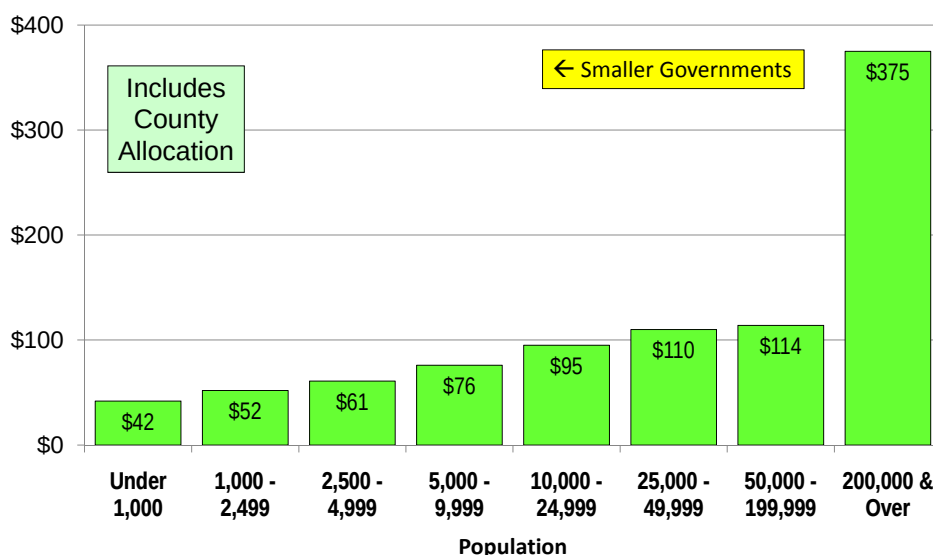


Figure 34

⁵⁵ Cox, 2008.

⁵⁶ Cox, 2011.

Debt per Capita by Government Size

NEW YORK: 2005

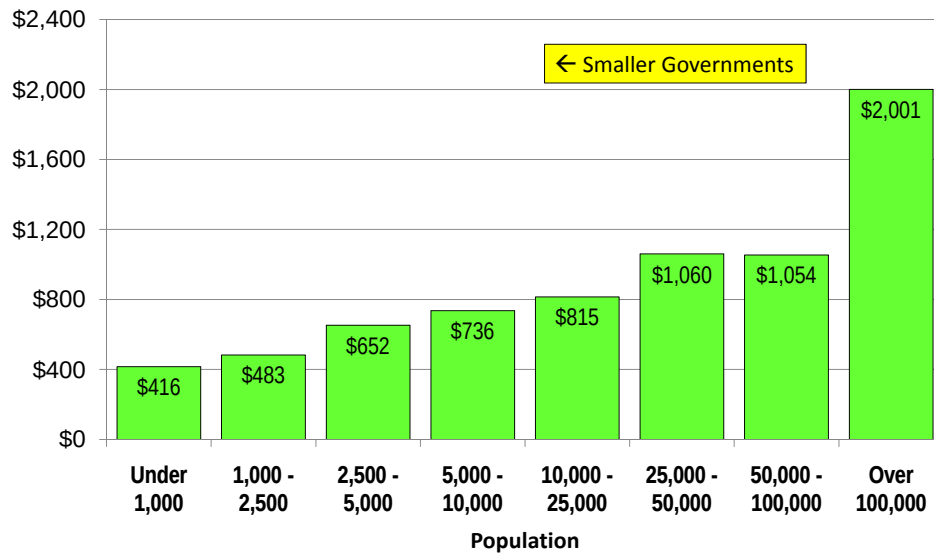


Figure 35

Debt per Capita by Government Size

ILLINOIS: 2009

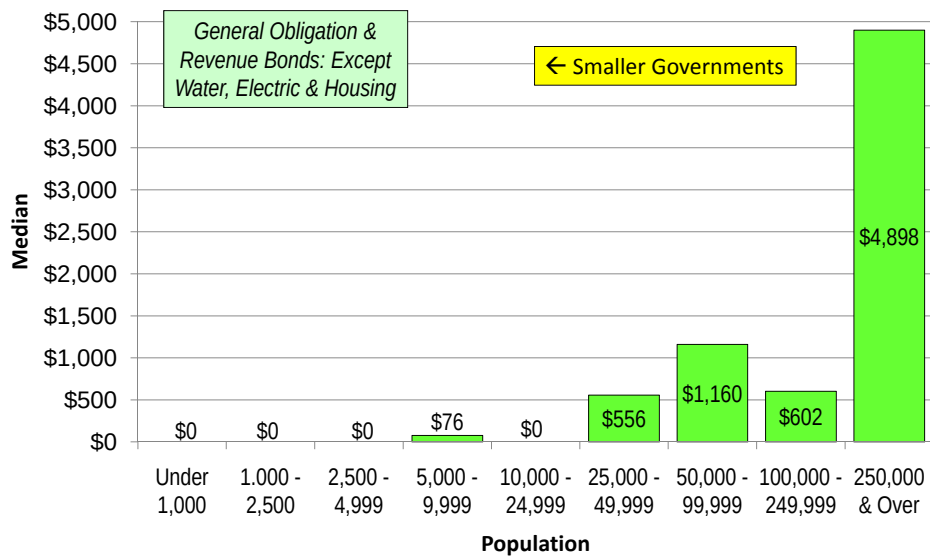


Figure 36

4: LARGER AND SMALLER LOCAL GOVERNMENTS

Various factors inherent in government size tend to drive more favorable financial performance by smaller local governments relative to larger local governments.

4.1.: DYNAMICS OF LARGER AND CONSOLIDATED GOVERNMENTS

There are a number of reasons why larger local governments and consolidated local governments fail to produce the lower spending per capita imagined by "bigger-is-better."

"Leveling Up" Labor Costs

Labor compensation is the largest item of local government expenditure, as is indicated below (See Section 4.3). Government consolidations are made more costly by merging payrolls and ensuring that employees with the same classifications and duties are paid the same. It will generally not be possible to compensate comparable employees based on differing pay scales, even if their employment began in a lower cost jurisdiction.

There are inevitably differences in such matters as compensation levels, benefit packages and paid time off. These differences must be reconciled, or "harmonized." Labor arrangements are routinely "leveled up" to the highest level, reflecting the most lucrative (expensive) pre-consolidation packages, both in wages and benefits.⁵⁷ Harvard's Pineda indicated:

*In city-county consolidations, personnel-related costs may actually rise as two pre-existing personnel systems and benefits packages merge. One explanation is that the wages and benefits of employees are equalized to the highest level of comparable employees. Similarly, existing employees may have job security as part of the merge agreement.*⁵⁸

In their Marion County (Indianapolis) Consolidation Study Commission and the Indiana General Assembly research, Staley, et al noted:⁵⁹

In general, it is uncommon (although not impossible) for operating costs to decrease—due primarily to the “leveling up” of salaries and benefits. As local governments with differing compensation structures are consolidated, salaries and benefits are often standardized at the higher level.

In addition, the most generous time off allowances (holidays, vacations and personal allowances, and sick time allowances) are likely to become the norm in the consolidated municipality. It is difficult, if not impossible, for governments to reduce the compensation packages of employees. Thus, harmonizing of labor costs occurs at the higher level. Harmonization of personnel costs was an important factor in making the Toronto consolidation more expensive, according to the Toronto Business Alliance, a central city business association:

The amalgamation of the City of Toronto has not produced the overall cost savings that were projected. Although there have been savings from staff reductions, the harmonization of wages

⁵⁷ Holzer, 2009.

⁵⁸ Pineda, 2005

⁵⁹ Samuel R. Staley, Dagny Faulk, Suzanne M. Leland and D. Eric Shansberg, 2005.

<http://www.state.in.us/legislative/interim/committee/2005/committees/prelim/MCCC02.pdf>.

*and service levels has resulted in higher costs for the new City. We will all continue to feel these higher costs in the future.*⁶⁰

Leveling up of labor costs could be particularly expensive in Ohio, where many smaller local governments statewide and in metropolitan areas rely upon less costly fire departments that use volunteers and paid volunteers. Consolidating jurisdictions with fire departments that rely on volunteers and paid volunteers would substantially raise per capita expenditures and would increase the tax burden. This would raise spending per capita.⁶¹

Ohio has already experienced such a leveling up of labor costs from consolidation. In the late 1990s, the state mandated consolidation of educational service centers (ESC), principally to reduce costs. An evaluation report by the Legislative Office of Education Oversight (LOEO) found that ESCs had not achieved overall cost savings as a result of consolidation. LOEO indicated that nearly every merged ESC had "found it necessary to raise the staff salaries of the lower paid participating counties to that of the highest paid participating county."⁶²

Finally, Ohio law requires local governments to engage in collective bargaining with their employees once they exceed a population of 5,000.⁶³ Consolidations that increase populations above this level could raise spending per capita in the long run.

"Leveling Up" Service Costs

Local governments that consolidate will inevitably have differing service levels. Public service packages may also differ, with some public services provided in one consolidating jurisdiction, but not in the other. As with personnel policies, it can be expected that both the array of services and service levels will be harmonized at the highest (most expensive) level, which forces at least some residents to pay higher fees and taxes. According to Pineda:

*When pre-existing delivery systems are merged in a city-county consolidation, an "averaging up" effect may occur with service levels and standards for equipment and facilities. These increased service quality costs then become ongoing expenditures.*⁶⁴

The preference for higher levels of service in larger governments will tend to work against the potential for savings from consolidation. At the same time, residents in the lower cost jurisdictions can be forced to pay for and accept services and service levels that they would not have otherwise chosen. All of this is likely to lead to higher spending and taxes overall.

Economies of Scale for Spending Interests

In larger local governments, elected officials are more remote from their electorates (See Section 4.1). This creates disincentives for public participation because people may perceive that their efforts are less likely to be effective. This is indicated by the fact that larger governments tend to have smaller voter

⁶⁰ Toronto City Summit Alliance, *Enough Talk: An Action Plan for the Toronto Region*, April 2003; http://www.torontoalliance.ca/docs/TCSA_report.pdf, accessed April 14, 2007.

⁶¹ See Section 2.2, Footnote 26 and the accompanying text.

⁶² Legislative Office of Educational Oversight, *Status Report on the Consolidation of Educational Service Centers*, July 1999.

⁶³ ORC Section 4117.01(B).

⁶⁴ Pineda, 2005.

turnouts, which is itself an anti-democratic outcome.⁶⁵ As elected officials become more remote from the electorate, the views of individual citizens become more diluted in deliberations by governments, including elected officials, appointed officials and government staffs. As a result, citizens in larger jurisdictions can face significant disincentives to involvement, often feeling that their participation can make no difference.

At the same time, the influence of spending interests is heightened. Governments are under continual pressure by spending interests and sometimes even their own departments and personnel to increase spending. A larger tax base dilutes the influence of residents and tends to increase the influence of spending interests. Moreover, larger governments are simpler to deal with for spending interests. Lobbying is generally less expensive with respect to a single larger government than with multiple governments.

Spending interests are more concentrated and, have a private stake in political outcomes which may differ from that of individual voters. In larger jurisdictions, elected officials and candidates often rely on spending interest contributions to finance their political campaigns. This is less likely to occur in smaller jurisdictions. While the voters make the ultimate choices in elections, a viable campaign may be impossible without substantial spending interest contributions. Moreover, since spending interests invariably seek higher levels of funding, the impact is likely to be higher government costs, rather than lower costs.

The result of this inverted set of incentives tends to be higher spending and taxation per capita. Bish notes that organized spending interests have greater power in larger local governments under government consolidation.⁶⁶

*...large governments are also more responsive to special interest programs and projects than are small governments.*⁶⁷

In short, there are *economies of scale* for spending interests and *diseconomies of scale* (disincentives) for taxpayers to participate. One of the most effective means of limiting the influence of spending interests is to keep the size of local government small.

Larger Jurisdictions: Higher Taxes

As the data above indicates, larger local governments tend to have higher taxes per capita than smaller local governments. "Bigger-is-better" proponents have called this a disproportionate tax burden. For example, the Brookings Institution refers to "the substantial disparity in tax burden between cities and townships, to the disadvantage of the cities."⁶⁸

In Ohio, larger cities have higher tax burdens than townships and smaller cities and villages (See Section 2.2). Local government jurisdictions with less than 10,000 residents have taxes per capita that are one-half or less than that of cities with 10,000 or more population (Figure 10, above).

Tax rates are driven by spending. As the data shows, not only do larger governments have higher taxes per capita, but they also have higher spending per capita. Often, discussions about local government

⁶⁵ Bish, 2001.

⁶⁶ Bish, 2001.

⁶⁷ Bish, 2001.

⁶⁸ Alan Mallach and Lavea Brachman, *Ohio's Cities at a Turning Point: Finding the Way Forward*, Brookings Institution, May 2010. greaterohio.org/files/quick-downloads/shrinking-cities-paper.pdf.

finance are limited to issues of revenue, with little attention paid to spending. This is understandable, since it is difficult to challenge the spending interests with a vigor necessary to produce material savings in spending. Nonetheless, higher taxes reflect the political dynamics of higher spending jurisdictions. The larger "tax burdens" of larger jurisdiction are in large measure voluntary, having arisen out of the political dynamics of the jurisdictions, rather than having been thrust upon it from the outside.

Often, the financial difficulties of larger jurisdictions are described in terms of revenue shortages. Their generally higher spending level, however, is an indication of a spending problem, not a revenue problem.

Much of the higher tax burden of larger cities is due to conscious choices made by voters and the elected leadership. Larger cities tend to provide more services, because they are demanded by the residents. Smaller jurisdictions tend to provide fewer services, reflecting the will of voters in those jurisdictions. Larger jurisdictions also tend to have higher costs, including higher labor compensation costs per capita. These higher labor costs, which represent the preponderance of local government expenditures (See Section 4.3), could not have been approved without the consent of the elected leadership.

In smaller jurisdictions, elected leadership has more control and is closer to voters. This increases the responsiveness of elected officials and the result is indicated by the lower levels of taxation and expenditure per capita in smaller jurisdictions. This relationship is strengthened further in Ohio's townships where increases in the principal funding source, the property tax, are subject to voter approval.

The political environment of a larger local government is more challenging than in smaller jurisdictions. For example, there are usually larger administrative staffs that require additional levels of managers and supervisors, each of which is costly. Further, as noted above (See Section 4.1), elected officials have less direct control in larger jurisdictions, because of the necessity of relying on larger administrative staffs.

Spreading the tax burden of higher spending jurisdictions among other smaller cities, villages and townships, where voters and officials have maintained greater financial discipline would represent "taxation without representation," whether through consolidation or revenue sharing. The higher tax burdens in larger jurisdictions are additional evidence against consolidating governments into larger units.

Ohio would be at particular risk of higher local government expenditures from consolidations of townships with other governments. Townships rely principally on a single source of revenue, the property tax. If a township were to merge with a municipality, the newer larger jurisdiction would have greater access to tax funding, because income taxes could be levied on former township residents. This greater availability of tax funding could provide an incentive to increase spending.

Voters in the smaller and larger local government units of Ohio have the governments and cost structures that they have chosen. It would be undemocratic to force voters who prefer less costly governments to pay for the preferences of voters who have chosen to spend more. Local government efficiency cannot be improved by merging less costly governments into more costly governments.

Too Big to Fail: The Risk of Fiscal Distress

Larger jurisdictions have periodically encountered fiscal difficulties. These difficulties often arise from higher spending levels, which are often exacerbated by higher levels of debt. Such jurisdictions can become "too big to fail."

Because of their tendency to spend more and incur higher levels of debt, larger governments have a greater risk of bond defaults and serious financial crises. For example, New York City and Cleveland experienced extreme financial difficulty in the 1970s. Pittsburgh was placed under state administration

due to its fiscal difficulties earlier in the last decade and Philadelphia was threatened with default in the early 1990s. As noted above, Ohio's larger municipal governments have been far more susceptible to fiscal distress classification than smaller governments, especially townships.

Financial difficulties in the largest local governments can lead to state bailouts. For example, the consolidated city of Indianapolis ("unigov"), which has been touted as a model of local government consolidation, required a \$1 billion state rescue of its pension funds. Nonetheless, a \$1 billion unfunded liability remains in its employee retirement funds, even after the city borrowed \$100 million to pay down unfunded pension liabilities in 2005. The mayor of Indianapolis has indicated that the city "has lived beyond its means in recent years, and it is on an unsustainable financial path."⁶⁹

However, generally, smaller jurisdictions do not present such a risk for state taxpayers. The smaller size of these jurisdictions and the lack of an expectation for state bailouts may contribute to their maintaining a lower cost structure. They are not "too big to fail," which may add to their "close-to-taxpayer" incentives to keep expenditures lower. The far lower incidence of fiscal distress on the part of generally smaller township governments in Ohio is an indication of this.

Political Agendas

Local government consolidations can also be more expensive than planned because they may be driven by underlying political agendas that have little or no association with making government less costly. The Toronto consolidation has been characterized as a means to rid a right-wing provincial government of a left-wing administration in the former (smaller) city of Toronto.⁷⁰ The Indianapolis city-county merger has been characterized as an attempt to extend long term Republican domination over a central city that would otherwise be dominated by Democrats if municipal boundaries were not expanded.⁷¹ Research on Jacksonville concluded that consolidation proponents were actually more interested in adding public services than in reducing taxes or expenditures.⁷² The Louisville city-county merger was, at least in part, driven by an interest in restoring the city's status as the largest in Kentucky by adding suburban population.⁷³

Transition Costs

There are costs that cannot be known before the consolidation is fully implemented. For example, unanticipated guarantees may be negotiated with employees, such as no-layoff provisions or other costly measures.⁷⁴ The higher costs from such agreements can be *in addition* to the leveling up of labor compensation referred to above.

⁶⁹ Mayor Gregory A. Ballard, *100 Day Report*, <http://indy.gov/eGov/Mayor/Documents/100%20Day%20Report.pdf>, April 2008.

⁷⁰ Andrew Sancton, "Why Municipal Amalgamations: Halifax, Toronto, Montreal," p 13. <http://www.iigr.ca/conferences/archive/pdfs4/Sancton.pdf>.

⁷¹ See William Bloomquist and Roger B. Parks, "Fiscal Service and Political Impacts of Indianapolis-Marion County's Unigov," *Publius*, Fall 1995.

⁷² Stephens and Wickstrom, p. 80.

⁷³ *Madison Courier*, "Louisville's Population Smaller than Estimated," February 21, 2000, <http://news.google.com/newspapers?id=9m1bAAAAIIBAJ&sjid=wFANAAAAIIBAJ&pg=5954,3591143&dq=louisville+consolidation+population&hl=en>

⁷⁴ Pineda,, 2005.

Moreover, consolidations involve merging of separate organizational cultures and procedures, which incurs transitional costs. Often these costs are not considered at all, and often they are underestimated. For example, in Halifax, the transition costs of the consolidation were four times the projection.⁷⁵

A Vicious Cycle: Tax- Borrow - Consolidate

At least in part due to their susceptibility to spending interests (which routinely seek higher spending), both taxes and spending tend to be higher in larger jurisdictions. However, there are political limits that can lead to voter resistance and sometimes legal limits to taxation. As taxes rise further, governments may incur debt in greater measure, to avoid further tax increases. When it becomes difficult to service debt or obtain additional debt, consolidation may be proposed, as occurred when the city of Pittsburgh was placed in the Pennsylvania distressed municipalities program. Consolidation can socialize the costs of a higher spending jurisdiction across a larger tax base, whose voters and leadership have kept their own costs lower. Moreover, the larger tax base can make it possible to begin raising taxes again. This process might be thought of as a tax-borrow-consolidate vicious cycle.

Unpopularity and Irrevocability

The higher costs and lessened accessibility and responsiveness of consolidated governments have proven to be unpopular in some cases. However, reversing unpopular government consolidations has proven to be nearly impossible.

The mayor of Hamilton, Ontario (the ninth largest city in Canada) has called for a review that could result in the demerger of that forcibly consolidated municipality.⁷⁶ Similarly, there have been calls for demerger of Canada's capital, Ottawa (Ontario), also forcibly consolidated.⁷⁷ None of these efforts has been successful to date.

Where voters are given a choice, they tend to oppose consolidations. In Toronto, voters rejected consolidation by margins of more than two-to-one in advisory referenda in each of the six jurisdictions proposed to be included. Nonetheless, the provincial legislature forced the consolidation. Even 10 years after the forced consolidation, some local interests continued to advocate a "demerger" of the consolidated city of Toronto.⁷⁸

Opposition to forced consolidations was so strong that a newly elected government in Quebec provided a mechanism for merged local governments to "demerge." Fifteen local governments that had been abolished and combined into the city of Montréal took advantage of this option, despite considerable legal obstacles.⁷⁹

More recently, an attempt to abolish and combine three smaller local governments in the state of New South Wales (Australia) was defeated by determined local citizen opposition. In a virtually unprecedented

⁷⁵ Bish, 2001.

⁷⁶ "No De-Amalgamation for Hamilton: Province," *The Hamilton Spectator*, October 23, 2010.
<http://www.thespec.com/news/local/article/271794--no-deamalgamation-for-hamilton-province>

⁷⁷ "Ottawa Mayoral Candidate Reiterates De-amalgamation Pledge, *YourOttawaRegion.com*, September 30, 2010.
<http://www.yourottawaregion.com/news/elections/article/881027>.

⁷⁸ "More of a Case for De-Amalgamation," *The Bulletin Downtown* (Toronto), June 9, 2009,
<http://www.thebulletin.ca/cbulletin/content.jsp?sid=15476744318100918425170959241&ctid=1,000002&cnid=1002188>

⁷⁹ This occurred despite a complicated electoral process that required a large share of registered voters to participate and an unusually short petition process and a super-majority in the election. <http://www.publicpurpose.com/pp-montreal.pdf>.

action, the state cancelled its previously announced consolidation mandate, after having forced a substantial number of recent consolidations.⁸⁰

There have been secession movements in some larger local governments, as residents have expressed dissatisfaction with public service quality and perceived inefficiency. For example, there have been efforts to separate the San Fernando Valley, Hollywood and the harbor areas of the city of Los Angeles, and Staten Island from the city of New York. However, the barriers to unraveling a local government that has become too large can be prohibitive. Usually, the ballot measure must gain at least a majority of voters not only in the area seeking secession, but also in the larger jurisdiction from which the secession is sought. Thus far, none of the secession movements have been successful.

Thus, another important consideration in government consolidations is that they cannot be easily reversed. Once the consolidation is implemented, it is nearly impossible to restore the previous organizational structure, even if there is strong opinion that it would be an improvement.

On the other hand, collaboration by local governments can be entered into where it saves money. Further, local governments are free to withdraw at contract expiration if sufficient savings do not occur or if there are other substantial disadvantages.

Townships and other governments in Ohio collaborate on services such as fire protection, police protection, the road equipment use, purchasing and major programs such as insurance and workers compensation.

4.2: DYNAMICS OF SMALLER GOVERNMENTS

Both the Ohio and national data (above) indicates that smaller local governments spend less per capita than larger local governments. Moreover, critics of smaller governments acknowledge that smaller local governments of Ohio are also more accessible and responsive and accountable.

Smaller local governments are more accessible to the electorate because residents are generally more likely to be able to have direct contact with elected officials or administrators with sufficient authority to act.⁸¹ Thus, with smaller local governments, the influence of individual voters is stronger. For example, in the smallest local governments of Ohio, an elected official may represent only hundreds of residents.

Ohio's largest city, Columbus, has a population of 787,000 (2010). There are approximately 112,000 residents for each of the seven city council members. By comparison, the largest townships have populations of approximately 60,000. With three township trustees, each elected official represents one-fifth the number of constituents in the largest townships as in the largest municipality. This lower ratio of residents to elected officials strengthens local democracy by making government more accessible to the people it is exclusively intended to serve, the local electorate.

In smaller municipalities, elected officials and administrators with authority are likely to be known personally by a larger percentage of residents. Moreover, voters are likely to be able to gain direct access to their elected officials, such as by telephone or for personal meetings. There is less need to rely on larger administrative staffs that often do not have the ability or the authority to quickly resolve issues.

⁸⁰ Wendell Cox, "Australian Local Governments Stop Forced Amalgamation, *The New Geography*, November 22, 2010. <http://www.newgeography.com/content/001886-australian-local-governments-stop-forced-amalgamation>

⁸¹ "Authoritative administrators" refers to local government managers who have substantial decision-making authority.

This can be in contrast to the operation of larger governments. Chris Pineda of Harvard University's Ash Institute for Democratic Governance and Innovation characterized the issue as follows:

According to some economists, diseconomies of scale in consolidated local governments occur because bureaucrats and politicians become removed from day-to-day contact with residents. When these officials are “out-of-touch” with citizen concerns, there may be no incentive to cut costs, or to stop increased spending.⁸²

Further, in smaller governments, there is a greater likelihood that administrative personnel will identify with local residents, and will have stronger ties with the community.

Taxpayers have a natural interest in minimizing the cost of government, because they pay for it. Smaller local governments make this possible by providing voters with greater control. This can protect local government from excessive spending interest influence, that would otherwise lead to higher spending per capita.

Responsiveness and Accessibility

The greater responsiveness and accessibility of smaller governments occurs, at least in part, because elected officials and top managers have more direct oversight of financial and administrative matters. There is less of a need for large administrative staffs that can result in less familiarity with day-to-day policy and operations. This can facilitate better and more rapid decisions in response to changing needs.

Governance expert Robert Bish notes that smaller governments tend to be more careful about financial management, and scrutinize individual expenditures more completely.⁸³

... as governments get bigger, councillors tend to spend less time on the financing of individual programs or projects that represent a diminishing proportion of their growing budget;⁸⁴

At the same time, this more direct attention tends to encourage better public services. Citizen complaints are more likely to be handled by elected officials.

Councillors faced with a decision about service provision in a small municipality are strongly influenced by financing considerations because even low-cost items can make a difference in tax rates or user charges for their constituents. But as governments get bigger, councillors tend to spend less time on the financing of individual programs or projects that represent a diminishing proportion of their growing budget; large governments are also more responsive to special interest programs and projects than are small governments.⁸⁵

Smaller local governments, with their closer proximity to the people, have greater flexibility for responding to changing needs. They are in a better position to provide quality services, consistent with the wishes of the electorate.

⁸²Chris Pineda, City-County Consolidation and Diseconomies of Scale: Summary of Selected Literature, "City-County Consolidation and Diseconomies of Scale: Summary of Selected Literature," Ash Institute for Democratic Governance and Innovation, John F. Kennedy School of Government, Harvard University, 2005 (<http://www.innovations.harvard.edu/showdoc.html?id=9331>)

⁸³ Bish, 2001.

⁸⁴ Bish, 2001.

⁸⁵ Bish, 2001.

Local Democracy: Human Scale Government

There is general consensus that government services should be administered at the closest level to the electorate that permits effective and efficient provision. Otherwise, there would be no need for local elective government. State government or even the national government could provide all public services. This however would seriously dilute the voice of the individual voter, as legitimate local issues could be overwhelmed by larger voting blocks elsewhere in the state or nation.

Democratic governments are created to serve the interests of their voters *exclusively*. No other interest has a vote and no other interest is legitimately entitled to dilute the interests of voters. Consolidation into larger than necessary units tends to make government less responsive and accessible to voters. Because the voters themselves are the taxpayers, their influence is generally likely to make government more efficient, out of an interest in minimizing taxation (and thus spending).

Thus, local governments should administer local services, such as local roads, solid waste collection, fire protection and education. Regional services, such as air pollution control and metropolitan transit coordination are more appropriately administered by county governments or regional special districts. It would be infeasible for such services to be administered at the municipal or township level. Other services, such as inter-city highways and state universities, are most appropriately administered by the state. Similarly, it would be infeasible for such services to be handled by municipalities, townships, counties or regional special districts. National services, such as defense, diplomacy and air traffic control are best administered at the federal level. It would not be feasible for Ohio or Pennsylvania to separately provide for their own defense.

These are important distinctions, not least because as governments become more remote from the people, whether due to geography or larger size, they are more anonymous. A balance is thus best struck between government services that can be efficiently and effectively administered in smaller local governments and services that cannot be efficiently and effectively administered except by a larger unit of government. Elinor Ostrum, in her Nobel Prize lecture, noted that smaller and medium sized local governments more effectively monitor performance and costs.⁸⁶

The Advisory Council on Intergovernmental Relations emphasized the efficiency and democratic advantages of decentralized local governments:

*Efficiency criteria suggest that provision ought to be differentiated among a number and variety of provision units in a local public economy. This is equivalent to suggesting, in traditional terms, that local government ought to be fragmented-arranged in multiple, sometimes overlapping, jurisdictions. The variety of provision units can include both general-purpose and special-purpose governments. Multiplicity serves a number of useful purposes: it increases the sensitivity of local government to diverse citizen preferences; it increases efficiency by matching the distribution of benefits more closely to the economic demand of communities; and it enables citizens to hold public officials accountable to a specific community of interest.*⁸⁷

This approach "right-sizes" governance to better serve the differing preferences of local electorates. In a widely referenced academic article⁸⁸ ("A Pure Theory of Local Public Expenditures"), Charles Tiebout notes that smaller jurisdictions provide people with the opportunity to include in their residential location

⁸⁶ Ostrum, 2009.

⁸⁷ Advisory Commission on Intergovernmental Relations (federal), *The Organization of Local Public Economies*, 1987. www.library.unt.edu/gpo/acir/Reports/policy/a-109.pdf

⁸⁸ Charles M. Tiebout, "A Pure Theory of Local Public Expenditures," *Journal of Political Economy*, 1956.

decision important issues such as the mix of public services and taxes in jurisdictions. Tiebout's analysis has been called the source of the "voting with their feet," concept, which describes the movement of residents (and businesses) to jurisdictions more suited to their preferences.⁸⁹

Generally, the lower spending, debt and taxation per capita in smaller local governments is a reflection of the will of their electorates. Forcing jurisdictions, including smaller jurisdictions to consolidate would dilute the will of these electorates, and could lead to higher spending, debt and taxation per capita.

None of this is to suggest that government consolidations or abolitions are always inappropriate. It does suggest, however, that voters should have the final decision. For example, in 2005, the voters of the village of Lawrenceville in German Township, Clark County decided to dissolve the municipal corporation and became a part of the township. This indicates the ability of voters in Ohio to make changes that they see as beneficial to their local governance arrangements.

Democracy, which Lincoln referred to as "government of the people, by the people and for the people," produces results more consistent with the public will (which is the purpose of democracy) where elected officials are closer to the people. Governments services should generally be no further from the electorate than necessary for competent and least costly administration.

4.3: CRITICISMS OF SMALLER GOVERNMENTS

Criticisms of smaller local governments are evaluated below.

More Governments Mean More Spending?

Claim: Perhaps the most important frequently cited criticism of Ohio's decentralized local governance structure is that there are too many governments. Critics routinely claim that smaller local governments spend more per capita making taxes higher.

Critics further indicate that, at least in northeastern Ohio, the number of local governments, is driving higher local government expenditures.⁹⁰

You don't have to hate government to realize that in Northeast Ohio, we have a lot of it and it costs a ton.

The Brookings Institution/Greater Ohio Policy Center indicated that Ohio's local democracy "creates a staggering array of costs," and claims that per capita costs are lower in larger jurisdictions. The Compact with Cities Task Force said:⁹¹

Ohio's individual cities and townships have taken on expenses that are unsustainable, and the state's ability to assist them is limited. Regional approaches to collaboration and coordination are necessary to preserve services to Ohioans and achieve affordability.

Reality: The number of local governments has no necessary relationship to the cost of government.

⁸⁹ For a more detailed discussion of this issue and its application to Ohio, see Driscoll and Fleeter, 2010.

⁹⁰ Joe Frolik, "Consolidation question should be uppermost of voters' minds," *Cleveland Plain Dealer* http://www.cleveland.com/opinion/index.ssf/2011/06/consolidation_question_should.html.

⁹¹ Ohio House of Representatives, Compact with Ohio Cities Task Force Report, 2010, http://www.morpc.org/pdf/Compact_Task_Force_Final_Report.pdf

The claims to the contrary are largely impressions and not based upon an analysis of spending by size of government. Spending is not measured by the number of governments, it is measured by spending.

*Enumerations of local government units ... provide only census-type information about the number of units, population and area served. No data are provided about the costs of public services, the output of public services nor the relative efficiency with which public services are produced.*⁹²

As the data from Ohio, the United States, three other large states and elsewhere indicates, smaller local governments spend less per capita than larger governments. Further, around the nation, it has not been the smaller local governments that have engaged in unsustainable spending, it is rather the larger governments, which have sometimes been rescued because they were "too big to fail." Smaller governments have been forced into fiscal distress programs with far less frequency not only in Ohio, but also in Pennsylvania.

In Ohio and elsewhere, the larger number of local governments is *less costly* than the smaller number of larger local governments. Moreover, the research on the actual experience with government consolidations shows that, contrary to the academic theories, consolidation tends to increase spending per capita.

The claim that smaller governments have higher per capita costs has not been supported by focused research in the "bigger-is-better" reports that have proliferated in Ohio. A report by the Ohio Society of CPAs⁹³ indicates that "Ohio citizens pay far more than is necessary for the management of thousands of government entities." While urging caution in any program of consolidation, the report goes on to suggest that there are "significant, positive gains." Like the other "bigger-is-better" reports, this report includes no analysis of costs by size of government and simply makes the assumption that smaller governments are more costly. As the analysis above (See Sections 2 and 3) indicates, the opposite is true.

In its examination of local government expenditure trends, Advance Northeast Ohio's *Opportunity Abounds*⁹⁴ indicated that local government spending had increased \$4 billion between 2002 and 2007 in Northeast Ohio alone. This cannot have been the fault of smaller cities, villages and townships. The total spending by all of the more than the 1,500 smaller cities, villages and townships in the state with less than 10,000 population was less than \$2 billion in 2008, far less than the *increase* for all governments in Northeast Ohio alone.⁹⁵

Both *Opportunity Abounds* and the Brookings Institution/Greater Ohio Policy Center report made broad judgments about local government spending without differentiating between school districts and other types of local governments. According to the Educational Tax Policy Institute, the Brookings Institution/Greater Ohio Policy Center report "... uses school spending patterns to justify the consolidation of townships or villages."⁹⁶ School district spending patterns (not analyzed in this report) have nothing to do with spending patterns in smaller cities, villages or townships.

⁹² Robert L. Bish and Vincent Ostrum, *Understanding Urban Government: Metropolitan Reform Reconsidered*, Washington: American Enterprise Institute, 1973, p. 74.

⁹³ Ohio Society of CPAs, 2010.

⁹⁴ Advance Northeast Ohio, *Opportunity Abounds*, <http://www.efficientgovnetwork.org/>, 2011.

⁹⁵ Calculated from Auditor of State data for 2008.

⁹⁶ William Driscoll and Howard Fleeter, *Review & Critique of Brookings Institution and Greater Ohio Policy Center Report: 'Restoring Prosperity: Transforming Ohio's Communities for the Next Economy'* William Driscoll and Howard Fleeter, Education Tax Policy Institute, 2009, <http://www.etpi-ohio.org/assets/ETPI-brookings-rebuttal-summary-and-full-report-10-21-10.pdf>.

The typically lower expenditures per capita in *smaller* jurisdictions is illustrated by the fact that the more than 1,500 local governments with less than 10,000 population have per capita spending less than one third that of jurisdictions with 10,000 or higher populations (Table 4).⁹⁷ If all of the local governments in Ohio had current expenditures at the same per capita rate as those with more than 50,000 people, spending would increase by more than \$2.5 billion annually (an increase of nearly one-third), based upon the 2008 data.

Reducing the number of governments will not reduce the need to provide public services. The same number of road miles would have to be maintained. Law enforcement and fire protection services would still need to be provided to the same number of people. The only difference would be the cost structure of the larger governments that would assume the services. Inasmuch as Ohio's smaller governments spend considerably less to provide public services, consolidating them into larger units could be expected to cost more. Fewer, larger governments would likely be more costly to Ohio, an outcome virtually the opposite of the cost-saving rationale of the "bigger-is-better" drive toward local government consolidation.

Table 4 Expenditures: Smaller and Larger Local Governments in Ohio: 2008		
Size of Local Jurisdiction	Number of Jurisdictions	Median Current Expenditures per Capita
Under 10,000 Population	1,525	\$236
10,000 & Over Population	228	\$753
All Reporting Governments	1,753	\$255
Calculated from Auditor of State data		

Duplication of Services?

Claim: It is frequently claimed that smaller governments duplicate services that are provided by other units of local government. The Brookings Institution/Greater Ohio Policy Center report, for example, notes that "many separate jurisdictions in a given region often duplicate infrastructure, staffing, and municipal services."

Reality: "Duplication" does not describe the local government situation in Ohio. Duplication of services (or overlap) requires that more than one government provide the same service to the same residence or taxpayers as another. For example, if two separate governments collect trash from the *same* residents, there is duplication. However if two separate governments collect trash from residents on adjacent streets that are in different political jurisdictions, then there is no duplication of service. Throughout Ohio and all other states, multiple local jurisdictions provide services to different service areas. Thus, the 2,246 city, village and township governments in Ohio provide local the same or similar government services, to separate sets of residents living in distinct jurisdictions. There is thus no duplication in infrastructure, staffing or services.

Geographically adjacent services are not duplication. It cannot thus be assumed that consolidation would cost taxpayers less. Differing labor compensation levels and service levels in the two jurisdictions can

⁹⁷ As indicated above, the data shows that among governments with more than 10,000 population, spending per capita is more among the largest governments (See Section 2).

raise costs, through the leveling up of labor costs that has been identified in consolidations in Ohio and elsewhere (See Section 4.1).

Duplication may also be alleged where it is perceived that adjacent jurisdictions have combined equipment or administrative staffing levels that could be reduced by consolidation. Michigan Senate economist Eric Scorsone indicated that:

*It is relatively straightforward to generally demonstrate that two local government entities -- for example, a contiguous township and city -- can be shown to have duplicative positions and equipment. A proposed merger could eliminate these duplicative activities and positions and lead to lower costs and perhaps lower millage rates. The problem lies in the notion of "feasible". The evidence collected here does at least reveal that the implementation of a local government consolidation or intergovernmental cooperative effort is often very different than the proposed changes.*⁹⁸

Usually, such perceived duplications are cited based upon anecdotal evidence rather than on serious quantitative analysis that would be required to consider the labor cost (leveling up) and other costs of consolidations that could easily overwhelm any potential savings (See "Example: Fire Protection," below). Moreover, calls for consolidation have been sometimes driven by proponents relying on a "egregious" examples that can form an unrealistic expectation with respect to savings.

Indeed, concerns about "duplication" could be used to justify elimination of larger jurisdictions, such as states. For example, the local jurisdictions of Pennsylvania perform virtually the same services as the local jurisdictions of Ohio. They provide the same services, but to different residents. The same is true of local governments in Ohio.

Diseconomies of Scale?

Claim: Critics of local democracy claim that local government consolidation produces significant "economies of scale," which cannot be achieved by smaller governments. The basis of this claim is that larger jurisdictions save money by making larger purchases of (for example) supplies and equipment, obtaining volume discounts. It is also claimed that larger jurisdictions are able to use their capital equipment more efficiently. And finally, it is claimed that consolidations can improve the credit rating of distressed municipalities, which leads to better credit ratings and lower interest charges on debt.

Reality: It is important to save money on purchases and to minimize interest charges on debt, wherever possible. However, the claims of joint purchase savings are, again simply impressions, without comprehensive research to estimate the extent of the perceived problem or the potential for savings. Further, the preponderance of local government costs are not in capital purchases or other purchases.

Labor compensation is by far the largest cost component in local government. Rising labor costs can readily erase any savings from joint purchasing or other less significant cost categories. The costs of materials and equipment pale by comparison to the costs of labor compensation. Moreover, the savings from joint purchasing can be achieved without consolidation (below).

⁹⁸ Scorsone, 2010.

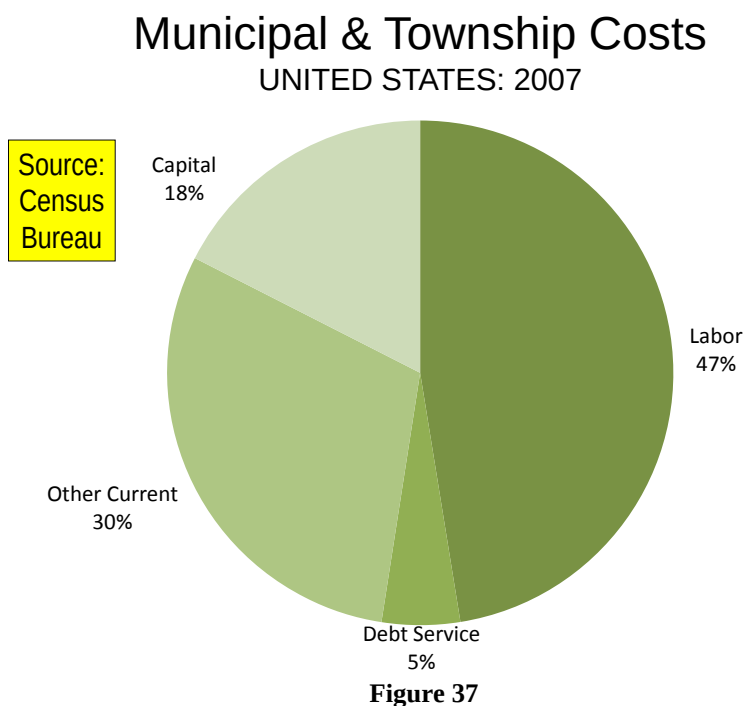
A National Research Council examination indicated that smaller governments were more efficient in the dominant category of labor costs:⁹⁹

The preponderance of the evidence indicates that small local governments (and the metropolitan areas characterized by fragmentation) are more efficient for labor – intensive services, whereas larger units are more efficient for capital – intensive services (because of economies of scale) and for certain overhead functions.

Moreover, there may be little potential for reducing labor costs at the local government level as Pineda indicates:

Consolidated city services that are labor intensive and require replication from one neighborhood to the next cannot always achieve economies of scale and may in fact result in diseconomies of scale. Labor intensive services can include: police, general fire protection, public works, and parks and recreation services.¹⁰⁰

The dominance of labor costs is indicated by national data for local governments. The 2007 Census of Governments indicated that interest on debt represented only 5 percent of local government general expenditures. Capital expenditures represented 18 percent of government expenditures. Current expenditures (excluding debt service), the cost of day-to-day operations are the greatest share of expenditures, at 77 percent.¹⁰¹ This largest category of expenditure is principally driven by labor compensation costs, which were 47 percent of total expenditures (61 percent of current expenditures). Thus, the cost of debt was little more than 1/10th that of labor compensation and capital expenditures were slightly more than one-third of labor compensation. (Figure 37)



⁹⁹ Committee on Improving the Future of U.S. Cities Through Improved Metropolitan Area Governance, Alan Altshuler and William Morrill (1999) (*Governance and Opportunity in Metropolitan America*, National Research Council).

¹⁰⁰ Pineda, 2005.

¹⁰¹ Labor compensation plus other current expenditures.

The higher current expenditures in larger jurisdictions and the dominance of labor expenditures are an indication of diseconomies of scale in labor compensation in larger jurisdictions (See Section 2.2).

Further, borrowing costs, as noted above, are highest in the larger, higher spending jurisdictions. In Ohio, smaller jurisdictions are less frequent borrowers and have lower debt levels. By keeping their day-to-day costs lower, smaller jurisdictions are not forced to borrow as much or as frequently. Interest rates on debt service will not be a principal concern in keeping overall costs in smaller governments, because they tend to avoid or minimize borrowing.

Naive Expectations about Labor Costs and Consolidation: The cost of labor is likely to increase in jurisdictions that consolidate, because labor costs per capita tend to be higher in larger jurisdictions. It might be naïvely thought that consolidation would permit wholesale layoffs of government employees, or that the more labor practices, such as lower wages, less lucrative benefits and less time off of the less costly merging jurisdiction might be applied to the consolidated entity. Any such assumption betrays unfamiliarity with political reality. As a result, theoretical expectations have often not been achieved in local government consolidations.¹⁰² In fact, as is noted above, labor costs are routinely "leveled up" (See Section 4.1).

Example: Fire Protection: The dominance of labor costs over capital costs is illustrated by fire protection data at the national level.

The Brookings Institution/Greater Ohio Policy Center report contends that "many services, such as fire protection, emergency management and police services, among others, have a range in which average costs per capita declined as the population increases; small jurisdictions simply cannot reach those economies of scale."

As noted above, the data in Ohio (Section 2.2) indicates otherwise, at least in part due to the use of volunteers and paid volunteers.

A similar association between smaller government and less fire protection spending per capita is indicated by the 2009 municipal expenditures for fire protection at the national level. Data in the US Bureau of the Census governments database indicates that fire protection is one of the largest expenditure items for local governments, with only highways and police protection representing larger expenditures. Moreover, fire protection, can be considered a "purely" local government expenditure, since nearly all state and local government expenditures on local fire protection are by local governments.

In the states with the largest number of general purpose local governments¹⁰³ relative to population, fire protection expenditures per capita were the *lowest*, at \$75 annually per capita. These states, with an average population of less than 2,500 residents spent 29 percent less per capita on fire protection than the median of the states. Per capita spending on fire protection was approximately 60 percent lower than in the states with the largest governments.

The highest fire protection expenditures per capita were in the states with the *largest* general purpose local governments (the fewest governments relative to population). In these states, where the average jurisdiction population was 25,000 or more, annual expenditures per capita were \$180, more than 70 percent higher than the state median of \$105. The second lowest expenditures per capita for fire

¹⁰² Holzer, 2009.

¹⁰³ Municipalities, townships and counties (in some states, counties provide a substantial amount of fire protection service).

protection occurred in the middle category, states with average government populations of between 5,000 and 10,000 residents. The other categories (2,500 to 5,000 and 5,000 to 25,000) had per capita fire protection expenditures approximately 15 percent above the state median (Figure 38).

The lower costs of smaller governments is despite the fact that fire protection is a capital intensive service. Yet these costs (such as for fire trucks and fire stations) are dwarfed by the operating costs (current expenditures), which are principally labor compensation.

According to 2008 data, approximately 12 percent of municipal fire protection expenditures in the United States were for capital, while approximately 88 percent was for operating expenditures.¹⁰⁴ Thus, even in a capital intensive public service, such as fire protection, capital costs are a comparatively small part of total expenditures.

Fire Protection Spending by State

US: TOTAL EXPENDITURES/CAPITA: 2009

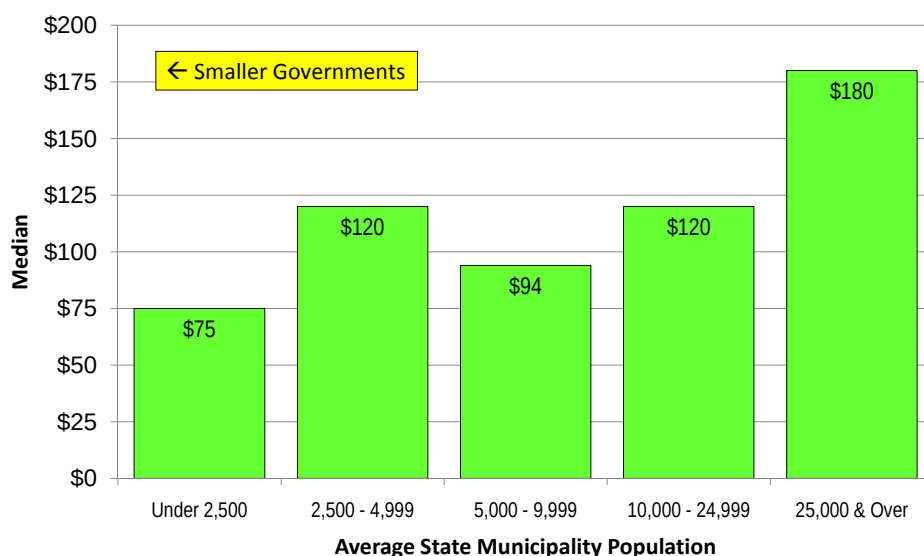


Figure 38

Joint Procurement Savings: Local governments do not have to consolidate to achieve group procurement savings. The "bigger-is-better" reports note that local governments should collaborate where overall costs to taxpayers can be reduced. Ohio's local governments have substantial resources for minimizing procurement costs. The state's Cooperative Purchasing Program permits local governments, such as townships, cities and villages to take advantage of volume discounts by buying goods and services through state contracts.¹⁰⁵ Another source of savings is the "Sourcing Office,"¹⁰⁶ a private not for profit agency organized under state law, which provides governments opportunities to cooperate on purchases. Advance Northeast Ohio has noted the success of this program.¹⁰⁷ Smaller local governments also realize savings by participating in health insurance pools, property and casualty insurance pools and workers

¹⁰⁴ Calculated from 2008 US Bureau of the Census governments database.

¹⁰⁵ Ohio Department of Administrative Services, Cooperative Purchasing <http://das.ohio.gov/Divisions/GeneralServices/ProcurementServices/CooperativePurchasing/tabid/304/Default.aspx>.

¹⁰⁶ The Sourcing Office, <http://www.sourcingoffice.org>.

¹⁰⁷ Advance Northeast Ohio, 2011.

compensation group rating programs. Thus, smaller local governments have the ability to maintain lower overall spending at the same time that they obtain the (smaller) cost advantages of joint purchasing.

Special Districts: Townships and municipalities can also improve performance and efficiency by forming special districts in cooperation with other units of government. Special districts are another way of achieving the theoretical savings that are claimed for consolidation, but tend to not occur because of the "leveling up" of labor costs. Special districts have been formed between local government jurisdictions for services such as fire, emergency medical services, parks, police and solid waste collection. One of the great advantages of special districts is that they are contractual arrangements with provisions for termination should one or more of the participating governments determine that it is in the public interest. Local government consolidations, however, are so difficult to disassemble that they rarely, if ever occur. Special districts also provide for precise taxation; only residents who receive the service of the special district are taxed (See Section 4.1).

Claim: It has been claimed that local governments would spend less if they were run like businesses, where mergers are perceived to generally result in less costly operations.

Reality: Governments should incorporate private sector strategies to improve efficiency where they are appropriate. However, there are important differences between the private sector and government. From an economic perspective, perhaps the most important difference is the incentives in the two sectors. In the private sector, competition is the norm. This means that companies must keep their costs of labor, materials and capital competitive, or they could fail. While former household names like W. T. Grant, Eastern Airlines or Borders can disappear in bankruptcy and not be merged into other firms, local units of government do not disappear (the city of Cleveland is an example), except when they consolidate.

Corporate executives must continually seek the best financial interest of their firms, or they can be replaced, even on the "spur of the moment." So long as corporate executives deliver sufficient profits, their positions are usually secure. On the other hand, an elected official who successfully minimizes spending is likely to earn the wrath of spending interests and is likely to face more difficult challenges in the next election (assuming that the jurisdiction is large enough to be the object of significant lobbying by spending interests).

Companies are not susceptible to spending interests that might seek to force them to pay more than necessary for the means of production, or undertake projects that can lead to financial distress. This is quite different than government, where spending interests can effectively use political pressure to force higher spending levels.

In the private sector, if a company allows its costs to become too high or invests in overly expensive and ineffective projects, it faces potential bankruptcy¹⁰⁸ (unless, as has been seen in recent years, the company happens to be "too big to fail," and is able to arrange a taxpayer bailout).

While local governments that encounter financial difficulties can raise taxes and reduce service levels, the same choice is not available to private companies. A company in a competitive market cannot unilaterally raise the price or its customers will switch to other companies (otherwise Borders would still be selling books).

In government, if costs become too high or unaffordable major projects are undertaken, the taxpayers, (analogous to the customers of a private company), are forced to pay. The taxpayers can go elsewhere

¹⁰⁸ Local governments can also generally file for bankruptcy under ORC Section 133.36. This is rare and the dissolution of governments through bankruptcy virtually never occurs.

(vote with their feet) and there is a substantial body of literature on this issue. However, it is far simpler to make purchases at a different store if another has become too expensive, than it is to move to another local government jurisdiction, or state.

The difference is that governments have a necessary monopoly on their responsibilities, while private companies do not. This means that the customers of private companies have choices and that private companies must make more reliable economic decisions because they are not able to pass on higher costs to their customers, because of competition.

Further, corporate mergers can be reversed if they do not work out as expected. This can be expensive, as was the case with Daimler-Chrysler and with AOL-Time Warner. However, the fundamentally different nature of the market relative to government makes breakup of unsuccessful mergers possible. This is generally not possible in government and, as a result, great caution should be employed in pursuing consolidations.

Local Democracy is Out of Date?

Claim: Some have criticized smaller local governments as being out of date and irrelevant to the contemporary situation. One report indicates that "Ohio's local government system is outdated and unsustainable: 'After years of frustration regarding a 19th century local government model that has produced 3,700 political subdivisions in Ohio, all in the name of 'local control,' it is time to bring this system into the 21st century.'"¹⁰⁹

Reality: The focus on the historic founding of local governments is both irrelevant and misplaced. For example, democracy dates from ancient Greece, having been established more than 2600 years ago and is thus many times as old as the local government system of Ohio. The very rationale of democracy is that the people should control their own government. Further, because of the higher costs and diminished responsiveness, Robert Bish called government consolidation as an outmoded 19th century strategy.¹¹⁰

The passage of centuries or even millennia is not a valid justification for abandoning a form of governance that provides its citizens with responsive service, greater control, accountability, accessibility and responsiveness. Moreover, more efficient government is not out of style or outdated. Even today, there is considerable support in authoritarian nations for conversion to democracy, despite the passing of nearly three millennia.

Democracy is a timeless value and the will of the people is most effectively expressed where government is as close to the people as possible. A governance structure that delivers superior services at lower costs cannot be out of date. Moving city hall farther from the people dilutes democracy and, as the evidence indicates, tends to increase spending. The less costly public services produced by smaller local governments will never be out of date.

5: LOCAL GOVERNMENT SIZE AND COMPETITIVENESS

There are claims that metropolitan areas with smaller units of government have slower rates of economic growth. Any such material connection seems highly doubtful.

¹⁰⁹ Ohio Chamber of Commerce, *Transforming Government into a 21st Century Institution: Redesigning Ohio*, <http://www.scribd.com/doc/74788218/RedesigningOhioFINAL12-2010>. 2010.

¹¹⁰ Bish, 2001.

Significantly, differences in the characteristics inherent in regions of the nation have been strongly associated with employment growth or relative stagnation in recent decades. Nearly all population and employment growth in the United States has been in the South and West in recent decades. From 1984 to 2009, the South and West have accounted for nearly 80 percent of population growth. The Midwest (including Ohio) and the East have accounted for only 20 percent of population growth. The South and West captured more than 70 percent of the job growth between 1984 and 2009, while the Midwest and East accounted for less than 30 percent of the job growth. These population and employment trends are a continuation and intensification of patterns that have been developing since World War II.

The recent consolidation of the city of Louisville and unincorporated Jefferson County, Kentucky was justified as a strategy to improve employment, incomes and the competitiveness. No such result is evident. Savitch, Vogel and Li at Roosevelt University examined Louisville's performance before and after consolidation and said:¹¹¹

... our study raises doubt that city-county consolidation can enhance local economic development. Thus far we see no evidence showing benefits for premerged Louisville, and some of the data suggest it is worse off.

Metropolitan areas in the South and West have a number of advantages that have attracted population and employment growth. These include generally less inclement weather in winter, lower labor costs and lower state and local taxation.¹¹² None of these factors would be positively impacted by local government consolidation in Ohio. Moreover, it is likely that local government consolidation would lead to *higher* taxes.

Local democracy is generally not an issue in corporate location decisions. For example, in its highly regarded report on state competitiveness,¹¹³ the Beacon Hill Institute does not include either decentralized or concentrated local government among its more than 40 measures.

Finally, local democracy is not associated with slower economic growth. In the Midwest and East, where slower population and employment growth prevails, metropolitan areas with more local governments proportionally have generally added private sector jobs at a greater rate between 1984 and 2009.¹¹⁴ The metropolitan areas with the largest number of local governments (more than 10 per 100,000 population) experienced private sector job growth of approximately 44 percent. Metropolitan areas with between 5 and 10 general purpose local governments per 100,000 population had 31 percent private sector employment growth. The metropolitan areas with the fewest number of local general governments per 100,000 (less than 5), added private sector employment at the slowest rate, 21 percent (Figure 39).

Ohio is at particular risk competitively. Between 2000 and 2011, the state lost more than 400,000 of its residents to other states. This is more people than live in either the cities of Cleveland or Cincinnati. Neighboring Pennsylvania, which has suffered considerable economic dislocation in recent decades and has a similar number of people as Ohio, lost less than one-tenth of that amount.¹¹⁵

¹¹¹ H.V. Savitch, Ronald K. Vogel and Lin Ye, "Beyond the Rhetoric: Lessons From Louisville's Consolidation," *The American Review of Public Administration*, 2010.

H.V. Savitch, Ronald K. Vogel and Lin Ye

¹¹² Cox, 2005, pp. 47-52.

¹¹³ Beacon Hill Institute, *10th Annual State Competitiveness Report*.

www.beaconhill.org/Compete10/Compete2010State.pdf

¹¹⁴ Calculated from US Department of Commerce, Bureau of Economic Analysis data.

¹¹⁵ Calculated from Census Bureau and American Community Survey Data.

Even so, Ohio, with its system of local democracy, has performed well since the Great Financial Crisis in job creation. Ohio's unemployment rate has fallen a full 4.3 percentage points, from 11.6 percent in January of 2010 to 7.3 percent in April of 2012. This compares with a 1.9 percentage point decline in the national unemployment rate from its peak of 10.0 percent in October of 2009 to 8.1 percent in April of 2012.¹¹⁶

The likely increases in local taxation and spending associated with local government consolidation could make the state even less attractive to businesses and residents. Some households and businesses that might have "voted with their feet" to move from a higher taxed jurisdiction to a lower taxed jurisdiction could well move out of the state instead, if lower tax jurisdictions are forced to consolidate into higher taxed entities. Local government consolidation could lead to a less competitive Ohio.

It is important to improve Ohio's competitiveness. Forcing local government consolidations would be a step in the wrong direction.

Job Growth by Number of Governments
1984-2009 BY # GOVERNMENTS PER 100,000 POPULATION

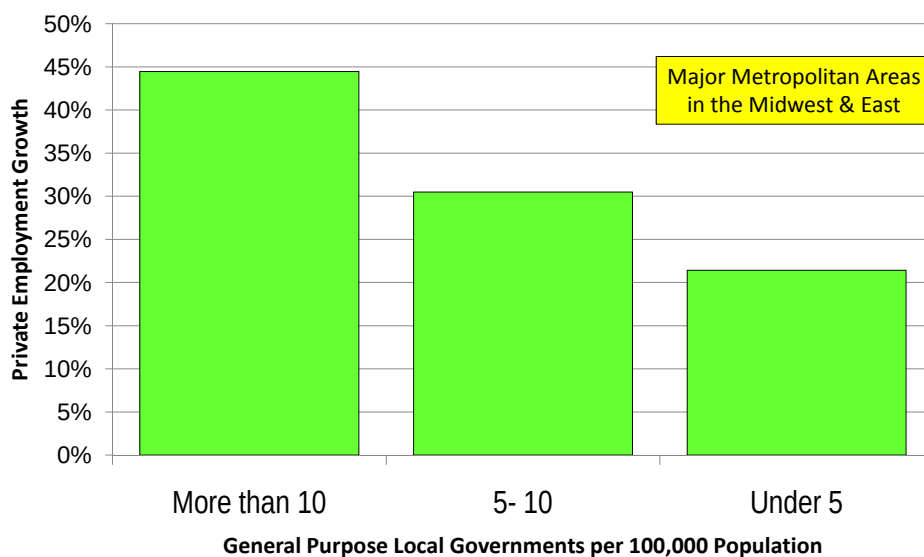


Figure 39

6: CONCLUSION: GOVERNMENT CLOSER TO THE PEOPLE

The preponderance of the evidence is that larger local governments, including consolidated governments, have *higher* expenditures and debt per capita. "Bigger is not better" in local government. This is confirmed by the data in Ohio, as well as at the national level as well as in Pennsylvania, New York and Illinois.

Townships in Ohio have been particularly cost effective, with generally lower expenditures per capita than larger municipalities. With a propensity to fiscally distress that is a fraction of municipalities, townships have been the cause of virtually no financial concern for the state or its taxpayers.

¹¹⁶ Calculated from US Bureau of Labor Statistics data.

Lower spending levels, less reliance on borrowing, lower local tax revenues and avoiding fiscal distress are all indications of exemplary fiscal responsibility. As a result, townships are indispensable units of local government in the state.

Further, the Ohio data indicates that smaller governments, including Ohio's townships, spend less and borrow less per capita. This relationship between smaller local governments and lower spending per capita occurs throughout the states, including within metropolitan areas.

There is virtually no evidence that consolidations reduce *actual* government spending per capita. Indeed, the evidence on consolidation generally seems to support the opposite conclusion --- that smaller governments spend less per capita, at the same time that they are more accessible and responsive to their residents. The Advisory Council on Intergovernmental Relations concluded:

*... a multiplicity of general and special purpose governments contributes to democratic values and a coherent local public economy.*¹¹⁷

The lower spending, greater accessibility and greater responsibility of local democracy largely results because government is closer to the people.

Where local government is smaller and closer to the people, the voice of the electorate is stronger, which strongly influences lower spending, debt and taxes per capita. This stronger voter voice also tends to countervail the efforts of spending interests to increase spending.

No choice is necessary between governments that spend less and governments that are more accessible and responsive. Smaller local governments are not only more accessible and responsive than larger local governments, but they also spend, borrow and tax considerably less per capita. Forcing government consolidations would likely lead to higher local government spending and taxation, making Ohio less competitive (See Sections 2 and 5). Ohio's smaller local governments are more accessible and responsive, *and they spend less*. Smaller governments, which are closer to the people, are better for Ohio.

¹¹⁷ Advisory Commission on Intergovernmental Relations, 1987.