Best Practices:
An Overview of Current Policies and Strategies for Improving Municipal Efficiency

Paper #3 in the
Policy Analyses of St. Louis County Governance and Taxation Series
A project of the Applied Research Collaborative

Written by
Mark Tranel, Ph.D., Director
and
Bradley DiMariano, Graduate Research Assistant
Public Policy Research Center at the University of Missouri-St. Louis

December 2014
Overview

This report for the Joint Interim Committee on St. Louis Metropolitan Statistical Area Governance and Taxation explores the theory, policy practices and changes related to improving local municipal efficiency and effectiveness. The primary objectives are to review and assemble a detailed list of best practices employed by other states, counties, and municipalities to provide the Committee and the Missouri Legislature with information to shape policy to improve municipal operations through cooperation or consolidation.

Introduction

Reform of local government structure is a chronic public policy issue nationally but periodically becomes an epidemic in St. Louis County, Missouri. University of Missouri-St. Louis political scientist Terry Jones chronicled the outbreaks of structural reform in his volume *Fragmented by Design*. As he states, “If you eavesdrop on civic leader conversations in the St. Louis region, you will inevitably hear talk about reforming the area’s local governments.”

The role of state government in the provision of local services traditionally has been limited to enabling legislation for the incorporation of municipal governments, delegating specific authorities and defining specific structures through which the municipalities can operate. The enabling and authorizing statutes in states such as Missouri do not include an ongoing oversight role for the state regarding the efficiency and quality of municipal performance.

The 21st Century has witnessed a spate of state government activism in local government performance and structure. The onset of the financial recession and the dire economic conditions faced by most political subdivisions have propelled a redoubled interest across the nation in performance and structure driven by concerns about the most cost-effective use of local tax dollars compared to other municipalities and the desire to provide property tax relief to citizens.

The concept of addressing municipal performance and efficiency through local initiatives is not a new endeavor, yet the involvement of state governments to help incentivize and assist local governments to achieve higher standards is becoming more and more frequent. The belief that permeates and motivates these policies is that municipalities can perform better and some form of incentives can achieve that goal. The issue is particularly acute for Missouri because of its long tradition of enabling the formation of local governments. Missouri has 954 municipal governments,* more than the states of California and Florida combined.

This report evaluates the body of literature which has accumulated over the years for different approaches and policies geared towards cooperation or consolidation as they have yielded documented results. It presents the theory motivating policymakers, findings from the literature and others states, and considers what initiatives elsewhere have to offer to inform the State of Missouri and St. Louis County.

---

1 Jones, E. Terrence (2000) *Fragmented by Design: Why St. Louis Has So Many Governments*, St. Louis, MO: Palmerston & Reed
State Initiatives to Restructure Local Government

Two recent reports provide a comprehensive analysis of the role of state governments in intervening to change local government structure to increase effectiveness and efficiency:

1.  *Leveraging Local Change: The State’s Role* – International City/County Management Association, May 2014 (Appendix A)


As described in the reports, less than half the states have an agency or system for monitoring the performance of local governments. Missouri is among the states that do not have this capacity. Beyond a monitoring function, as described below a number of states have in recent years been proactive in working to stimulate change in the structure of local government. The fiscal stress brought on by the Great Recession has sparked a new emphasis on reforming local government. Several states have looked into policies that would increase the efficiency of services delivered and provide property tax relief to citizens. Some have advocated for structurally consolidating municipalities into larger, albeit ambiguously sized, municipalities. Other advocates argue that inter-municipal partnerships are the best potential solution to the problem of inefficient local governments and service provision. Inter-municipal partnerships preserve the network of municipalities while promoting the consolidation of local government functions or the joint provision of services to multiple municipalities to achieve economies of scale. These partnerships are best suited for certain services which are capital intensive, more cost effective to produce in greater quantity and easier to share between localities, such as waste and refuse services.

New York – Local Government Efficiency Grant Program

The State of New York is conducting the most aggressive local government restructuring program. The New York Legislature enacted the Shared Municipal Service Incentive Program (SMSI) in FY 2005-2006 and appropriated $2.75 million to cover the costs associated with shared services plans, cooperative agreements, mergers, consolidations and dissolutions. In the 2006-2007 fiscal year the appropriation was increased to $25 million to fund projects in the following categories:

- $5.5 million in grants for existing municipal service consolidations/mergers, individual awards capped at $200,000;
- $4 million in grants for consolidation of local highway services, individual awards capped at $300,000;
- $4.5 million in grants for consolidation of local employee health insurance, individual awards capped at $500,000;
- $1 million in grants for a countywide shared services program geared specifically toward counties that develop shared services plans that include services encompassing at least fifty-percent of the cities, towns, villages and school districts within their borders, individual awards capped at $300,000;
- $10 million in matching-grant funding for costs associated with the consolidation or merger of two or more local governments into one government body, individual matching grant awards capped at $1 million.
The New York Department of State Division of Local Government Services received 266 applications during the first round of funding.\(^3\) SMSI was restructured in 2009 into two programs – the Local Government Efficiency (LGE) Grant Program provides competitive grants to reduce municipal expenses and property taxes by helping local government entities plan for and implement new service delivery efficiencies, and the Local Government Citizens Reorganization Empowerment Grant, a noncompetitive grant, provides funding to study, plan for and/or implement the restructuring of local governments. The LGE program was funded at $4 million for 2014-2015.\(^4\) The New York State Legislature budgeted up to $35 million in 2011-2012 for the Local Government Citizens Reorganization Empowerment Grant and Citizens Empowerment Tax Credit. The tax credit is equal to 15 percent of the combined amount of real property taxes levied by all of the cities, towns and villages involved in the consolidation or dissolution, not to exceed one million dollars.\(^5\)

To date the programs have funded 70 government reorganizations projects, 68 general government projects, 4 city and county charter revisions, 45 school district projects, 75 municipal utilities projects, 56 public safety projects, and 73 transportation projects.\(^6\) In addition to the grant and tax credit programs the Division of Local Government Services provides technical assistance in a number of areas, including local government efficiency and government reorganization.

**New Jersey**

The State of New Jersey also adopted legislation to reduce inefficiency and redundancy in local governments. In 2007 New Jersey passed changes to municipal consolidation and shared services laws through the Uniform Shared Services and Consolidation Act. The law streamlined and reformed laws regarding shared services, joint meetings, and municipal consolidations.\(^7\) The Uniform Shared Services and Consolidation Act established the “Sharing Available Resources Efficiently” (SHARE) grant program for local units to investigate shared services opportunities.\(^8\)

The SHARE program provides financial assistance to local governments and entities including municipalities, fire districts, school districts and other bodies to study or to implement shared local service delivery.\(^9\) The local entities which plan to study the feasibility of a shared service agreement, joint meeting contract or municipal consolidation may apply for a grant or loan to fund the study, including consultant costs and start-up costs for the agreement.\(^10\) The local entity has to match 10 percent of the cost of the study. The SHARE program awarded more than $4.2 million in 86 grants in its first two years.

The law also included a provision known as Local Option Municipal Consolidation. Under this provision, municipal consolidation is studied by a commission which can be created either by voter petition or municipal resolutions. If the commission recommends merging, then the participating

---

7. Shared services in binder
8. ibid
10. Shared services binder 18
towns can approve the consolidation by voter referenda and/or municipal resolutions.\textsuperscript{11} Citizens seeking to bypass municipal leaders are thus given the option to initiate the study and vote on the recommendations.

In 2007 the State of New Jersey also passed a provision that created the Local Unit Alignment, Reorganization, and Consolidation Commission (LUARCC) in the Department of Community Affairs. The unique aspect of LUARCC is that the initiative to study consolidation of entities is in the hands of a statewide commission. In collaboration with the Walter Rand Institute for Public Affairs at Rutgers University, LUARCC collected fiscal, operational, geographic and demographic data on New Jersey municipalities to identify candidates for merged services or consolidation. The first phase of the analysis targeted 75 municipalities in 36 groupings for further study. The second phase focused on six clusters of two to three municipalities.\textsuperscript{12} The initial draft of the LUARCC legislation would have empowered the Legislature to vote up or down on the Commission’s merger or consolidation recommendations. The legislation as finally approved required a vote of the affected municipal residents.

A change in administrations in New Jersey in 2010 brought the bold moves LUARCC was taking to a halt. The Commission has not met since 2011. The SHARE Program is now an information resource in the Division of Local Government Services of the Department of Community Affairs. The program has received no appropriation for several years for funding further investigation of shared services.

\textbf{Maine}

In 2005 Maine Governor John Baldacci budgeted $1 million to pilot a regional efficiency grant program with the goal of reducing property taxes. The pilot program funded 26 projects involving 121 municipalities. Based on the response to the pilot program the Maine Department of Administrative and Financial Services submitted legislation to establish The Fund for the Efficient Delivery of Local and Regional Services (The Fund). The grants were available to municipalities and other units of local government such as fire districts to carry out cooperation or consolidation studies. Two types of grants were available: a planning grant and a cooperative services grant. The planning grant allowed local governments to study the feasibility of a shared services plan while the cooperative services grant were designed to implement the partnership.\textsuperscript{13}

The Fund legislation established a state-local review panel, appointed by the Governor, to evaluate and rank grant proposals. The members of the panel were:

- The director of the Maine State Planning Office, or designee;
- The commissioner of the Department of Administrative and Financial Services, or designee;
- A representative of the Department of Economic and Community Development, appointed by the Governor;
- A representative of a county or regional government subdivision recommended by a statewide organization representing county or regional service providers, appointed by the Governor;
- Two representatives of municipal government recommended by the Maine Municipal Association who served as municipal officers or chief administrative officials of municipalities. One representative from rural communities with a population of less than 4,000 and

\textsuperscript{11} Ibid.
\textsuperscript{12} http://www.njslom.org/magazine/2009-11/1109-pg28.html
\textsuperscript{13} Grant Fact Sheet http://www.maine.gov/dafs/Fund/RegionalEfficiencyGrantFactSheet_12-01-09.pdf
one representative from suburban communities with a population of 4,000 or more, both representatives appointed by the Governor; and

- One representative of a service center community recommended by the Maine Service Centers Coalition or its successor organization, appointed by the Governor.\(^\text{14}\)

Proposals were scored on the following criteria:

- Extent and quality of cooperation among the participating applicants (20 points)
- Estimated amount of property tax savings to the region over time (35 points)
- Degree /likelihood of success in implementing and sustaining the intergovernmental arrangement (15 points)
- Extent to which the project can be replicated by other regions in future cooperative endeavors (30 points)

There were 14 projects involving another 70 municipalities funded in Fiscal Year 2007. According to the 2009 Annual Report on The Fund a total of 24 planning grants were awarded and 16 cooperative services grants were awarded.\(^\text{15}\) The approved projects included studies of consolidation of emergency management and police forces, joint purchasing systems, recycling and stormwater programs.

The Maine Legislature defunded the program after the 2007 Fiscal Year. As the 2009 Annual Report on The Fund concludes, “...the grant program has been unable to obtain significant results in implementation of cooperative services grants, the actual consolidation of local and regional services that would result in property tax reductions.”\(^\text{16}\)

Massachusetts

In 1963 the Massachusetts Legislature created the Metropolitan Area Planning Council (MAPC) as a regional planning agency for the Boston metropolitan area. MAPC is comprised of representatives from each of the 101 cities and towns in the Boston region, gubernatorial appointees, and designees of major public agencies. While its mission as a regional planning agency covers a broad range of functions including economic development, public health, and transportation, the services of MAPC’s Municipal Collaboration Department include collective procurement programs; grant-related financial, planning, operations and project management; and, local technical assistance on collaborative projects. The collective procurement programs are organized into the separate categories of public works, police, and fire services. The local technical assistance is funded by an allocation MAPC receives through the state-wide District Local Technical Assistance Fund (DLTA).\(^\text{17}\) The DLTA fund is administered by the Division of Local Services of the Massachusetts Department of Revenue and supported with an annual appropriation of funds. MAPC notified local governments in the Boston area in October 2014 that approximately $1 million would be available for regional collaboration project planning.

\(^\text{14}\) Ibid.

\(^\text{15}\) http://www.maine.gov/dafs/Fund/

\(^\text{16}\) Ibid, page 13.

\(^\text{17}\) https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIII/Chapter29/Section2XXX
Michigan

In 2011 the Michigan Legislature passed Public Act 63 of 2011 establishing the Economic Vi-
tality Incentive program to be administered by the Department of Treasury. In 2012 the program was
renamed the Competitive Grant Assistance Program. The program provides incentive-based grants to
competing jurisdictions to help offset the cost of studying or implementing municipal consolidations
or partnerships. Eligible applicants include cities, villages, townships, counties, authorities, school
districts, intermediate school districts, public community colleges, and public universities. Eligible
activities include the merger of two or more governmental units, consolidation of departments and/
or existing services across two or more governmental units, or cooperative effort or collaboration of
two or more governmental units. Applicants who demonstrate the greatest cost savings potential and
need are prioritized. The Department of Treasury awarded $6.6 million to 16 local governments in FY
2014.18

Pennsylvania

In 2003, the Pennsylvania Legislature enacted the Municipal Consolidation or Merger Act. The
process to initiate the consolidation of two or more municipalities could begin with a joint agreement
between the municipalities or by the electorate. In the same election that poses the question of
municipal consolidation, the voters also vote on electors to review the question of consolidation on a
committee formed to look into the matter. The committee would take testimony and deliver a report
which would put the question of their recommendations to a vote. Upon a majority yea vote, the
municipalities may begin the process of consolidation.19

In 2012 the Pennsylvania Legislature created the Municipal Assistance Program (MAP). MAP
is administered through the Governor’s Center for Local Government Services in the Department of
Community and Economic Development (DCED) and is funded for 2014 with a $642,000 appropriation.
MAP provides grants to counties and municipalities to assist them in community planning and
developing shared services and floodplain management planning. The program requires a 50 percent
local match. Proposals are evaluated on several criteria: need, overall quality of the project, local
commitment and partnerships, funding adequacy, source and timetable, past performance, financial
disadvantage, and cost saving potential.20

California

In 1963 the California Legislature approved the Knox-Nisbet Act enabling Local Agency Forma-
tion Commissions (LAFCO) in all 58 counties in the state. A LAFCO has both planning and regulatory
authority. Specifically a LAFCO has authority over boundary changes, sphere of influence studies,
service reviews, initiation of special district consolidations, out of agency service agreements, and
adoption of local policies.21 A sphere of influence study is comparable to the six-year cycle Map Plan
phase and Proposal phase of the Boundary Commission of St. Louis County. A sphere of influence is
a planning boundary outside of existing city limits. But while the Boundary Commission of St. Louis
County only responds to voluntary submittals by County municipalities, in California a LAFCO conducts

18 http://michigan.gov/treasury/0,4679,7-121-1755_1963-340164--,00.html
19 Municipal consolidation or merger act
20 http://www.newpa.com/find-and-apply-for-funding/funding-and-program-finder/mu-
nicipal-assistance-program-map
Municipal Service Reviews (MSR) as a prerequisite to a sphere of influence study. A MSR examines the following for each county:

- Growth and population projections.
- Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.
- Financial ability of agencies to provide services.
- Status of, and opportunities for, shared facilities.
- Accountability for community service needs, including governmental structure and operational efficiencies.
- Any other matter related to effective or efficient service delivery, as required by commission policy.22

The county, the municipalities and the special districts each contribute one-third of a LAFCO’s funding.

Illinois

In 2011 the Illinois Legislature created the Illinois Local Government Consolidation Commission.23 The Commission was charged with three main functions:

1. Study all laws governing the organization, powers, jurisdiction, and functions of local governments;
2. Study the inter-relationships of local governments to each other and to federal and state governments; and
3. Formulate specific recommendations for legislation or constitutional amendments that address the efficiency and effectiveness of local government operations, reduce the size and scope of local governments and reduce the barriers to cooperation amongst local governments.24

The Commission’s 2014 final report focused primarily on special districts in Illinois. One of the report’s main recommendations was to monitor implementation of the Counties-Reduction-Effectiveness Act by Dupage County (a Chicago suburb approximately the size of St. Louis County).25 Dupage County’s Accountability, Consolidation, and Transparency (ACT) Initiative resulted in the dissolution of one fire district, a similar effort involving two sanitary districts, and personnel reforms and shared services among county agencies.26

Minnesota

Although Minnesota has not enacted a local government consolidation program, the Office of the Legislative Auditor in 2012 released the evaluation report Consolidation of Local Governments.27 (Appendix C) While the report recommended consolidation proposals be evaluated on a case-by-case basis, it did suggest the Minnesota Legislature provide grants as other states have done to study consolidation possibilities.28

---

22 http://www.contracostalafco.org/municipal_service_reviews.htm
24 http://www.civicfed.org/civic-federation/blog/government-consolidation-illinois-update
26 http://www.emapillinois.gov/about/updates/-/asset_publisher/UIMfSLnFfMB6/content/local-government-consolidation-efforts-in-northeastern-illinois
27 http://www.auditor.leg.state.mn.us/ped/pedrep/consollocgov.pdf
28 http://www.auditor.leg.state.mn.us/ped/2012/consollocgov.htm
Best Practices: Policies and Strategies for Improving Municipal Efficiency

It should be noted that states that have taken the initiative to create these types of programs to incentivize local government efficiency had leaders who prioritized reform. To make these programs a success, states must designate a funding source and outline the scope of their efforts. States like Massachusetts or Illinois only have programs which tackle efficiency in a metropolitan region whereas New York and Maine have programs that are statewide. Lawmakers seriously seeking to replicate one of these programs must decide who will administer funds and whether the committee responsible will proactively seek candidates for partnerships, review applications to approve or both.

Literature Review

Consolidation vs. Fragmentation

At the root of any efforts to craft policy for the purpose of coordinating or consolidating municipal governments is a core theoretical question: which type of municipal government system best serves the community and the taxpayers -- a fragmented one or a consolidated one? This question is made more complex because the criterion by which municipal performance is measured can be either the quality of the service delivered or the efficiency of delivering the service, or both.

The idea that consolidating municipalities improves service originates in the progressive movement of the later part of the nineteenth century where it was believed that the process would reduce the number of societal ills and inequalities. Theoretically, proponents of consolidation view a fragmented system of multiple local governments as incapable and costlier. Policymakers seeking more effective and efficient governments are thus inclined according to this ideology to consider reducing the number of them and creating larger entities.29

Proponents of consolidation offer many potential benefits to support their case. For one, a larger local government entity has the capability to achieve economies of scale or lower per-unit costs for services provided due to the increase of citizens a consolidated government will serve.30 As the quantity of the service being provided is purchased in larger quantities, the cost decreases until a certain point before rising again as more and more customers are serviced. The economy of scale and proper size of the government is the one that achieves the lowest per-unit cost per good or service produced for the citizens.

In addition to achieving economies of scale, consolidated governments eliminate duplicative services and operations such as administration, information technology systems, purchasing, and finances provided by each smaller government.31 With the elimination of duplicative services, the consolidated municipality has a broader tax base to provide more specialized and professional services while achieving administrative economies. Moreover, consolidation is also believed to allow these municipalities to offer more and better quality services which benefit the customer and taxpayer.32

Empirical research has, however, documented mixed results for consolidation. In some cases, the process is viewed as successful in reducing operating costs. Yet there are also several case studies of municipal consolidation failing to capture economies of scale, producing unintended consequences or outright costing more money to the taxpayer than if policymakers had done nothing.

The process of consolidation and implementing a merger between municipalities is often extremely tedious and time consuming. One of the important factors to keep in mind is that the largest share of municipal budgets goes to payroll. Consequently, any substantial reductions in cost generally come from a reduced staff or cut in wages and benefits, neither of which is guaranteed to occur. In fact the opposite may happen when salaries are standardized. As staffs from various political subdivisions are integrated into one new body, lower paid counterparts from one or more jurisdictions receive a larger pay package comparable to the highest paid workers. The cost of doing so may neutralize savings and benefits achieved from the process of consolidation, but the move is generally a management decision to retain experienced employees. By paying employees to the highest level, newly formed municipalities prevent a decrease in productivity or quality of services. The decision also helps minimize the loss of morale and inter-workforce tension which goes along with consolidation.

The process of harmonizing personnel occurs in conjunction with the process of harmonizing services. Merging different municipalities will inevitably bring together citizens that are accustomed to different levels of a service. For instance, residents of one municipality may have trash pickup two days a week while residents of another may only have trash collection once per week. Once the municipalities merge, the services will be harmonized at the highest standard such as the case with personnel. Not only could this counteract any potential savings, but it also means that the residents of the lower service area prior to consolidation will now have to pay more to finance the higher levels. This scenario is not entirely undesirable, but it may defeat the intent of providing property tax relief.

The literature points out several drawbacks to consolidating fragmented municipalities into one. The first is that residents and voters lose connection to their local representatives. Some have

---

35 Ibid., pg. 12.
speculated that consolidating local officials leads to higher spending in the long run given that elected officials are now less accessible and accountable to the electorate. The needs of the citizens may also be diluted or warped as the new governing entity is less responsive to individual concerns. This environment may also help special interests gain influence with fewer obstacles and officials to overcome.

The ratio of citizens to elected officials also points out another problem for pro-consolidators: how big should the new cities be? The outcomes of past mergers offer no certainty on an answer. One source claimed the ideal size is around 20,000 residents to achieve economies of scale, yet that was written in the 1980s. Few other writings dared to offer a suggested size. At best, conventional wisdom dictated that municipal consolidations should be evaluated on a case by case analysis to determine the optimal size of the new municipality.

On the other side of the argument are those who advocate for multiple centers of local government. These policymakers contend a fragmented patchwork of municipalities much like what is seen in St. Louis County is ideal to enhance efficiency and while keeping local tax burdens at a minimum. The idea behind the fragmented or public choice ideology is that efficiency is realized through competing municipalities and options for residents.

In a system of fragmented governments, a citizen or business is able to select which municipality best suits their needs and locate accordingly. Municipalities which fail to attract or retain residents and business will have to consider new policies and strategies to enhance their appeal and compete with other municipalities. In some cases, this process may include reevaluating local government service to pinpoint inefficient operations and make changes.

An additional benefit to this system is that many governments do exist in an area like St. Louis County, which offers the civic benefit lost with consolidated entities. The residents of smaller communities enjoy greater access to their local officials and can expect higher levels of political accountability. This system of municipal arrangements addresses most of the previously listed shortcomings of consolidations and mergers in this respect. Citizens are able to retain their relative political influence and better influence local public policy, which makes it harder for special interests groups.

Inter-Municipal Partnerships

Inter-municipal partnerships preserve the patchwork system of municipalities but allow two...
or more localities to achieve economic efficiency while retaining local power over policy decisions. These agreements come in many different options and packages. They occur when one municipality contracts out services to a private entity or another locality. These partnerships allow cities to maximize efficiency of limited resources and ensure continued services to their residents. The preservation or increased quality of services give cities the ability to retain their small-town charm and compete to retain residents who may otherwise move elsewhere to receive better service. Yet the benefits of partnering for municipal services are not uniform for each service and are circumstantial in every case.

As it noted, certain services are more conducive to exhibiting economies of scale, and thus more suitable for inter-municipal partnerships. The body of literature is quite clear that capital or infrastructure intensive services are the preferred candidates for inter-municipal cooperation as opposed to labor intensive services. The reason to prioritize capital intensive cooperative agreements is that these services exhibit economies of scale by their nature.

For instance, purchasing agreements between school districts can provide materials for students and faculty at a cheaper cost to the taxpayer. Yet consolidating school districts, besides the politics involved, would be costly to harmonize staff, salaries, and procedures and would most likely negatively impact the students. When small municipalities in St. Louis County collectively began purchasing insurance, the fluctuations and cost associated with spikes in prices declined and became less volatile.

On the other hand, labor driven services do not experience the benefits of cooperative partnerships and generally are the reasons why municipal mergers rarely succeed as desired. The reason for this is that labor units tend to face higher average costs as production increases, whereas capital intensive units require larger levels of production to reach efficiency. The general consensus in the literature underscores the notion that fragmentation of general-purpose services leads to lower spending while the fragmentation of special-purpose services produces the opposite effect.

The states have several tools available to persuade municipalities to seek partnerships. One of the most evident ways to do so is by offering grants to municipalities to study the benefits and costs of certain partnerships. On their own, municipalities lack the financial resources to be able to study service consolidation or partnerships. The state can assist them by offering grants to the

municipalities which produce the most promising proposals. The state can prioritize cooperation or consolidation proposals based on the services at hand, jurisdictions of certain sizes, the timetable to implement the partnership and probable economies and savings achieved in the proposed areas. The advantages and disadvantages are unique to each situation though and should be evaluated accordingly.

Besides sponsoring studies to analyze the costs and benefits of cooperation agreements for municipalities, states can proactively adopt targeted regulations and fiscal incentives. These policies can either be carrot or stick approaches to ensure municipalities consider or follow through with partnerships. The following table enumerates policies suggested by Morse and Stenberg for the two different approaches.  

<table>
<thead>
<tr>
<th>Bottom-Up Policies</th>
<th>Top-Down Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expand authority for local governments to enter into service sharing, transfer, or consolidation agreements;</td>
<td>Restrict annexation activity and impose limits on local revenues and creation of new local units;</td>
</tr>
<tr>
<td>Facilitate local management improvement practices such as collective purchasing and private contracting arrangements;</td>
<td>Strengthen the authority and capacity of counties to serve as regional governments, expand their scope of authorized services, and sort-out and mandate transfer of functional responsibilities between counties and municipalities;</td>
</tr>
<tr>
<td>Expand authority to use regional councils of governments or state area-wide districts to provide local services;</td>
<td>Transfer financial and/or administrative responsibility for a service to the state;</td>
</tr>
<tr>
<td>Liberalize or standardize procedures for downsizing governing boards, changing forms of government, and consolidating or dissolving jurisdictions;</td>
<td>Create metropolitan authorities to provide services on an area-wide or regional basis;</td>
</tr>
<tr>
<td>Provide state funding to support local planning studies for charter revisions and other actions to enable shared or consolidated services and merger or dissolution of local units;</td>
<td>Mandate regional cooperation in service delivery;</td>
</tr>
<tr>
<td>Strengthen the power of voters to compel service or jurisdictional mergers;</td>
<td>Mandate regional consolidation of a local service;</td>
</tr>
<tr>
<td>Designate a state office to provide technical assistance to local government service sharing or merger initiatives and structural reform efforts;</td>
<td>Eliminate or reduce the number of “non-viable” units -- like townships and small general purpose local units -- having very limited size and functional responsibilities or weak financial bases; and</td>
</tr>
<tr>
<td>Incentivize state aid formulas for regional collaboration or local unit consolidation; and</td>
<td>Curtail or terminate state aid or local revenue authority to units that fail to meet effectiveness criteria (size, cost-savings, etc.).</td>
</tr>
<tr>
<td>Establish a statewide benchmarking system to provide the public and policy-makers with information about local productivity and progress.</td>
<td></td>
</tr>
</tbody>
</table>

---


56 Ibid. pg. 16-17.
In order for the strategy of offering grants to municipalities to be successful, the state should include a financial incentive to induce the municipalities to follow through with a cooperation agreement or consolidation of a service. Otherwise, it may be the case that the state grants monies to facilitate the study of the benefits of a partnership and the municipalities decide not to pursue the outcomes of the findings. Depending on the structure of any potential law, it must be balanced to ensure municipalities seek cooperative agreements whether by carrot or stick and pursue partnerships in the event they would be beneficial.
Appendix A

Leveraging Local Change: The States’ Role

An International City/County Management Association (ICMA) White Paper

May 2014
Contents

Executive Summary .................................................................................................................1
Introduction ..............................................................................................................................1
Strategies for Coping with Crisis ............................................................................................2
  Local Leveraging Initiatives .................................................................................................3
Change in Local Government: Dramatic or Permanent? .....................................................4
  State Financial Controls .......................................................................................................4
The States’ Role in Leveraging Local Change .......................................................................5
  Bottom-Up and Top-Down Approaches ............................................................................7
Some Leveraging Examples ...................................................................................................7
  Strategic, Large-Scale Approaches ....................................................................................8
  Smaller-Scale, Incremental Attempts to Leverage Local Change ....................................12
Conclusions and Implications ...............................................................................................15
References ..............................................................................................................................18
Endnotes ................................................................................................................................19
ICMA Governmental Affairs and Policy Committee 2013–2014 .......................................19

Leveraging Local Change: The States’ Role

A Policy Issue White Paper
Prepared on behalf of the ICMA Governmental Affairs and Policy Committee
May 2014

Carl W. Stenberg, James E. Holshouser, Jr. Distinguished Professor, UNC School of Government, Chapel Hill, NC
Ricardo S. Morse, Associate Professor, UNC School of Government, Chapel Hill, NC

Copyright © 2014 by the International City/County Management Association. All rights reserved, including rights of reproduction and use in any form or by any means, including the making of copies by any photographic process, or by any electrical or mechanical device, printed, written, or oral or recording for sound or visual reproduction, or for use in any knowledge or retrieval system or device, unless permission in writing is obtained from the copyright proprietor.

About ICMA

ICMA advances professional local government worldwide. Its mission is to create excellence in local governance by developing and advancing professional management of local government. ICMA, the International City/County Management Association, provides member support; publications, data, and information; peer and results-oriented assistance; and training and professional development to more than 9,000 city, town, and county experts and other individuals and organizations throughout the world. The management decisions made by ICMA’s members affect 185 million individuals living in thousands of communities, from small villages and towns to large metropolitan areas.

ICMA
777 North Capitol Street, NE
Suite 500
Washington, DC 20002-4201
202-289-ICMA (4262)
icma.org
Executive Summary

This paper is derived from the twin assumptions that persisting economic hard times require local managers and governing boards to adopt budget balancing strategies that go well beyond the typical “business as usual” approaches used in past recessions, which in turn produce fundamental and lasting changes in local services and structures. A review of two recent studies examined how cities and counties have responded to severe economic challenges. The political costs involved in taking bold actions such as core service elimination, expanded interlocal and intersectoral partnerships, and jurisdictional realignment appear to have outweighed perceived rewards. However, the effects of looming state budget cuts and service shifts, reductions in federal discretionary grant-in-aid programs, and shrinking tax bases could cause managers and elected officials to revisit strategies relative to their service delivery priorities and intergovernmental relationships.

It is also possible that, as the “creators” of local governments, states will have an important catalytic role in efforts to realign local structures and services with the realities of economic conditions. At this point leaders in about one-fourth of the states have proposed “top-down” (mandate) or “bottom-up” (facilitative) approaches to leveraging local change. However, there is some evidence that state facilitative strategies could lead to greater collaboration in the delivery of local services.

Introduction

Since the arrival of the Great Recession, local governments have been confronted with increasingly difficult policy and program choices in response to declining economies and growing budget constraints. The relatively easy decisions have been made and implemented: salary, travel, and training freezes; across-the-board budget cuts; temporary furloughs and layoffs; vacant position eliminations; fee increases; reserve fund withdrawals; maintenance and vehicle replacement deferrals; and minor service reductions such as library hours, police response times, and trash collection frequency. The “low hanging fruit” has been picked in many jurisdictions, and for some fiscally distressed local governments it is doubtful whether these steps will be sufficient to adjust to further economic decline.

According to the National League of Cities, local fiscal conditions are slowly improving in some parts of the country (Pagano and McFarland 2013). But managers and elected officials in other states are being challenged to move from a short-term “crisis mode” orientation to thinking the unthinkable about how to deliver services in the “New Normal” (Martin, Levey, and Cowley 2012). In these communities, revenues are not growing at past rates and may be declining, the scope and level of some services have been reduced, cutbacks have not been fully restored, and personnel and payrolls are remaining stable or shrinking. These downsized local governments will have a smaller functional footprint and need to rely on expanded partnerships with private and non-profit organizations to meet citizen needs (Miller 2010; Hilvert and Swindell 2013). According to former Indianapolis mayor Stephen Goldsmith, these conditions will produce “a fundamental, transformational realignment of the way that governments choose their tasks, define success, and generate the revenue to fund their work” (Goldsmith 2010).
As a result of the New Normal, it is assumed that policies, programs, and practices, which during better economic times would not have been on the agenda, will now be considered, and more collaborative strategies and adaptive realignments will be called upon. Among these are: expanded outsourcing to other local governments, non-profit organizations, and private firms; eliminating, sharing, or consolidating services; and merging local jurisdictions.

For decades, critics of local government structure and advocates for leaner public bureaucracies have called for these and other reforms. Scholars and practitioners recognized that few if any purely local problems existed and that most “wicked problems” ignored boundaries and required transcendent approaches. Nevertheless, jurisdiction has remained a powerful focus, especially for local officials (Frederickson 2005). There were few political rewards or financial “drivers” to create a sense of urgency for local professionals and elected officials to take action, until the Great Recession. Some public officials, like Chicago Mayor Rahm Emanuel, have observed that “You never want a serious crisis to go to waste,” and that New Normal conditions present an opportune time to launch strategies to reinvent local government structure, functions, and relationships (Greenblatt 2011, 26).

But have local governments seized the opportunity to make dramatic and lasting changes? Has the economic crisis disrupted the local status quo? Are bold and innovative partnerships between governmental and nongovernmental organizations being leveraged, especially in communities that have experienced New Normal conditions? Two recent studies suggest that in these respects the crisis may have been wasted.

Table 1 Coping Strategies for Local Government

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Number of Stories</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personnel</strong></td>
<td>96</td>
</tr>
<tr>
<td>Benefit reductions</td>
<td>9</td>
</tr>
<tr>
<td>Furloughs</td>
<td>13</td>
</tr>
<tr>
<td>Layoffs</td>
<td>60</td>
</tr>
<tr>
<td>Pay cuts</td>
<td>13</td>
</tr>
<tr>
<td>Reduced work week</td>
<td>8</td>
</tr>
<tr>
<td>Retirement incentives</td>
<td>11</td>
</tr>
<tr>
<td><strong>Core Services and Programs</strong></td>
<td>85</td>
</tr>
<tr>
<td>Department and agency elimination/streamlining</td>
<td>30</td>
</tr>
<tr>
<td>Position elimination</td>
<td>26</td>
</tr>
<tr>
<td>Program elimination</td>
<td>4</td>
</tr>
<tr>
<td>Service reduction</td>
<td>25</td>
</tr>
<tr>
<td><strong>Service Partnerships</strong></td>
<td>41</td>
</tr>
<tr>
<td>For-profit organizations</td>
<td>12</td>
</tr>
<tr>
<td>Interagency</td>
<td>2</td>
</tr>
<tr>
<td>Interlocal</td>
<td>24</td>
</tr>
<tr>
<td>Non-profit organizations</td>
<td>0</td>
</tr>
<tr>
<td>Volunteers</td>
<td>3</td>
</tr>
<tr>
<td><strong>Restructuring</strong></td>
<td>24</td>
</tr>
<tr>
<td>Form of government change</td>
<td>9</td>
</tr>
<tr>
<td>Jurisdictional consolidation/merger/disincorporation</td>
<td>15</td>
</tr>
</tbody>
</table>

*Initiatives do not total 96 due to combinations of personnel-related initiatives*

Strategies for Coping with Crisis

To test the propositions about the effects of the New Normal, a list of possible coping strategies was developed by one of the authors in consultation with the International City/County Management Association (ICMA); Center for State and Local Government Excellence staff; and members of the ICMA Governmental Affairs and Policy Committee. The strategies were organized into four groups—personnel, core services and programs, service partnerships, and restructuring—with related initiatives (see Table 1). While the degree of difficulty varied, these actions typically went beyond traditional responses to severe economic downturn in terms of their impact on current operations, long-term effects, and political difficulty. ICMA’s daily News Briefing issues from April 15, 2009, to April 15, 2011, were reviewed electronically using these key words to identify and classify communities that had considered these initiatives. A total of 246 stories were found. A follow-up review of 138 stories from April 15, 2011, to April 15, 2012, was conducted, which revealed very similar local responses to those reported in the Committee’s White Paper (Stenberg 2011).

A review of these stories revealed that the severity and impact of the New Normal varied widely from jurisdiction to jurisdiction. With few exceptions, the number and boldness of the community strategies reported in the News Briefing were associated with the fiscal health of their states. States experiencing considerable fiscal stress...
in recent years—such as Arizona, California, Florida, Georgia, Illinois, Michigan, Nevada, New Jersey, North Carolina, and Ohio—accounted for about two-thirds of the cases reported, with California communities being the most frequently covered.

**Local Leveraging Initiatives**

Of the four areas where coping strategies were examined—personnel, core services and programs, service partnerships, and restructuring—most of the proposals and actions involved local personnel. This focus is not surprising given the large proportion of local budgets accounted for by personnel salaries, benefits, and retirement contributions. Until the Great Recession, the size of the local workforce, payrolls, and health care and retirement contributions had been steadily rising. These cuts also could be made relatively quickly and produce sizable budgetary savings without generating many citizen complaints.

While recognizing that personnel reductions would be painful, questions about their long-term effects did not receive much attention. For example, how will the public react to closed facilities, longer lines, reduced hours of operation, and less customer service? Who will be required to participate in targeted pay cuts or furloughs (positions or salary ranges), and what are the social equity considerations? How will lost city and county managerial capacity be rebuilt in the New Normal environment? And how can the next generation of employees be attracted to local government careers if there are no entry-level jobs?

Closely related to the personnel initiatives were actions affecting local services and programs. In some communities these impacts were targeted on particular functions—like libraries, parks and recreation, and police, fire, and ambulance services—while in others they were more across-the-board. Budget constraints caused managers and elected officials to probe the structure and operations of local departments to find cost-savings by coordinating or combining related services and positions. A few communities considered merger of functionally related units, such as moving police, fire, and emergency medical services under a public safety umbrella or consolidating 911 dispatch services.

It could be expected that the financial pressures on local governments resulting from the Great Recession would significantly increase reliance on interlocal and intersectoral approaches to continue services and save money. An example could involve regional service delivery arrangements that would realize greater economies of scale, administrative efficiencies, and social equity than conventional, uncoordinated, and limited previous approaches. Yet, elected officials and staff seemed to be reluctant to embark on collaborative partnerships with other jurisdictions and service providers, or to consolidate functions or governmental units with neighboring jurisdictions in order to maintain services or to reduce the size, scope, and costs of local government. More than half the stories involved interlocal agreements, sometimes among municipalities, but chiefly between counties and cities, and, in one case, a state agency was involved. These contracts are the oldest and most popular tools for intergovernmental cooperation at the local level, so this finding could be expected. Fire and police were the most commonly affected functions. Other contracted services were emergency dispatch and response, water, wastewater operation, health clinics, wireless communications, libraries, and transit.

Other alternative arrangements involved contracting out services to private firms, including garbage collection, recycling, fleet management, nursing homes, mailroom functions, water system, wastewater collection and treatment, street and sidewalk maintenance, and arts centers. Surprisingly, no stories of outsourcing to non-profit organizations were covered, and only three focused on the use of volunteers to provide former local services like parks (softball and soccer programs, maintenance), animal control, and museum and library staffing. And few innovative regional partnerships were under consideration.

As mentioned, the fewest number of proposals and actions were found in the restructuring category. Initiatives were undertaken in 16 states to make local governments more efficient, economical, and effective through city-county or city-city consolidation, downsizing the governing board, or changing the form of government. Of the total cases, 14 involved city-county consolidation and one involved city-city consolidation. Only one proposal was successful: the merger of Princeton Borough and Princeton Township, New Jersey, which was approved in November 2011 and promised annual savings of $3.2 million (November 23, 2011). This was the fourth attempt at a unified Princeton since the 1950s. There were at least four facilitating factors. First, New Jersey’s Local Option Municipal Consolidation Act provided flexibility to the participating jurisdictions by authorizing phased implementation, use of advisory districts to harmonize planning and zoning, and use of service and debt districts to align costs and benefits. Second, the Borough and Township governing boards requested
and received approval from the Department of Community Affairs’ Local Finance Board to create a Joint Consolidation/Shared Services Study Commission to conduct a feasibility study. This study, “Municipal Services & Financial Overview: Borough and Township of Princeton,” was released by the Center for Governmental Research in January 2011, and illustrates how university and nongovernmental organizations can help leverage change by providing objective data and impartial analysis. Third, the Borough and Township already shared several key services including schools, human services, public health, sewers, fire protection, recreation, and regional planning. Fourth, the communities were homogeneous in terms of the age, race, and income profiles of their residents. Basically, there was one community with two governments.

Jurisdictional consolidation remains an unpopular restructuring option even in hard economic times. Good government groups, the business community, and local officials can promise economies of scale, administrative efficiencies, greater accountability and less “buck-passing,” taxpayer savings resulting from mergers, and can advocate for change in the status quo. However, research shows that, with few exceptions, existing consolidations have produced unimpressive results on the efficiency, economic development, and equity fronts (Jimenez and Hendrick 2010). Voters usually do not agree that “bigger is better.” Distrust of distant government, parochialism, and racial, economic, and political polarization are among the factors that trump pro-merger campaign arguments.

This summary of coping strategies to deal with the Great Recession suggests that during the 2009–2012 time period city and county leaders were taking conventional and incremental actions, not bolder, more innovative and comprehensive approaches. Even communities in fiscally hard-pressed states focused on solutions that were relatively low risk, whether it was to avoid raising revenues or unwillingness to make fundamental changes in local functions, relationships, and structures. Some core services like police and fire witnessed personnel and service cutbacks, and other popular functions like libraries, parks, and recreation were pared. But these were modest, not dramatic, changes.

Change in Local Government: Dramatic and Permanent?

A second recent research project further probed the question of whether the fiscal pressures on local governments can produce more than incremental responses (Ammons, Smith, and Stenberg 2012). The research tested the following hypothesis: “Local governments across the nation will respond to severe financial stress by imposing on themselves fundamental and permanent changes in their services and structures, or will have such changes forced on them by their states. These changes will be lasting, so as to ensure not only survival from the immediate crisis but also avoidance of distress from a similar cause in the future” (67S).

Information was collected on 39 of 75 local governments that had filed for Chapter Nine bankruptcy protection, had their general obligation bonds downgraded to junk bond status, or were forced to accept state-appointment of a financial control board (FCB) to manage local affairs during the 1971–2005 period. Officials from 18 of these local governments consented to telephone interviews, while relevant state documents were found for 21 others. The research objectives were to determine whether “major,” “moderate,” or “minimal” changes had been made in immediate response to the crisis, the permanency of the changes, and whether local services or governmental structure retained effects from the earlier crisis. Officials in almost all of these communities either reported only modest responses to their earlier crisis or had no knowledge of the residual effects. Nearly 60 percent of the interviewees said that their local government’s structure was no different or had only minimal differences compared to their neighboring jurisdictions. The interviewees were unable to identify important structural or service array differences attributable to past crises. And only one city, Prichard, Alabama, attributed having lower service levels than its counterparts to its financial troubles, which led it to file twice for bankruptcy protection. There is little evidence from these cases to support an expectation that severe fiscal distress will produce dramatic and lasting change.

State Financial Controls

Fifteen states have passed legislation since the Great Depression of the 1930s establishing an agency or system for monitoring the fiscal health of their cities (Levine, Justice, and Scorsone 2013, 392–395). When fiscal conditions deteriorate, one of the “top-down” tools that states have used to leverage changes in how local governments conduct business is a financial control board (FCB) or emergency manager appointed by the governor pursuant to state legislation in response to deterioration in local fiscal health. State financial control boards often have been granted extraordinary
power to relieve fiscal distress—including authority to fire employees, impose hiring freezes, reduce salaries, restructure debt and retirement contracts, restrict borrowing, install budget control systems, raise taxes, sell assets, and reduce services. Because they are not accountable to the voters, are free from political considerations, and can set aside normal democratic processes like voting and referenda, FCB experts are able to take prompt and tough actions on remedial steps to help save communities from defaulting. When major cities—such as New York, Cleveland, Chicago, Philadelphia, Yonkers, Washington, DC, Detroit, and Harrisburg—have FCBs appointed, citizens, politicians, investors, and the media pay attention. Detroit Mayor Dave Bing said the governor’s proposed Recovery Plan and Financial Advisory Board “…looked more like a takeover than a joint effort to solve the city’s financial perils,” and the mayor complained, “It forfeits the electoral rights of the citizens of Detroit guaranteed by the democratic process” (Oosting 2012).

The official reports reviewed and interviews conducted with officials of communities subjected to FCB oversight revealed actions and results generally similar to those reported by officials of local governments that had filed for bankruptcy protection or had experienced severe bond downgrades. Only two of the 22 examined local governments with FCB oversight reported major structural change as a result—Chelsea, Massachusetts, and Duquesne, Pennsylvania. Among the major structural reforms undertaken by Chelsea when it was placed under receivership were adopting the council-manager form of government, restructuring departments and replacing agency heads, and shrinking staff. Not surprisingly, there was consistent resistance to change. Duquesne closed its only high school and moved to a K-8 school system in response to experiencing continued fiscal distress and losing half of its population while under FCB control. The other FCB communities offered no evidence of major structural reform or major service reduction in their official reports to their FCBs. Their budget balancing efforts were typically short-term fixes or modest revenue adjustments, including wage and hiring freezes, sale of local government property, and increases in property tax rates.

The States’ Role in Leveraging Local Change

These two studies and other research on the responses by local governments to fiscal hardship, such as recessions, state aid reductions, and the loss of federal general revenue sharing, have demonstrated the resilience of city and county officials. They are also consistent with the chief findings from previous examinations of cutback management3 coping strategies, including:

- First, to balance budgets, local governments will rely mainly on spending cuts. Most revenue enhancement areas will involve fees with only minimal increases in taxes, if any.
- Second, to reduce fiscal stress, cities and counties will focus on productivity and efficiency improvements instead of adopting new innovative practices, especially those requiring new resource investments.
- Third, the choice of options by managers and elected officials usually follows a budget-cutting hierarchy in which the ‘low hanging fruit’ is picked first (such as temporary cutbacks and deferrals and across-the-board budget reductions and spending/hiring freezes), followed by increasingly painful actions like permanent position eliminations, furloughs and layoffs, and significant reductions in core services.
- Fourth, after an initial period of cutback and as budget conditions stabilize and begin to improve, pressures mount to restore the affected services and personnel to previous levels.

Far from finding ways to reinvent themselves, most of the initiatives reported in the two research studies have been consistent with the cutback management ‘hierarchy of pain.’ As a result, locally-induced change has been evolutionary, conventional, and incremental. Stability and status quo characterize the world of general purpose local government in most places, and economic crisis is but one of a number of competing pressures that confront local officials.

This world is very different from that of special purpose units of government. Since the 1950s, the profile of special purpose units has been dramatically changed by the consolidation of smaller and rural school districts and by the explosion in special districts and public authorities. The former was a result of demographic and economic trends calling for larger school systems that could attract talented teachers and principals, deliver quality curricula, and offer modern facilities. The latter was due to budget pressures on general purpose units that caused certain functions to be taken out of the general fund and put on a pay-as-you-go basis instead of being covered by property taxes (Shafroth 2013, 66).

State intervention to leverage change has been politically acceptable only under extreme financial exigencies affecting one jurisdiction. As the FCB
experiences indicate, even in these circumstances only modest changes have been made, which normally have been temporary and sometimes not able to overcome desires to return to the old ways of doing business. These pressures and responses have not combined to disrupt the status quo to produce dramatic, permanent changes in the scope, quality, and delivery of services or in governmental structures. (Svara and Thoreson 2009, Stenberg 2011, Hoene and Pagano 2011, Ammons, Smith, and Stenberg 2012, Nelson 2012).

As the “creators” of local governments, however, could states play a pivotal role in efforts to realign local services and structures to prepare for the fiscal challenges that may lie ahead (as a result of anticipated cutbacks in federal discretionary spending, accompanied by potentially adverse state actions including reducing financial aid to local governments, shifting greater service delivery and funding responsibilities to counties and cities, and increasing unfunded mandates)? Some have concluded that another wave of retrenchment will usher in a decade of “fend-for-yourself localism” (Greenblatt 2011). In this context, can state governments be called upon to push more aggressively for major changes in local services and structures that cannot be accomplished locally due to the force of organizational inertia? And, if so, should their actions be facilitative (“bottom-up”), directive (“top-down”), or a combination?

Research indicates that many local elected officials and managers believe their state has been more of an adversary than a partner in these efforts, acting intrusively, not cooperatively (Kearney, Swicegood, and Bowman 2011; Bowman and Kearney 2011). As one city manager participating in a 2010 ICMA survey responded: “State agencies rarely provide value to local governments, but always steal resources, increase costs…and obstruct local authority.” (Kearney, Swicegood, and Bowman 2011, 18). A Michigan Public Policy Survey conducted by the Gerald R. Ford School of Public Policy found that 70 percent of Michigan county officials reported that they can “seldom” or “almost never” trust the state government. The resulting push-back by city and county officials is attributable to “...a two-word mantra: ‘local control.’” They see states as meddling in the affairs of local government. And they fear that, under consolidation, communities that always have made decisions for themselves will be forced to abide by the dictates of outsiders (Goodman 2008, 26). Basically, those holding this view would hypothesize that the states will neither empower local governments to adapt nimbly and entrepreneurially to economic challenges, nor will they provide leadership in facilitating or orchestrating local service and structural responses to fiscal retrenchment.

For example, in Florida the topic of interlocal cooperation is frequently an important part of state-level policy conversations, but the state has actually done very little to incentivize this form of alternative service delivery. In fact some recent actions may be viewed as an (unintended) disincentive to work together. Governor Rick Scott’s review of all independent districts was based on a widespread view that they often have too much authority and too little oversight and accountability. Taxing authority for some independent districts has been rolled back through legislation in recent years based on the same concerns. The governor also abolished the Department of Community Affairs (DCA), the state agency charged with overseeing growth management issues. As a result, significant authority over growth management was essentially handed back to local governments, although bills have been introduced to return that oversight and authority to the state. While there have been some studies on service sharing and consolidation by the Office of Program Policy and Governmental Accountability (OPPAGA), there does not seem to be a major, strategic focus on assisting or incentivizing local government change. The Florida Legislative Committee on Intergovernmental Relations, which historically was an important proponent at the state-level for interlocal cooperation and service-sharing, was defunded in 2010.

Other research suggests that state rules can play important roles in inducing local officials to cooperate with other jurisdictions and to take actions that otherwise would be avoided because they would be too politically costly (Krueger and Bernick 2010; Krueger, Walker, and Bernick 2011). Those adhering to this view hypothesize that states will induce and facilitate major changes in local services and structures that cannot be accomplished locally due to organizational inertia. For example, a research report on regional consolidation prepared for the Federal Reserve Bank of Boston by the New England Public Policy Center concluded: “...in states with fragmented public service provision, state legislatures could encourage further regionalization by adopting stronger and more targeted regulations and fiscal incentives. Such measures would likely result in accelerated regionalization, compared with the situation in which local governments pursue intermunicipal partnerships and service sharing without these types of intervention” (Kodrzycki 2013, 28).

The survey of city managers noted above reached a fundamental conclusion that devolution has two faces: states are giving localities greater discretionary authority over their finances, especially their ability to raise
revenues and issue debt, while at the same time they are “withdrawing state-shared taxes and fees, ‘borrowing’ from state-funded local government accounts, and imposing new financial requirements on local governments.” The authors called this a version of “shift and shaft” federalism (Kearney, Swicegood, and Bowman 2011, 18). Others have called it “devolution by budget cut” (Greenblatt 2011, 26).

Bottom-Up and Top-Down Approaches

There are two possible approaches states can take to leveraging greater interlocal collaboration and change: the “bottom-up” approach and the “top-down” approach. The former is basically a facilitative strategy, while the latter is more directive.

The “bottom-up” or “carrot” approach involves the state giving localities greater discretionary power to work across jurisdictional and public-private boundaries to forge strategies and build relationships for delivering services more efficiently, effectively, and equitably. This approach is sometimes called “second order devolution” (Bowman and Kearney 2011). Examples include statutory authorization or administrative actions providing for:

- expanded authority for local governments to enter into service sharing, transfer, or consolidation agreements;
- facilitation of local management improvement practices such as collective purchasing and private contracting arrangements;
- expanded authority to use regional councils of governments or state areawide districts to provide local services;
- liberalization or standardization of procedures for downsizing governing boards, changing forms of government, and consolidating or dissolving jurisdictions;
- state funding to support local planning studies for charter revisions and other actions to enable shared or consolidated services and merger or dissolution of local units;
- strengthening the power of voters to compel service or jurisdictional mergers;
- designating a state office to provide technical assistance to local government service sharing or merger initiatives and structural reform efforts;
- incentives in state aid formulas for regional collaboration or local unit consolidation; and
- establishing a statewide benchmarking system to provide the public and policy-makers with information about local productivity and progress.

The “top-down” or “stick” approach involves governors or legislators taking steps to induce realignment of local services or structures through legislation and other actions, such as:

- restrict annexation activity and impose limits on local revenues and creation of new local units;
- strengthen the authority and capacity of counties to serve as regional governments, expand their scope of authorized services, and sort-out and mandate transfer of functional responsibilities between counties and municipalities;
- transfer financial and/or administrative responsibility for a service to the state;
- create metropolitan authorities to provide services on an area-wide or regional basis;
- mandate regional cooperation in service delivery;
- mandate regional consolidation of a local service;
- eliminate or reduce the number of “non-viable” units—like some townships, rural school districts, and small general purpose local units—having very limited size and functional responsibilities or weak financial bases; and
- curtail or terminate state aid or local revenue authority to units that fail to meet effectiveness criteria (size, cost-savings, etc.).

Some Leveraging Examples

A review of research reports, academic studies, and national websites featuring news of relevant state initiatives—including ICMA’s Smart Brief, Governing.com, and Stateline.com—revealed a range of leveraging examples embracing the above approaches during and since the two research studies summarized earlier. This review was supplemented by surveys of the executive directors of state municipal leagues and county associations in Fall 2013. The purposes of the surveys were to identify legislation that had been introduced and enacted in any of the above areas between 2010 and 2013, gubernatorial proposals relative to major changes in local services and structures, and related studies by commissions, universities, and others. Officials in 38 states responded to the survey and follow-up telephone interviews.

We found noteworthy initiatives and actions taken in recent years in 11 states: Indiana, Michigan, Minnesota, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, Vermont, and Wisconsin.

Interestingly, most of these states are clustered in the Northeast and Midwest. However, as indicated below, in only four of these states—Indiana, Michigan, New Jersey, and New York—was state leveraging
a component of a broader strategic initiative by the governor and legislature to achieve major state policy goals, such as reducing pressures on property taxes by promoting more efficient and effective local service delivery or making local government operations more transparent and accountable. In the other states, the initiatives were considered promising innovations, but the incentives were relatively limited in terms of the funds available and participating local governments.

With respect to the legal relationship between local units and their state government, only one state had given localities broad home rule authority and liberally construed devolution of powers (Michigan), while three had granted them home rule authority over most structural, functional, and financial matters (New Jersey, New York, and Ohio). Two other states (Minnesota and Wisconsin) had more limited statutory authorizations over structure and functions, while three (Oregon, Pennsylvania, and Vermont) limited the grant to structures or form of government and one (Indiana) restricted it to only functions. Only one state (North Carolina) was classified as “modified” Dillon’s Rule, as localities have a broad statutory authorization to work with one another and counties and counties may choose the council-manager form of government (Krane, Rigos, and Hill 2001, 476–478).

**Strategic, Large-Scale Approaches**

**Indiana**

Indiana was a pioneer in the “top-down” approach to city-county consolidation in the late 1960s with the merger of the City of Indianapolis and Marion County via state legislation to form “Unigov.” No other state has taken such a step. The state also has also been a partner with local governments in some areas. For example, under the OneIndiana joint purchasing initiative, 160 localities have been able to participate with the state on road salt contract bids, which in 2009 saved $8.5 million, about 40 percent of their previous year costs. The Indiana Association of Cities and Towns and the Association of Indiana Counties worked closely with the departments of Administration and Transportation on the salt partnership.

More than four decades after Unigov, Governor Mitch Daniels proposed a legislative initiative to overhaul local government, which included replacing three-member boards of county commissioners with a single county executive and eliminating townships. The latter proposal would have removed more than 5,000 elected officials. Governor Daniels’s call followed release in December 2007 of the report by the Indiana Commission on Local Government Reform, which had been charged by the governor with examining the structure of local governments in the state and making recommendations for reform to reduce costs and increase efficiency and effectiveness. The commission found: “Our many complex layers of government are often difficult to understand, monitor and hold accountable” (Indiana University 2007, 3). Indiana has 3,086 units of local government, including 1,008 limited-purpose townships, and 10,700 elected officials, 1,100 of whom assess property. Among the recommendations were a series of proposals to strengthen and streamline the 92 counties through a single elected county executive and unified legislative body, and to transfer all present township responsibilities to the county executive. All local governments were encouraged to take voluntary action to coordinate and consolidate units and services. A state office would be designated to provide technical assistance to these governments, and a statewide benchmarking system would be established to provide citizens and policy-makers information on local implementation progress and productivity.

The Farm Bureau, among other interest groups, opposed Governor Daniels’s proposal, and most of the legislation to restructure local governments failed to pass. However, by March 2013, about one-third of the Commission’s 27 recommendations had been acted on. Among the accomplishments were shifting property tax assessment duties from townships to the county assessor, which resulted in elimination of 168 elected township assessors; transferring child welfare funding from counties to the state; consolidating emergency public safety dispatch systems; tightening restrictions on school bonds; providing more joint purchasing opportunities for schools, libraries, and local governments; and establishing a statewide benchmarking system. Among the recommendations on which no action had been taken were those to:

- establish a single elected chief executive and a unified legislative body for each county;
- transfer duties of the auditor, treasurer, recorder, assessor, surveyor, and sheriff to the elected county executive;
- transfer duties of poor relief, fire protection, emergency medical services, and cemeteries from townships to the elected county executive;
- shift funding for trial courts, probation, and public defender to the state;
- strengthen powers of voters to compel school and township consolidations.
It should be noted that Governor Daniels’s successor, Mike Pence, signed a bill in May 2013, with “misgivings,” that fine-tuned the Unigov consolidation by eliminating four at-large seats on the City-County Council, while enhancing the powers of the Mayor of Indianapolis over county officeholder budgets and appointment of a majority of members of the Metropolitan Development Commission.

**Michigan**

A March 2011 story reporting on Michigan Governor Rick Snyder’s support for local government consolidation noted that with “nearly 1800 separate cities, villages, and townships stretched across 83 counties, consolidation seems way overdue” (Wattrick 2011). Governor Snyder indicated that he would support legislation allowing local governments to set up metropolitan authorities, subject to voter approval. Governor Snyder’s initiative came in the wake of a proposal by his predecessor, Jennifer Granholm, in 2010 to set aside $50 million of the State Aid Fund for a grant competition for school districts to demonstrate savings through consolidation and service sharing. The incentives were intended to help cover the up-front costs of restructuring, such as technology purchases, but the legislature did not include the Fund in its education budget appropriation.

Like locally initiated proposals, Governor Snyder’s plan and related legislative proposals to streamline Michigan’s 2,314 local governments, 1,242 of which are townships, were greeted with opposition and proved politically unacceptable. A consolidation assessment report found no strong evidence that merger had slowed the growth rate of governmental costs or bolstered economic development. In response to Governor Snyder, Wayne County Executive Robert Ficano said, “I just think it’s unreasonable to think such a large merger would be even feasible at this point” (Wattrick 2011).

Also in 2011, Governor Snyder proposed, and the legislature passed, Public Act 63, the Economic Vitality Incentive Grant Program (EVIGP), which accompanied the State’s constitutional revenue sharing program and provided financial incentives to cities, villages, and townships for combining operations. These funds were intended to offset costs incurred with mergers, interlocal agreements, and other cooperative undertakings. A year later, Public Act 236 renamed EVIGP the Competitive Grant Assistance Program (CGAP) and appropriated $10 million for the first round of FY 2012 awards, half of which was earmarked for public safety. Counties, authorities, school districts, community colleges, and universities were made eligible. Among the criteria for judging proposals were cost savings, efficiencies, taxpayer benefit, commitment to collaboration and best practices, and completion timeline. Over $4.3 million was awarded by the Michigan Treasury Department to 27 EVIGP projects. Another $10.5 million was awarded to 32 applicants in the second round, $4 million was awarded to 11 communities in the third round, and $6 million was awarded to 17 local units in the fourth (FY 2014) round. A total of 87 applicants received $24.8 million in grants over the four rounds. Nearly all of the recipients proposed service consolidations—especially fire, police and public safety, 911 emergency dispatch and communications, and information technology—while only two mergers were proposed—the City of Watervliet with Watervliet Township ($565,000) and Onekama Township with the Village of Onekama ($355,365).

Turning to Detroit, the governor’s “top-down” effort to end the city’s long-standing fiscal decline through appointment of an Emergency Manager, bankruptcy attorney Kevyn Orr, garnered national attention. A May 2013 report pursuant to the state legislation that created this office concluded that the city was “insolvent,” and that the financial crisis had exhausted its ability to borrow to cover its obligations. Contrary to the strong words used to describe the state’s actions, like “take-over” and “forfeiting electoral rights,” “partnership” has been increasingly used, even though huge changes in personnel, services, and pensions loom on the horizon. Detroit joins three other Michigan cities having emergency financial managers—Pontiac, Ecorse, and Benton Harbor—and the ripple effects of their struggle for financial survival could be more widespread. As the largest American city in history to declare bankruptcy, Detroit is considering a range of financial and structural options to regain solvency, such as transferring street light maintenance from a city department to a special district and selling city-owned art from the Detroit Institute of the Arts collection. According to the Detroit Free Press, fiscal exigency has spurred discussions between Detroit and Wayne County officials about merging services such as jails, health, and bus systems. Former Mayor Dave Bing observed that a high level of trust between the two governments will be crucial to the success of merger talks (June 4, 2012). Detroit has not been awarded a CGAP grant.

In March 2013, the governor signed amendments to the 1990 Emergency Financial Manager Act that require local governments to submit financial projections to the state and give state-appointed emergency managers power to set aside labor contracts, fire local
officials, and dissolve a community or school district. In addition to seeking to cut revenue sharing by one-third, Governor Snyder proposed to make such state aid contingent on local adoption of cost-saving measures like securing wage and benefit concessions from public employees and agreeing to consolidate services.

**New Jersey**

New Jersey’s current governor and his predecessor both criticized the fragmented structure of local government in their state—featuring 566 municipalities, 616 school districts, and 186 fire districts—claiming that the layering of bureaucracy contributes to high property tax burdens. But they have been unable to muster political support to mandate or induce dramatic changes. In 2008, former Governor Jon Corzine proposed unsuccessfully to eliminate state aid for towns under 5,000 population and to cut in half aid for towns with 10,000 or fewer residents. His successor, Chris Christie, has moved forward with other “top-down” initiatives, such as the state’s takeover of poorly-performing public schools in Camden, joining state-controlled school systems in Paterson, Newark, and Jersey City. In the wake of Hurricane Sandy, Governor Christie announced construction of a dune system to protect the Jersey Shore despite opposition from some beach communities and property owners. And the governor, with bipartisan support from legislators, has endorsed service sharing as a way of reducing property taxes. A number of counties have shared service coordinators and are now exploring consolidation of police and schools with neighboring jurisdictions.

Interest in these strategies can be traced to a 2006 report by the Joint Legislative Committee on Government Consolidation and Shared Services. The committee recommended creation of a permanent unit to study the need for consolidation and service-sharing and legislation to streamline and facilitate local processes in these areas.

One year later, the legislature passed the Uniform Shared Services and Consolidation Act to help reduce property taxes by promoting greater government efficiency through shared services, regionalism, and consolidation. In the introduction to the bill, the legislature noted the obstacles of political resistance, overlapping and antiquated laws, and civil service issues and committed to removing these hurdles: “The State largely has employed a ‘carrot’ approach to incentivizing consolidation and service sharing for over 30 years, and for real progress to occur in reducing the rate of property tax increase, the ‘stick’ approach is appropriate…” The act authorized local units to enter into agreements to provide or receive services by adopting a resolution and to contract for joint services. The act also sought to make the 1977 Municipal Consolidation Act more attractive by authorizing local governing bodies or registered voters to petition the Local Finance Board of the Division of Local Government Services in the Department of Community Affairs to create a Municipal Consolidation Study Commission to prepare a consolidation plan. Upon approval of the plan by the affected governing boards or voters, the division was directed to create a task force to facilitate consolidation and provide technical assistance. The director of the division was required to establish a Sharing Available Resources Efficiently program to provide grants and loans for local feasibility studies of shared service agreements, joint service operation contracts, or municipal consolidation. Eligible expenditures were consultant fees and one-time start-up costs such as terminal leave benefits.

More recently, Senate President Stephen Sweeney, a Democrat, has joined Republican Governor Christie in a bipartisan effort to bolster implementation of the joint committee’s recommendations. The legislation reintroduced in the 2012 session by President Sweeney embraces a more punitive “stick” approach than the 2007 act. The preamble to the bill states: “Experience with the old laws and experience with the ‘Uniform Shared Services and Consolidation Act’ … has made it clear that shared services, joint meetings, and consolidation cannot be effective and viable options when the local units are tied to Civil Service rules and tenure provisions limiting their economic feasibility.” Under the bill, S2, New Jersey’s Local Unit Alignment, Reorganization and Consolidation Commission, established in the Department of Community Affairs, would conduct studies of the structure and functions of counties, municipalities, and schools to determine whether consolidation would produce greater efficiencies and tax savings. The commission’s consolidation or shared services proposals are to be transmitted to the governor and legislature, and put before the voters of the affected jurisdictions at the next general election. Voters would be asked to approve shared or consolidated services that are recommended, but any town that does not pass the recommended changes would lose state aid equivalent to the projected cost savings.

The New Jersey State League of Municipalities opposed the proposal to take away state aid, and unions opposed S2 because it superseded civil service and tenure provisions. Rex Reid of the American Federation of State, County, and Municipal Employ-
Leveraging Local Change: The States’ Role

Governments. However, not all of these funds have been awarded every year. The Department of State administers two of the main incentive programs noted by interviewees—Local Government Efficiency (LGe) Grants and Local Government Citizen’s Reorganization and Empowerment Grants.

In an April 2008 report, “21st Century Local Government,” the bipartisan New York State Commission on Local Government Efficiency and Competitiveness called for greater state encouragement of local service sharing. Since 2005, a Shared Municipal Services Incentive program had been included in the state budget. In response to the commission’s recommendation, the 2008–09 budget included $29.4 million for Local Government Efficiency Grants to support planning studies of ways to achieve cost-savings through shared or consolidated service initiatives, as well as for city or county charter revision studies that covered functional consolidation, service sharing, mergers, or village dissolution. In addition to these incentive grants, competitive grants were made available to help defray joint function implementation costs such as transitional personnel. LGe grants were also offered for “transformative” pilot projects that had cost-savings potential.

Examples of possible 21st century demonstration projects included regional smart growth planning and development, multi-county service provision, consolidated school operations, expansion of county services, countywide or multi-municipal policing, and metropolitan municipal corporations. Municipalities that consolidated jurisdictions or services were eligible to receive financial incentives, such as a percentage of the combined property tax revenues, an increase in state discretionary aid, or a flat amount over a five-year period. The Department of State’s Division of Local Government Services also provides training and technical assistance to local governments to help control costs, promote efficiencies, and coordinate joint provision of state services. According to the Department’s website: “Overall, this program has been a great success and is expected to result in more than $418 million in savings to taxpayers from $46 million invested in 294 shared services and consolidation projects.”

In 2012, a Local Government Performance and Efficiency Program was included in the LGe portfolio. This program provides awards to local governments that have produced recurring financial savings or lowered property tax growth. In 2013, more than $12 million in three-year grants was awarded to 13 local governments. The projects varied widely from privatization of home care services and nursing homes, to departmental restructuring and re-engineering, to

New York

According to a staff member of the New York State Association of Counties, the State spends an estimated $80 million annually across different programs to incentivize collaboration among its 1,860 local governments. However, not all of these funds have
efficiency initiatives. The estimated combined annual savings of successful applicants was $32 million, which must be demonstrated each year in order to receive continued funding.

In June 2009 Governor Andrew M. Cuomo signed The New N.Y. Government Reorganization and Citizen Empowerment Act, effective March 21, 2010, establishing uniform procedures for the consolidation or dissolution of local government units, except for school districts and some special purpose districts. Consolidation proceedings can be initiated by joint resolution by governing boards or by elector initiative. In the latter, a majority of the electorate in both jurisdictions must vote in favor of merger in the referenda. If the measures fail, a four-year moratorium takes effect.

In 2012, a Citizen’s Re-organization and Empowerment Grant (CREG) program was established to implement the municipal restructuring provisions of the 2009 act, including provisions for citizens to petition their town or village to vote on consolidation or dissolution. Grants may be used for reorganization plan studies or implementation and may not exceed $50,000. A ten percent local matching cash contribution is required, and projects must be completed within three years. Service sharing and consolidation studies and initiatives are not eligible for CREG, nor are school districts, cities, and counties. Eight noncompetitive grants totaling $275,000 were awarded in 2013. Among the purposes were an evaluation of the dissolution of a town’s water and sewer district and transfer to the county, and completion of a dissolution plan for a village. According to the State Department’s website, CREG “…is part of Governor Cuomo’s continuing efforts to provide taxpayer relief through innovative analysis of governmental functions and services.”5

Smaller-Scale, Incremental Attempts to Leverage Local Change

The preceding case examples can be thought of as large-scale or major, strategic initiatives on the part of states to leverage local change around shared services and consolidation. In each state, our coverage is intended to be illustrative, not exhaustive. And the jury is still out regarding whether the various initiatives have achieved their intended results. Nevertheless, clearly both “bottom-up” and “top-down” strategies are being pursued, sometimes in tandem. As one early assessment of states (Indiana, Maine, New Jersey, and New York) “pushing” localities concluded: “The truth, though, is that states don’t have to choose between giving local governments a helping hand or a swift kick in the butt….The message, it seems, is that if localities are going to come together, state and local government will need to join forces to make it happen” (Goodman 2008, 27).

In our research, we found many other examples of smaller scale efforts to incentivize change. These efforts do not seem to be part of a strategic push on the part of state government to spur transformational change at the local level. Rather, they are more narrow attempts to stimulate change, most often in a narrow aspect of local governance. These initiatives are still noteworthy, however, in that they offer insight into the variety of ways states are, and may be, playing a role in leveraging local change.

**Minnesota**

With more than 2,700 counties, cities, and townships, Minnesota ranks fifth in local governmental units per capita and eighth per square mile. There have been 25 city and township mergers or annexations since 1980. A 2011 survey by the Office of Legislative Auditor found only 31 percent of county, 25 percent of city, and 8 percent of township respondents strongly agreeing or somewhat agreeing with the statement: “Our city, county, or township would benefit from consolidating with another local government” (Dornfeld 2012, 3). The legislature eliminated agencies that assisted local governments considering collaboration on service sharing or consolidation, such as the State Planning Agency, Minnesota Municipal Board, and the Board on Innovation and Cooperation.

One area where local service sharing has been facilitated by the state is the Shared Services Grant Program for fire protection administered by the State Fire Marshal and Department of Public Safety. Grants ranging from $25,000 to $40,000 have been available since 2010 for two or more fire services agencies to hire outside consultants to develop voluntary best practices shared services models or feasibility studies and to help cover implementation costs. Among the study coverage requirements are regional fire and rescue shared service district governance, funding for training and equipment, response times, employment issues, and operating procedures.

In April 2012 the Program Evaluation Division of the Office of the Legislative Auditor released a report, “Consolidation of Local Governments,” that revealed opportunities for consolidation particularly among smaller jurisdictions with capital-intensive services or equipment needs. The report observed “local government officials are often open to considering consolidation proposals, but view its implementation as potentially
complex, costly, and controversial. They also voiced a strong desire to manage consolidation and collaborative efforts themselves and not have them mandated by the state.” The staff recommended that the legislature facilitate these local efforts by providing grants to local governments interested in evaluating consolidation possibilities, including county-administered joint pilot projects; reviewing state funding policies for local capital projects to ensure they do not inhibit localities from considering the need to consolidate or collaborate with neighboring jurisdictions; and requiring the Municipal Boundary Adjustment Unit and counties to provide more information to citizens and local officials about consolidation and relevant state processes. The Association of Minnesota Counties indicated its support for the report and recommendations.

All 87 Minnesota counties have passed resolutions calling upon the legislature to pass the Minnesota Accountable Government Innovation and Collaboration (MAGIC) Act. The legislation would give counties waivers and exemptions from statutes and rules to plan, develop, and implement more efficient ways to deliver services through joint or individual pilot projects which, if successful, could become statewide models. Examples of possible projects are lowering water pollution levels and reducing welfare dependency. Affected state agencies must approve county plans, including their outcome goals and performance measures, in advance and success must be demonstrated within three years. The bill was approved by the Senate, but ultimately did not pass due to concerns about negative impacts on public employees.

The Minnesota legislature has encouraged localities to implement a common set of performance measures by providing an incentive of 14 cents per capita to each participating jurisdiction. However, in 2011, of the 854 cities and 87 counties only 13% of the cities and 38% of the counties applied to the state’s auditor and received approval to participate in the project. In 2012, participation had dropped to 7% and 29%, respectively (Barrett and Green 2013: 60). According to interviewees, one reason for this drop was the legislature’s failure to approve exemptions from state property tax levies for participating communities.

**North Carolina**

Over the years there have been many state government actions that can be seen as having an effect on changes in service delivery arrangements in North Carolina’s local governments; however, there has been no strategic focus on this issue from the General Assembly or Governor’s office. Some of the more notable policy changes include legislation in 2012 that introduced several changes to the laws related to organization and governance of local public health agencies. The changes made it easier to create consolidated, multi-county public health agencies as well as consolidated human services agencies. As a result, there have been some multi-county mergers and the issue of human services consolidation at the county level is gaining some traction in the state. A decade ago there were major reforms in mental health services, and in more recent years similar thinking has guided efforts to reform the organization of human services at the county level.

There have also been prominent local bills during the 2013 session where the General Assembly essentially forced consolidated service delivery; in one case, mandating a municipal-county water system merger in Asheville, and in another, mandating creation of an airport authority in Charlotte (where the airport has been a city function). In a move away from regionalization, however, the General Assembly discontinued the meager operating fund assistance to regional councils of government. None of these actions seem to be precedent-setting policies, however, nor does it appear that they are part of a broader, state-wide strategic effort to influence local change, with the exception of consolidation in the area of human services which has long been pushed by the state.

There are some more function-specific policies that are influencing service consolidation at the agency-level. The state 911 board, for example, offers generous grants to 911 dispatch centers that merge (across jurisdictions). The agency has a top priority of encouraging service consolidation wherever possible as a means of improving both service efficiency and operational effectiveness. In fiscal years 2011–2012, the 911 board awarded $26.8 million to five multi-jurisdictional dispatch center (known as public-safety answering points or PSAPs) consolidation projects. These recent municipal-county (and even one multi-county) mergers are viewed as success stories and models, with the grant money acting as a catalyst for change. Another function-specific action involves the state making available new or enhanced collective purchasing opportunities for local governments.

**Ohio**

In the wake of cutting local government financial aid by approximately 50 percent, reducing their share of utility taxes by half, and eliminating an estate tax that earmarks 80 percent of the revenues to localities, Governor John Kasich and his administration have urged
local units to embrace shared services. The governor’s staff surveyed local government and school system leaders to identify collaborative best practices, and issued a report in June 2012, “Beyond Boundaries: A Shared Services Action Plan for Ohio Schools and Governments,” with 10 recommended areas where shared services could save money. With more than 3,900 local governments and school districts, the report observed: “The size and fragmented nature of Ohio’s governmental structure creates inherent inefficiencies in service delivery to citizens and back-office functions” (2), and estimated that these local jurisdictions were already saving about $1 billion annually through regionalism and collaborative projects. A story in the Cleveland Plain Dealer reported that Randy Cole, Policy Advisor to Governor Kasich, “bluntly warned a small group in Columbus that embracing a shared-services approach might be local governments’ ‘only saving grace if they want to stay solvent.’” Cole said, “My plea to you is don’t just fight the cuts, fight for reform” (Fields 2012).

Legislation was recently approved to facilitate establishment of interlocal sharing agreements and to strengthen county capacity to serve as regional governments. In addition, the Department of Administrative Services has expanded its Lean Ohio network to include local governments. According to its website, the program’s mission is to “make government services in Ohio, simpler, faster, better, and less costly” through continuous improvement. Experts are available as internal consultants on the use of tools such as Six Sigma training, strategic planning, data collection and analysis, and meeting facilitation.

H.B. 153 established a Local Government Innovation Fund administered by the Ohio Department of Development to assist local units plan and implement more efficient and effective service delivery through collaborative projects. A 15-member Local Government Innovation Council was also created. The legislature authorized $45 million for 2012–2013, $9 million for planning grants and $36 million for implementation loans. Over the first three rounds during 2012, 90 grants totaling $6.3 million and 13 loans totaling $4.3 million were awarded through a competitive application process. Loans are capped at $500,000 while the maximum grant is $100,000 per collaborative jurisdiction. According to interviewees, less than 20 percent of eligible jurisdictions have submitted an innovation proposal. With respect to whether this initiative demonstrated a partnership with the state, one local interviewee was skeptical: “…cutting taxes has been the mantra. It hasn’t really been about making government more efficient or partnering with local governments. It feels more like ‘Oh, by the way, we are going to try to throw this bone—the local government fund—and hope you can be more efficient that way.’

**Oregon**

In Oregon, a series of legislation was passed to allow the state to take over certain local government services (e.g., elections and tax collection) in counties facing serious fiscal distress. The main impetus for these changes were the financial crisis some timber-reliant counties were facing as federal payments were set to end, coupled with a demand from some of the local governments to offload services back to the state. Additionally, legislation was enacted that set aside money to assist local units with interlocal cooperation or local unit consolidation. Local governments that wish to take advantage of this incentive have to submit to the state’s emergency boards specific requests for funds that would come from the governor’s office.

Governor John Kitzhaber also made early childhood programs a state-wide priority, and regionalization was a key to his approach (Hammond 2012). This approach essentially means counties would have to come together regionally to align their programs toward a stated goal of having all children reading by the first grade. Funding was provided to assist in the regionalization effort, although observers say progress has been slow.

**Pennsylvania**

Interlocal cooperation and shared services are an important dimension of local government in Pennsylvania given the state’s more than 2,500 municipalities. Anecdotally, interlocal cooperation and functional consolidation are common at the municipal level, but the state government has not really “pushed” these approaches in any kind of strategic sense. Pennsylvania is a limited home rule state; thus, while there have been some legislative attempts to raise the profile of interlocal cooperation (such as a bill in 2008 that was to be an “act providing for cooperation between political subdivisions and for the award of grants to recognize such cooperation”), they have not been enacted or implemented.

A Center for Local Government Services housed in the State Department of Community and Economic Development provides technical assistance to local governments. This unit has a consulting budget to provide municipalities with help around service consolidation, but it is reportedly very small and not something done on a proactive basis. Local governments may receive
some technical help upon request, but there is not much of a concerted effort for service consolidation from this agency (although they did publish a guidebook on “Intergovernmental Cooperation” in 2006).

The General Assembly’s Local Government Commission recently conducted a study of Act 47, which addresses so-called “distressed” municipalities. The study discusses combination (merger) and dissolution as an option. The Commission also proposed changes to the law that focus on how to assist a distressed municipality in a time of financial crisis. This included exploring whether it would be appropriate to dissolve and be absorbed by the county. The group rejected this and instead included some provisions for counties to provide assistance to distressed municipalities on an interim basis. There is little consideration of consolidation and nothing to suggest that the State will make service (or political) consolidation a priority in the near future. Like other states surveyed, there appears to be interest and activity here and there, but no strong strategic direction from the Governor’s office or General Assembly to incentivize interlocal cooperation or shared services as a primary vehicle of local government change.

**Vermont**

Local government in Vermont centers on municipalities (which include towns, cities, and villages) and school districts. Vermont is a fully incorporated state, which means there are no unincorporated areas. While counties exist, their functions are extremely limited. All of the charters go back to before the state was created—to land grant towns from royal governors. The legislature does not force mergers and there is no annexation.

There are 246 incorporated cities or towns and 246 local school districts (one in each town). Additionally, Vermont has regional school districts which operate the high schools. Municipalities allocate budgets back to the school districts. Most of the action in terms of shared services and service consolidation has been on the municipal side, including:

- In the last 70 years, 29 villages have merged back into their towns. There has been some reduction in service duplication here. All but two of the mergers were prior to the year 2000.
- A local interviewee noted the state offers a “good structure” for contracting with neighboring towns for services and intergovernmental service delivery.
- Solid waste has been turned over to regional solid waste districts. There are some regional water systems.
- There are some examples of shared public safety services.

In terms of school districts, enrollments are declining and the state has taken over the responsibility for funding schools. Vermont tries to balance a strong philosophy of local control (having town meetings and budgets approved by voters) with the need to merge and incentivize such mergers where they make sense. In 2010, Act 153 was passed to provide incentives and a structure for school district mergers. In 2012, the law was revised. Called Act 156, it expanded the type of cooperative activities that would be supported. Yet there has been little activity under this scheme, apparently because the incentives are so meager. The incentives include funding to support planning in the form of grants to hire consultants ranging anywhere from $5,000 to $20,000. Districts may receive in the neighborhood of $150,000 for implementation, which, again, might be viewed by some as inadequate. There were also tax incentives built into Act 156, allowing for several pennies off the tax rate for a few years as an additional incentive to consolidate. To date there has been little change in terms of interest in school consolidation. Apparently the incentives are not powerful enough.

**Wisconsin**

A Special Committee on Local Service Consolidation was established by the Wisconsin legislature to “…determine whether current law should be amended to facilitate the methods by which local units of government can partner to efficiently and cost-effectively provide services, including police, fire, and educational services, to their constituents.” The committee was in place for only the 2011–2012 legislative session. Pursuant to the committee’s recommendations, legislation was introduced in 2011 to create a local governmental unit consolidation program to encourage merger or greater interlocal cooperation by providing loans to study or implement consolidations of local units that have a demonstrated probability of reducing costs or improving the level of services provided, contributing to regional cooperation, and minimizing competition for economic development among localities. The bill was not passed. However, the 2013 biennial state budget authorized $200,000 for grants to local units to help pay for “LEAN” government consultants to implement programs that increase the value of goods and services with the fewest resources.

**Conclusions and Implications**

Although often criticized for its fragmentation and duplication, the American system of local government has also been responsive and resilient. There has been a steady increase in the creation of special districts,
yet at the same time, the number of county and city governments has hardly changed in six decades. However, great strides were made in building local government capacity through such measures as adoption of the council-manager form and merit systems, growth in staff professionalism, and expansion of modern budgeting systems and management techniques such as strategic planning and performance measurement.

Local governments have demonstrated a remarkable ability to bounce back in the wake of crises without fundamentally altering their jurisdictional boundaries, core services, or personnel. While there has been somewhat greater collaboration among local governments and between cities and counties and non-governmental organizations, and changes have occurred in the mode of delivery of some services, most of this activity has involved a limited range of functions and it has not permanently altered the size or shape of local units. Coping and adaptive strategies, rather than transformational approaches, have typically characterized the response by local leaders (Thoreson and Svara 2011), but these could still be important tools to leverage change. For example, an article in the 2013 Municipal Yearbook reported that more than 80% of the 1,417 managers who responded to a survey used interlocal collaboration as a management strategy because it “was the right thing to do,” leveraged resources, and produced better outcomes (O’Leary and Gerard 2013, 59). Some 86 percent of the respondents indicated they had recently collaborated in such functional areas as fire and emergency response, economic development, infrastructure planning and development, and housing. These results suggest that in many communities there could be a foundation of interlocal activity on which state actions to facilitate greater collaboration could be built.

While a few states have moved ahead to facilitate or mandate dramatic changes in local service and structural arrangements, the majority has not done so. There are examples of efforts to incentivize increased interlocal cooperation, service sharing, and outright service consolidation. Yet, most of these efforts appear to be modest in scope and not part of a larger, strategic agenda to influence fundamental changes in how local governments do business. It is too soon to determine whether these efforts have been successful. States that have acted in some way seem to favor facilitative (or “bottom-up”) strategies, although at least three (Indiana, Michigan, and New Jersey) have attempted what could be characterized as top-down or “stick” strategies.

But most of the state efforts reported from our survey seem to be too modest financially to be significant levers for change. In other words, the “carrot”-type incentives seem to appeal to jurisdictions already considering service-sharing or other alternative service delivery methods. There is scant evidence from participating jurisdictions that the incentives are spurring bold explorations of new alternatives or are acting as a real stimulus to break through organizational inertia.

Among local officials, there remains considerable suspicion and distrust regarding the motivations of governors and legislators, and with few exceptions they have successfully resisted gubernatorial calls for dramatic changes in the service and structural status quo. As one observer of the “stick” approach to consolidation noted: “Given the opposition, it’s not clear that states are pushing consolidation in the right way. Part of the reason they became involved in the first place is that, when municipalities are left to their own devices, they find the political obstacles insurmountable. To date, though, the obstacles have been nearly as great when states are doing the pushing” (Goodman 2008, 27).

If locally-initiated responses to economic crises and state incentives or mandates have failed to disrupt the jurisdictional status quo, are there other ways to produce greater local collaboration and change? As shown in some of the examples reported in this paper, universities, think tanks, and nongovernmental organizations can help hasten history in some jurisdictions by conducting studies of consolidation or service sharing possibilities and options, and it is helpful for states to provide financial support for such studies. For example, in 2009, a bill was introduced in the Kansas Senate to create a study commission to prepare a plan for consolidating the 105 counties in the state into 13 “districts.” The bill failed to get out of committee, but the Kansas Advisory Council on Intergovernmental Relations conducted a study that estimated that merger into 25 districts would produce $826 million in savings (Svara 2012). Blue ribbon commissions and business leaders also have proven influential in bringing government officials to the table to discuss common problems and joint remedial strategies.

While data and analysis can be helpful, politics, finances, equity, and history usually determine outcomes. As has been seen, the forces that perpetuate the status quo are powerful and changes often are temporary and evolutionary, not permanent and revolutionary. Based on this review, it appears that neither the Great Recession nor state actions have induced cities and counties to initiate fundamental and permanent
alterations in the scope, quality, or delivery of services in many communities. Nor did they produce dramatic changes in the local jurisdictional or intergovernmental landscape. Leveraging change from both inside and outside government is a formidable challenge.

Nevertheless, there is evidence that state facilitative strategies could lead to greater collaboration in the delivery of services. The experience of several consolidated 911 centers in North Carolina is instructive. The director of the state’s 911 board has made dispatch center merger a top strategic priority and has provided significant resources (in the form of more than $26 million in grants) to spur action by communities that may not otherwise have acted. Having several million dollars to build a new shared facility can go a long way in allaying concerns over merging agencies across multiple jurisdictions. All of the stakeholders can point to a new facility and know that such a facility would not be possible were it not for the incentive grants.

Perhaps this and other examples of significant incentives offer insight into how states, in collaboration with municipal leagues and county associations, might fruitfully be agents of change in terms of local government service delivery. At least four approaches seem worth exploring based on our research:

1. Using a positive incentive, bottom-up (or “carrot”) approach emphasizes a supportive relationship—as opposed to adversarial—between the state and its constituent units of local government. States and local governments are best served by approaching local change with a partnership mentality.

2. If state officials are serious about leveraging local change, then they have to be willing to provide serious incentives. Minor, incremental benefits are not likely to overcome significant organizational inertia. Serious resources must be committed in order to influence change where it would not otherwise occur. As indicated in the New York and New Jersey examples, it is also beneficial for the incentives to be anchored in a broader gubernatorial and legislative strategic initiative, such as property tax relief, performance management, or best practices.

3. As opposed to broadly authorized areas for service-sharing and consolidation, local government representatives could work with state officials to identify specific functions that are ‘ripe’ for collaboration and where an investment of state financial and technical assistance could be a catalyst for change. Likely areas include 911 dispatch, water and sewer utilities, and public safety services (fire and police). This strategy is consistent with Ohio’s “Beyond Boundaries” report, which recommends: “State associations that have participated in developing this Shared Services Plan should take a leadership role in developing draft agreements; educating their members; facilitating the relationships regionally—both within and across their memberships; training their members in using the tools available to them and communicating about shared services consistently over the next few years” (Ross and Keen 2012, 21).

4. Proponents of local change need to be clear-eyed about collaboration taking time. It is important that state incentives leverage real results in terms of local government efficiency and effectiveness. But these results often are not realized immediately. Local representatives could cooperate with state agencies to develop realistic multi-year goals, objectives, and funding streams for shared or consolidated services projects, together with appropriate accountability mechanisms.

More time will be needed to determine whether service sharing and service consolidation has produced greater efficiency and effectiveness, and whether the state enabling statutes and programs will survive political leadership transitions. But if predicted economic pressures mount on local governments, it may be prudent for associations representing cities and counties in the state capitol to work with governors and legislators on ways to incentivize interlocal collaboration. Given the power of the functional and structural status quo at the local level, and the unlikelihood that fiscal crises will disrupt organizational inertia, the state’s role as facilitator of collaborative relationships and service realignments could be important. In this respect, governors and legislators could become allies, not adversaries, of city and county managers and elected officials who seek major changes in services or structures but cannot muster the local political support for doing so.

The authors express appreciation to Daniel Baird, Jenifer Della Valle, Sarah Hazel, and Ebony Perkins for research assistance on this paper.
References


Endnotes

1 See Kemp (2012) for several articles discussing municipal governments’ responses to the “budget crunch.”

2 “Major” change included permanent reduction or even elimination of major services, elimination or merger of departments, establishment of intergovernmental service delivery agreements, or changes of governmental form or structure. Adopting revised but fairly common service delivery options, such as contracting, was categorized as a “moderate” change. Budget reductions, tax increases, debt restructuring, multi-year capital improvement planning, and collective bargaining agreement restructuring were categorized as “minimal,” as they do not require a fundamental change in structure or service level, although even these steps can be very difficult to take.

3 There is a rather robust literature in public administration on "cutback management.” A helpful review of the literature can be found in Scorsone and Pierpholps (2010). Charles Levine also wrote some now-classic articles on the topic in Public Administration Review (1978 and 1979).


7 http://lean.ohio.gov/ (accessed April 7, 2014)

8 A logical question here is, "What are serious incentives?" Unfortunately, there is no simple answer other than it seems reasonable that a state-local partnership model would include the state authorities asking local government officials about what kinds of incentives would make a difference. The "what kind?" and "how much?" answers are likely context dependent, based on the unique political and administrative environment in a given state, as well as the unique characteristics of the types of services under consideration.

ICMA Governmental Affairs and Policy Committee 2013–2014

Chair
Alan Kemp, Executive Director,
League of Iowa Cities

Committee Members
Robert Agee, Crofton, MD
Laura Allen, City Manager,
Colma, CA
Ross Amyx, Executive Director,
Virginia Municipal League
Richard Brown, Town
Administrator, Freetown, MA
James Campbell, Executive
Director, Virginia Association of Counties
Joseph Carey, Assistant Village
Manager, Elk Grove, IL
Sylvia Carrillo, City Manager,
Aransas Pass, TX
Gerald Clausen, City Manager,
Carroll, IA
Robert Cole, Assistant Village
Manager, Oak Park, IL
Mark Danaj Assistant City
Manager, Fremont, CA

Tim Dolehanty, County
Administrator/Controller,
Ingham, MI
Eddie Duque, Senior
Management Analyst, Santa
Ana, CA
Holly Eskridge, Assistant to the
City Manager, Rock Hill, SC
Denise Fitzgerald, Township
Manager, Scott, PA
Scott Hancock, Executive
Director, Maryland Municipal League
Randall Heye, Assistant to the
City Manager, College Station, TX
Mary Jacobs, Assistant City
Manager, Sierra Vista, AZ
Jay Johnson, City Manager,
Shelbyville, TN
Ramesh Kanapareddy, Director
of Public Works, Highland Park, IL
Bill Keegan, Town Manager,
Foxborough, MA

Roger Kemp, University of New
Haven, CT
Brian Knudsen, Administrative
Officer, Las Vegas, NV
Jonathan Lewis, City Manager,
North Port, FL
Sam Mamet, Executive Director,
Colorado Municipal League
Mark McDaniel, City Manager,
Tyler, TX
Robert McEvoy, Executive
Director, NY State City/ County Management Association
Chris McKenzie, Executive
Director, League of California Cities
James Miller, Executive Director,
League of Minnesota Cities
Mindy Moran, County
Administrator, Mathews, VA
James Morani, Village
Administrator, New Baden, IL
Ray Morris, Deputy Executive
Director, Regional Planning
Commission of Greater
Birmingham, AL
Thom Moton, City Manager,
Broken Arrow, OK
Nadine Nader, Deputy City
Manager, Fremont, CA
Andrew Neiditz, Executive
Director, South Sound 911
Jerry Newfarmer, President & CEO, Management Partners, Inc., OH
John Nixon, Corp. Marketing – Communications Consultant,
Austin, TX
Andy Pederson, Village Manager, Bayside, WI
Sharon Peters, Principal
Consultant, EMA Canada, British Columbia
Bill Ross, Town Manager,
Mansfield, MA
Mark Ryckman, City Manager,
Corning, NY
Bennett Sandlin, Executive
Director, Texas Municipal League
Tony Sousa, City Planer,
Woburn, MA
Cathy Standiford, Partner,
Management Partners, Inc., CA
Kenneth Strobeck, Executive
Director, League of Arizona Cities and Towns
Yvonne Taylor, Executive
Director, South Dakota Municipal League
Ryan Waller, Assistant County
Administrator, Lake, IL
Dan Weinheimer, Legislative
Policy Manager, Fort Collins, CO
Lee Worsley, Deputy County
Manager, Durham, NC
Doug Wurster, Revenue Officer,
Charleston, SC

Committee Staff
Elizabeth Kellar, ICMA
Christina Barberot, ICMA
Joshua Franzel, ICMA
The State Role in Local Government Financial Distress

As cities confront financial challenges, states weigh whether to help them pull through.
The Pew Charitable Trusts is driven by the power of knowledge to solve today’s most challenging problems. Pew applies a rigorous, analytical approach to improve public policy, inform the public, and stimulate civic life.

The Pew Charitable Trusts

Susan K. Urahn, executive vice president
Michael Ettlinger, senior director

Meghan Salas Atwell
Stephen Fehr
Kil Huh
Aidan Russell

External reviewers

This report benefited tremendously from the insights and expertise of two external reviewers: Matt Fabian, managing director, Municipal Market Advisors, and James E. Spiotto, partner, Chapman and Cutler, LLP. These experts have found the report’s approach and methodology to be sound. Although they have reviewed the report, neither they nor their organizations necessarily endorse its findings or conclusions.

Acknowledgments

Providing invaluable assistance, Kimberly Furdell helped with the data collection, verification, and analysis; Sarah McLaughlin Emmans aided in concept development; and Rob Gurwitt contributed to reporting. We would like to thank the following colleagues for their insights and guidance: Sarah Babbage, Ike Emejuru, Alicia Mazzara, Sergio Ritacco, Matthew Separa, and Robert Zahradnik. We also thank Dan Benderly, Jennifer V. Doctors, Bailey Farnsworth, Sarah Leiseca, Jeremy Ratner, Kodi Seaton, Kate Starr, and Gaye Williams for providing valuable feedback and production assistance on this report. Finally, we thank the many state officials and other experts in the field who were so generous with their time, knowledge, and expertise.
Contents

4 Overview

7 Key findings

8 The stages of municipal difficulty: Distress, crisis, and bankruptcy

15 The stakes: Why states may intervene in local government problems

19 State approaches to intervention

24 Challenges and solutions

28 State profiles

   Alabama 28
   Pennsylvania 31
   North Carolina 34
   New Jersey 37
   Rhode Island 40
   California 43
   Michigan 46

49 Appendix: Methodology

52 Endnotes
Overview

Within a two-week span in the summer of 2012, three California cities moved to file for bankruptcy protection. By the end of the year, nine others had declared financial emergencies. The state government offered no help, sticking to a long-standing tradition of leaving it up to local officials to fix their broken finances.

Rhode Island, by contrast, responded aggressively when Central Falls filed for bankruptcy protection in 2011. State officials appointed a financial manager, called a receiver, to make sure the city could pay its bills by cutting spending, raising taxes, slashing employee retirement benefits, and paying investors on the bonds they bought. The state’s action was a reason for Central Falls’ exit from bankruptcy last year after only 13 months, the shortest of several recent, high-profile municipal bankruptcies.

The difference between hands-off California and hands-on Rhode Island illustrates two sides of a discussion that is increasingly taking place in statehouses and city halls around the country because of cities’ particularly slow recovery from the Great Recession of 2007-09. The question comes down to what role, if any, states should play in helping cities, towns, and counties recover from serious financial trouble—what officials generically call intervention.

Against this backdrop, The Pew Charitable Trusts conducted a study that examined the range of state involvement in local government finances, drawing on current literature, statutes, a survey of state officials, and interviews with government finance analysts. It focused on identifying the characteristics of local financial distress, how those difficulties can escalate to state intervention or, in extreme cases, bankruptcy, and the relevant laws that states have in place. The research also considered the history of state intervention in the financial practices of embattled cities, why it matters to states, and how their practices differ. The findings are explored in detail in this report, but, briefly, Pew’s research shows:

- Fewer than half of the states have laws allowing them to intervene in municipal finances.
- Intervention practices vary among the 19 states that have such programs.
- In most cases, states react to local government financial crises instead of trying to prevent them.
- States intervene to protect their own financial standing and that of their other municipalities, to enhance economic growth, and to maintain public safety and health.
- Among states that intervene, some are more aggressive about stepping in to help.
- Local officials often resent state officials infringing on their right to govern their affairs.

Not every state may find that it needs to set up programs to intervene in local government finances. Of those that do, differences such as economic structure and political traditions underscore that there is no single model to follow in designing an intervention program.

Some states claim success from interventions. Most recently, Rhode Island’s effort helped to bring a quick end to Central Falls’ bankruptcy. Pew’s analysis found other promising approaches as well. Most notable among them is monitoring the financial condition of cities to mitigate and contain local budget stress. When state and local officials are vigilant in identifying local budget trouble early, they can act decisively to prevent a crisis that could force the state to step in. For example, North Carolina, despite high unemployment, has managed to escape serious local government budget problems in part because of its strong centralized system of monitoring and oversight.
Whatever approach state policymakers consider, it is important to design the intervention so that state officials turn the day-to-day management of city finances back to local officials as quickly as practical. In this way, state officials can reduce the tension between the city and the state that often accompanies interventions. Despite Rhode Island’s relative success in Central Falls, for example, there was lingering resentment over how long the state overseers would stay in the city to monitor its actions. The dispute went to a mediator, and the state returned control to city officials in April 2013.\(^5\)

Pew researchers also conducted a series of quantitative analyses to determine whether state intervention programs are correlated with strong local government financial health in the aggregate and found no such relationship, highlighting the largely reactive nature of state policy.

This report presents the findings of Pew’s analysis and also profiles seven states with and without oversight programs. By examining these individual states, Pew researchers were able to understand the patterns of state and local experiences with financial distress, including what motivates states to intervene or not, how political and economic conditions can affect a state’s decision on whether to get involved, and what results the state efforts have yielded. The following cases were studied:

- **Alabama**, with the largest county bankruptcy in U.S. history, and **California**, where Stockton’s bankruptcy has generated recent attention, were chosen as examples of states that historically do not assist local governments. **New Jersey** pared back on financial aid to troubled cities, including its capital, Trenton, during the Great Recession, and is trying to figure out the state’s role going forward.

- **North Carolina** has the oldest intervention program in the country, emphasizing state-level monitoring to detect early signs of trouble.

- **Michigan**, where Detroit filed for bankruptcy in July 2013 and five other cities\(^6\) are under emergency managers,\(^7\) and **Pennsylvania**, where Harrisburg is run by a receiver, are deeply involved in their local governments’ finances but are similarly affected by changing economic conditions that are out of their control and make it harder for cities to rebound.

- **Rhode Island** strengthened an existing weak program after the budget emergency in Central Falls, including a first-of-its-kind provision protecting investors in the city’s bonds.

State differences aside, Pew’s research did find a set of principles for states considering intervention programs:

1. States and cities should be proactive in detecting and tackling local government financial challenges through oversight of local finances and offering technical advice. Monitoring local government finances can result in early warnings and the avoidance of crises as well as send a positive signal to bond markets. This has been seen in states such as New York and North Carolina.\(^8\) Pew also suggests that states and cities adopt multiyear financial plans, a practice that compels governments to match expenses and revenues over several years.

2. In difficult economic times, creating state intervention programs could come with costs during a period when states are facing limited funds and staffing, which tests their ability to monitor local government fiscal trends or offer direct aid to struggling cities. As a result, state policymakers must understand the trade-offs within their own budgets and determine both whether to intervene and what level of support they can afford. Officials in Massachusetts and New Jersey have engaged in such balancing by choosing
the extent to which they bail out struggling local governments, and policymakers in New York have found ways to provide assistance without providing direct aid.

3. States, when possible, should design interventions to involve all stakeholders in discussions, to be transparent with financial information, and to return control to local officials quickly. This promotes better cooperation between all concerned parties as a local government recovers from a crisis. In Michigan, for example, several cities, including Detroit, have pushed back against what they consider to be state interference. Throughout the Detroit financial crisis, city and community leaders tried to resist state intervention, fearing it could lead to long-term state control, as in other Michigan cities such as Pontiac.9

This paper examines various intervention practices, identifies challenges, and elaborates on these three key policy guidelines. The analysis and state profiles can help inform state decision-making about whether, when, and how to assist municipalities facing fiscal stress, the likely outcomes of various approaches, and the implications for cities, counties, states, and taxpayers.
Key findings

• Nineteen states have enacted laws allowing the state government to intervene in a city, town, or county financial crisis. These laws were approved to provide an alternative to filing for bankruptcy or to prevent cities from filing.

• Intervention practices vary among the states that have them. States first designate an intervenor: a receiver, emergency manager, state agency head, or financial control board. Depending on the state, the intervenor is allowed to choose among restructuring debt and labor contracts, raising taxes and fees, offering state-backed loans and grants, providing technical advice, and even dissolving the local government.

• Some states are more aggressive than others when they step in to help. Michigan, North Carolina, Pennsylvania, and Rhode Island are among the states with the most extensive assistance programs. Alabama and California are among those without programs. Connecticut, New York, and Massachusetts decide the level of involvement on a case-by-case basis, depending on the severity of a city’s financial emergency. Some states have not set up intervention programs because their cities have not experienced the same level of stress as those in other states.

• Local governments often accept state intervention begrudgingly. Several Michigan cities have pushed back against what they consider to be state interference. This organized resistance culminated with the November 2012 defeat by state voters of the mandatory emergency manager system. Michigan replaced that top-down structure with one that allows local officials to decide their fates by choosing among several options. But resentment remained when, in March 2013, Governor Rick Snyder appointed an emergency manager to take over the day-to-day operation of Detroit. Despite the emergency manager, the city filed for bankruptcy protection in 2013.

• It is rare for a local government to seek bankruptcy protection from a court. Despite the recent wave of publicity about bankruptcies in places such as Stockton, CA, and Jefferson County, AL, of the nation’s 55,000 municipal governments that sell bonds, fewer than 10 file for bankruptcy each year. A filing usually has a single identifiable cause: a bad investment decision (Orange County, CA); a failed infrastructure project (Jefferson County, AL, and Harrisburg, PA); an expensive legal decision (Mammoth Lakes, CA); or escalating public pension costs (Central Falls, RI). State and city officials want to avert bankruptcies for several reasons, including the fact that the stigma of receivership and a state takeover can remain for years and increase borrowing costs for capital projects such as roads, parks, and public buildings.

Why cities are in trouble

The discussion about intervention has surfaced in the face of slow recoveries by cities after the worst economic downturn since the Great Depression of the 1930s. Local governments were the last to emerge from the Great Recession because of the lag time between the decline in home values and the drop in property tax revenue. In addition to the decline in real estate tax revenue, states have cut aid to local governments. These two sources, which together account for more than half of local revenue, dropped simultaneously for the first time since 1980. Cities also have laid off workers and scaled back services. More cuts are likely in the coming years as the federal government slashes spending to reduce the federal budget deficit. In the coming months, Pew will explore how economic trends, demographic shifts, and changes in service delivery are affecting 30 major cities. The research will help policymakers understand shared challenges and promising approaches.

The stages of municipal difficulty: Distress, crisis, and bankruptcy

States generally classify troubled cities as being in distress, crisis, and, in extreme cases, bankruptcy. Although states use different terms to define these categories, the concepts are the same: distinguishing between cities experiencing some sort of distress and those facing a full-blown crisis. This section explains some of the criteria for both.

Distinguishing between distress and crisis

In managing revenue and expenses, local governments occasionally confront deficits and periods when they lack enough cash to cover expenses. Most of the time, they find ways to get through the temporary trouble by, for example, borrowing money over the short term. But when budget gaps widen and a city cannot pay its bills, meet its payroll, balance its budget, or carry out essential services, the local government is viewed as distressed. Officials usually respond with some combination of service cuts, worker layoffs, tax and fee increases, reserve spending, and borrowing. If those measures do not work and the city no longer has the money to meet its obligations, the distress can escalate into a crisis or financial emergency, which may include defaulting on a bond payment or, in rare instances, filing for Chapter 9 bankruptcy protection.

Of the 19 states that have enacted laws allowing intervention, definitions of these terms vary. Nevada, for example, lists 27 conditions that the state weighs before determining that a local government is in “severe financial emergency,” including budget deficit, late payments to vendors, inability to meet payroll or pay bondholders, losses from imprudent investments, and failure to keep up with public pension payments. Florida considers a local government or school district to be in an emergency if officials determine that state assistance will be needed to resolve or prevent the crisis.

To define municipal distress and crisis, these states use different fiscal indicators, though many of the standards are common, overlapping measures. Over the years, a number of federal agency officials, researchers, and organizations, particularly the International City/County Management Association, have developed early-warning indicators upon which states can draw. The association’s 42 indicators include financial measures, such as whether a local government is spending more money than it is taking in; benchmarks, such as a city’s political culture; and outside economic events, for example, downturns.

Florida’s extensive monitoring requires local governments to hire independent certified public accountants to review municipal finances and suggests that the accountants evaluate them based on an intricate system of 13 indicators. Among these are revenue and expenses; ability to raise cash to meet current needs; capacity to pay long-term debt; whether a city’s tax structure can support its level of services over time; changes in the amount of outside revenue, such as state aid; and whether the property tax rate is close to a state-imposed limit and thus would make it difficult to raise additional money.

If the outside accountants determine that a city’s financial condition is deteriorating, they are required to report that to city officials. The city, county, or school board must then tell the governor and legislature if it meets one or more of the conditions needed for the governor to declare a financial emergency and offer state assistance. The conditions, spelled out in Florida statutes, include failure to pay short-term loans or debt service expenses because of a lack of funds and the inability to cover a budget deficit.
**State laws vary in defining local distress, allowing municipal bankruptcies, and providing intervention programs**

Table 1: Local distress policies, 50 states

<table>
<thead>
<tr>
<th>State</th>
<th>Law Designating Local Fiscal Distress</th>
<th>Bankruptcy Authorization</th>
<th>Intervention Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>no</td>
<td>yes (bonds only)</td>
<td>no</td>
</tr>
<tr>
<td>Alaska</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Arizona</td>
<td>yes\textsuperscript{iii}</td>
<td>yes</td>
<td>no*</td>
</tr>
<tr>
<td>Arkansas</td>
<td>no</td>
<td>yes</td>
<td>no*</td>
</tr>
<tr>
<td>California</td>
<td>yes\textsuperscript{iv}</td>
<td>conditional\textsuperscript{i} (use of a neutral evaluator or declaration of fiscal emergency)</td>
<td>no*</td>
</tr>
<tr>
<td>Colorado</td>
<td>no</td>
<td>limited</td>
<td>no</td>
</tr>
<tr>
<td>Connecticut</td>
<td>no</td>
<td>conditional</td>
<td>yes</td>
</tr>
<tr>
<td>Delaware</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Florida</td>
<td>yes</td>
<td>conditional</td>
<td>yes</td>
</tr>
<tr>
<td>Georgia</td>
<td>no</td>
<td>no (specifically prohibited)</td>
<td>no</td>
</tr>
<tr>
<td>Hawaii</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Idaho</td>
<td>no</td>
<td>yes</td>
<td>no*\textsuperscript{v}</td>
</tr>
<tr>
<td>Illinois</td>
<td>n/a\textsuperscript{vi}</td>
<td>limited</td>
<td>yes</td>
</tr>
<tr>
<td>Indiana</td>
<td>yes\textsuperscript{vii}</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>Iowa</td>
<td>yes\textsuperscript{vii}</td>
<td>no (with exception)</td>
<td>no*</td>
</tr>
<tr>
<td>Kansas</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Kentucky</td>
<td>no\textsuperscript{ix}</td>
<td>conditional</td>
<td>no</td>
</tr>
<tr>
<td>Louisiana</td>
<td>no</td>
<td>conditional</td>
<td>no</td>
</tr>
<tr>
<td>Maine</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>Maryland</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>no</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>Michigan</td>
<td>yes</td>
<td>conditional</td>
<td>yes</td>
</tr>
<tr>
<td>Minnesota</td>
<td>yes\textsuperscript{x}</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>Mississippi</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>State</td>
<td>Law Designating Local Fiscal Distress</td>
<td>Bankruptcy Authorization(^i)</td>
<td>Intervention Program(^i)</td>
</tr>
<tr>
<td>-------------------</td>
<td>--------------------------------------</td>
<td>---------------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>Missouri</td>
<td>no</td>
<td>yes</td>
<td>no*</td>
</tr>
<tr>
<td>Montana</td>
<td>no</td>
<td>yes (but not counties)</td>
<td>no</td>
</tr>
<tr>
<td>Nebraska</td>
<td>no</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>Nevada</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>no</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>New Jersey</td>
<td>yes</td>
<td>conditional</td>
<td>yes</td>
</tr>
<tr>
<td>New Mexico</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>New York</td>
<td>yes</td>
<td>conditional</td>
<td>yes</td>
</tr>
<tr>
<td>North Carolina</td>
<td>yes</td>
<td>conditional</td>
<td>yes</td>
</tr>
<tr>
<td>North Dakota</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Ohio</td>
<td>yes</td>
<td>conditional</td>
<td>yes</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>no</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>Oregon</td>
<td>yes</td>
<td>limited</td>
<td>yes</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>yes</td>
<td>conditional</td>
<td>yes</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>yes</td>
<td>conditional</td>
<td>yes</td>
</tr>
<tr>
<td>South Carolina</td>
<td>no</td>
<td>yes</td>
<td>no</td>
</tr>
<tr>
<td>South Dakota</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Tennessee</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>Texas</td>
<td>no</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Utah</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Vermont</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Virginia</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Washington</td>
<td>no</td>
<td>yes</td>
<td>no*</td>
</tr>
<tr>
<td>West Virginia</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Wyoming</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
</tbody>
</table>

*Interventions occur in school districts only.

**Sources**

National Conference of State Legislatures survey of legislative fiscal officers, November 2011.

Table 1 endnotes

i As noted in “Municipalities in Distress?: How States and Investors Deal with Local Government Financial Emergencies,” 12 states specifically authorize a bankruptcy filing, another 12 states have conditional authorization, three states have limited authorization, two states generally prohibit a filing, and the remaining 21 states provide no authorization for a municipal bankruptcy filing. Without specific authorization from the state, a municipality may not file a petition under the U.S. Bankruptcy Code.

ii Arizona, Arkansas, California, Iowa, Missouri, and Washington have laws in place to intervene within their distressed school districts but not within their localities. They were not included in our typology.

iii For school districts only.

iv For local education agencies—school districts and county offices of education only. While the survey response was limited to education agencies, statute that declares fiscal emergency by local public entity has since been put in place. See CA GOVT § 53760.5 (AB 506).

v Idaho intervenes within its school districts, but it does so to recoup expenditures made to repay debt on behalf of the district rather than to restore the locality’s fiscal health. In addition, the state’s provision for debt readjustment plans for irrigation districts should be noted. It has significance given the importance of irrigation and highway districts in Idaho’s economy. Such districts, however, were not included in this typology.

vi Illinois did not respond to the NCSL survey. However, the state has a legal process in place to designate a local government in fiscal distress or fiscal emergency—see 65 ILCS 5/8-12-2. The triggering conditions can be found in statute. See 50 ILCS 320 [http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=706&ChapterID=11].

vii Only at the township level.

viii For school districts only.

ix Kentucky responded “no” to the NCSL survey, but some literature (State Budget Crisis Task Force, 2012, and Coe, 2008) describes the state as having effective early fiscal distress detection and intervention mechanisms. This seems to be in the form of the Department for Local Government—where the state local finance and state local debt officers establish and monitor compliance with statewide financial management guidelines for counties, cities, and special districts and require all local governments to notify (and in some cases gain approval from) the state before issuing any debt. See KRS 68.250 and KRS 66.310. Kentucky proactively manages the fiscal governance of its municipalities to avoid ever having to declare a locality in fiscal distress.

x For school districts only.
North Carolina has a sophisticated tracking system. Local governments submit financial data extracted from state-mandated reports by independent auditors. Working with the U.S. Census Bureau, the staff of North Carolina’s Local Government Commission develops a financial profile of each city and county that is shared in a public database. The profile lists many of the same financial indicators that Florida uses. When commission staff members spot a potential difficulty in the indicators, they send city officials a letter asking about plans to correct the problem. The state has the authority to intervene and run the city’s day-to-day operations if local leaders are reluctant.

**Michigan fiscal indicators**

Michigan treasury officials asked Michigan State University to help develop a set of measures the state could use to evaluate local governments’ financial health. With these measures, state officials analyze nine categories and assign points to determine the municipalities’ financial “stress” scores, which are posted on the Michigan Department of Treasury website. Among the categories are population trends, increases and decreases in property tax value, general fund spending as a percentage of property tax value, budget deficits in current and prior years, and long-term debt as a percentage of property tax value.

i State of Michigan Department of Treasury website, http://www.michigan.gov/treasury/0,1607,7-121-1751_47023-171423--,00.html.

**Bankruptcy**

In the most extreme instances, municipal crises can lead to bankruptcy, an event that state and local policymakers work to avoid. Such filings are rare, drastic alternatives to direct intervention. Even if local government budget distress is widespread, as it was in many cities during the Great Recession, states generally limit the use of Chapter 9 bankruptcy protection as a solution.

Cities cannot file for bankruptcy without the state’s permission. Twenty-seven states authorize some form of bankruptcy with varying conditions. Two states—Georgia and Iowa—have enacted statutes prohibiting cities from seeking Chapter 9 protection. The remaining 21 states do not have laws allowing or prohibiting municipal bankruptcies. (See Table 1, page 9.)

Oregon allows only irrigation districts to seek reorganization. In Connecticut, the governor must approve a Chapter 9 filing. California sets a 60-day period for the local government and the parties affected by a potential bankruptcy—bankers, suppliers, vendors, and public labor unions—to first attempt a settlement negotiated by a mediator. The state also allows cities the option of skipping mediation and filing for bankruptcy protection after declaring an emergency, as San Bernardino did in July 2012.

Federal judges decide municipal bankruptcy cases, but a judge cannot liquidate a city as the court can liquidate a corporation in other federal bankruptcy categories such as Chapter 11. Instead, the judge is limited to determining the fairness of the city’s plan to adjust debts and pay creditors after discussions among the stakeholders.

Christopher M. Klein, chief judge of the U.S. Bankruptcy Court for the Eastern District of California, who is overseeing Stockton’s bankruptcy, says Chapter 9 filings are “intensely a negotiation model because the judge’s powers are greatly limited.”
Municipal bankruptcy is infrequent

“Municipal government” is a broader term than “city.” It also can include towns, villages, boroughs, counties, and special districts covering schools, hospitals, and utilities. Municipal bankruptcies are rare. Of the 55,000 municipal governments in the United States that sell bonds, only 276 have filed for bankruptcy protection since 1980. Most of those filings were by special districts, not cities. Nebraska leads all states in municipal bankruptcy cases, with 55 since 1980, but those were special tax districts, not local governments. In 2013, Detroit filed the largest municipal bankruptcy in U.S. history. In 2011, Jefferson County, AL, filed the largest county bankruptcy in U.S. history at $4.2 billion. A year later, Stockton, CA, became the largest city to file for Chapter 9 until Detroit. Before Jefferson County, the record for the largest Chapter 9 filing by population had been held for 17 years by Orange County, CA.

1 The Pew Charitable Trusts, email with James Spiotto, May 6, 2013. According to Spiotto, as of March 31, 2013, there had been 276 Chapter 9 filings since 1980 and 58 filings since 1984.

A spate of recent high-profile local government defaults and bankruptcy filings in Alabama, California, Pennsylvania, and Rhode Island coincided with the Great Recession and the sluggish recovery that followed. Although the downturn worsened local finances, it was not the main reason the cities and counties declared bankruptcy or default. In fact, almost every recent emergency can be traced to a one-time blow or a structural problem that worsened over time. For example, Jefferson County, AL, and Harrisburg, PA, mismanaged large infrastructure projects over several years. Vallejo, CA, and Central Falls, RI, could not keep up their dramatically rising payroll and public pension costs. Mammoth Lakes, CA, and Westfall Township, PA, did not have the money to cover multimillion-dollar legal judgments against them. Wenatchee, WA, promised to backstop bonds for a regional hockey and concert arena but came up short of the revenue needed to honor its guarantee. Bell, CA, defaulted on part of its bonds after a corruption scandal in which eight city officials were charged with misusing taxpayers’ money. Stockton and San Bernardino, CA, sold millions of dollars of so-called pension obligation bonds before the recession to help cover the cost of their employee retirement benefits. But the interest costs of borrowing exceeded the assumed rate of return, a major reason why Stockton and San Bernardino filed for bankruptcy.
The stakes: Why states may intervene in local government problems

States have many different motivations to intervene. Preventing stigma, credit downgrades, and contagion as well as preserving public health and safety, and economic growth and stability are all potential drivers of state action.

States have a long history of intervening

State officials have attempted to help cities avoid financial disaster for years. In 1921, the New Hampshire governor created a commission to oversee Manchester’s troubled finances, an early example of a state intervening with a financial control board. Ten years later, the North Carolina Legislature responded to a wave of municipal defaults at the start of the Great Depression by creating a commission to advise troubled cities and impose budget controls if necessary. New York state lawmakers advanced money to New York City in 1975 and set up an independent corporation to sell bonds backed by state taxes to help the city avoid bankruptcy. Then, in 1978, after Cleveland became the first major city since the Great Depression to default on short-term notes, the Ohio Legislature allowed the city to borrow money from the state to avert bankruptcy. That set in motion the creation of a state-run system for monitoring local government finances. In 1987, following a rash of local government financial problems stemming from the decline of manufacturing, Pennsylvania started a program to keep an eye on its cities’ finances and rescue the worst ones. The state created a separate agency in 1991 to help Philadelphia overcome its budget crisis. The Pennsylvania Intergovernmental Cooperation Authority exists to this day, with the power to review and approve the city’s five-year financial plans. If the authority rejects a plan, it has the power to withhold a share of the city wage tax.

Stigma

One common motivation for states that have set up intervention programs is protecting their reputations. “They can’t sit there and watch their cities suffer, because it’s their own fate that will suffer, too,” says municipal bankruptcy attorney James Spiotto.22 States that intervene often want to avoid the stigma that would come from their cities filing for bankruptcy protection. Bankruptcy is usually an act of desperation that damages a city’s prospects for economic growth and its ability to borrow money for improvements to roads, sewers, schools, and other capital projects. Its image can be damaged for many years, as Vallejo, CA, has demonstrated in a state that does not assist troubled local governments.

During its bankruptcy from 2008 to 2011, Vallejo could not borrow money to maintain its streets or replace its aging police cars and fire trucks. After the city cut its police force by 42 percent and firefighters by 47 percent, violent crime rose, as did response times to fires and medical emergencies. The city saved $34 million by avoiding paying a portion of interest costs on its bonds and rejecting expensive labor agreements, but it spent more than $13 million on legal fees, which counteracted the savings. The city’s troubles made national headlines (“Broke Town, U.S.A.,” The New York Times called it23), and Vallejo lost population as other large San Francisco Bay Area cities gained residents.24

Other states, concerned about similar consequences and publicity, are more active in attempting to halt their cities’ financial slides. Michigan’s current and former governors rejected requests from Hamtramck, a suburb of Detroit, to file for bankruptcy protection in both 2010 and 2011. State officials said they were worried that
it would have a ripple effect on other distressed Michigan governments and reflect poorly on a state trying to emerge from a decade-long decline. Likewise, two Pennsylvania governors and Legislatures have blocked Harrisburg’s efforts to file for bankruptcy protection since 2010, saying the state government should help its capital city before a court steps in.

Bridgeport, CT bankruptcy is blocked

Connecticut lawmakers agreed to guarantee loans to Bridgeport in 1988 after the state’s largest city could not plug a widening budget gap. Three years later, Bridgeport filed for bankruptcy protection, but the state successfully blocked it in court after a federal judge said the city had enough cash to pay its bills. It was the first time a major U.S. city had attempted to use bankruptcy as a remedy for its fiscal mismanagement. State officials intervened because they were worried it would set a precedent for other Connecticut cities and would diminish the state’s own financial standing. “The fact that the state’s position was sustained puts us into the position where we can help all the other cities in this state, including Bridgeport,” said then-Governor Lowell P. Weicker Jr.


Credit downgrades

Another concern of states is that the agencies that rate municipal bonds for investors, including Moody’s, Standard & Poor’s, and Fitch, could downgrade the state’s credit rating if its local governments are unhealthy. That could raise the cost of borrowing by the state, inhibiting short-term cash flow as well as long-term capital financing. It could also cause bond buyers to stop investing in state debt.

Protecting the state credit rating was a clear motivation behind Rhode Island’s decision to reinforce its intervention program in 2010 after Central Falls was heading toward bankruptcy. “The governor and General Assembly have been united on the need to be proactive with state oversight, which has proven valuable with rating agencies,” said Rosemary Booth Gallogly, Rhode Island’s revenue director. Moody’s, which considers many factors in its credit ratings, says it will not raise a state’s bond rating simply because it has a local government intervention program. But the agency notes that such oversight strengthens the state’s financial standing by ensuring that its local governments are secure. All three major credit rating agencies have rewarded North Carolina and many of its local governments with the highest rating, citing the state’s culture of prudent financial management, which includes strong intervention in municipal finances.

But it is unclear whether a state’s rating is affected by the financial health of its cities. Standard & Poor’s does list local government financial difficulties among a broad set of criteria that may move a state’s rating up or down. S&P, Moody’s, and Fitch place greater emphasis on a state’s overall budget management and its economy in determining credit ratings. S&P has never lowered a state’s bond rating specifically because one or more of its cities was distressed or because of the lack of an oversight program.

Detroit is the most financially troubled big city in the nation. Despite this, Fitch upgraded Michigan’s general obligation bond rating in May 2013, and S&P and Moody’s elevated the state’s bonds from stable to positive. The agencies cited Michigan’s improving economy.
Contagion

Closely related to the worry about lowered credit ratings as a motivating factor for state intervention is concern over a phenomenon called contagion, when distress in one city spreads to the state or other local governments. Concern about contagion surfaced during the New York City financial crisis of 1975, when the governor and Legislature stepped in to help rescue the city in part because they were nervous that the city’s distress would hurt the state’s ability to sell bonds. “Had the city’s financial situation not been at the very least stabilized, the state itself and its agencies and indeed every local community would have been in drastic financial difficulty,” Felix Rohatyn, chairman of the Municipal Assistance Corporation, which lawmakers set up to sell bonds to aid the city, said at the time. More recently, California Treasurer Bill Lockyer said after the Stockton and San Bernardino bankruptcy filings that local governments could wind up paying more to borrow money if financial troubles spread from city to city. He said local fiscal distress, especially bankruptcy, “does more than inflict long-term harm on the community. The reputational stain can bleed onto other local issuers and the State, and that can hurt taxpayers in the bond market.”

Concerns about contagion were a reason that Pennsylvania advanced $4 million in loans so Harrisburg could make a bond payment in 2010. Then-Governor Edward Rendell said he was worried that missing the payment “would devastate not only the city, but the school district, the county, and central Pennsylvania.”

A year after strengthening their state’s intervention program, Rhode Island lawmakers were so concerned about fallout from the Central Falls bankruptcy filing that they approved a law giving investors holding bonds in bankrupt cities the right to place liens on tax revenue, an unprecedented guarantee of repayment aimed at preventing contagion. Municipal bond market analysts praised Rhode Island’s move, saying a city’s default could thin the number of lenders in the state, potentially push interest rates higher, and encourage underwriters to view other local governments within Rhode Island more conservatively.

Although the risk of distress in one local government widening to its peers, or its state, has motivated state interventions, the actual threat can be overstated. Fitch raised Michigan’s credit rating in April 2013, despite the struggles of Detroit, its largest city. Alabama municipalities have issued debt despite the bankruptcy of Jefferson County. The bankruptcies and financial emergencies in California cities have not had widespread effects on other local governments, Standard & Poor’s has observed. “The small number of municipal bankruptcies is a testimony to the resilience of local governments and their ability and willingness to scale back expenditures and align them with lower revenues,” S&P said in January 2013.

David Skeel, a professor at the University of Pennsylvania and one of the nation’s top bankruptcy law experts, says: “The restructuring of one city is a lot less likely to have contagion effects on other cities in those states than people in the bond market tend to believe.”

Public health and safety

States have another motive for getting involved: avoiding service interruptions, especially those threatening public safety and health. In 2011, when city officials in Harrisburg failed to name a manager to implement a state-supervised recovery plan, state lawmakers intervened with legislation allowing the governor to appoint one. (See profile of Pennsylvania, page 31.) In signing the bill, Governor Tom Corbett cited the need to maintain order. “I remain a strong proponent for municipal governments tackling their own problems and coming together to develop a fiscal recovery plan when necessary,” Corbett says. “But when that fails to happen, the state has to take action to ensure public safety.”
Some troubled cities have sought to balance budgets by cutting police officers and firefighters, jeopardizing public safety. In 2011, New Jersey Governor Chris Christie sent state troopers to help patrol Camden after cuts to the city’s police force led to an increase in crime, including murder.39 (See profile of New Jersey, page 37.) Under prodding from the state, the mayor and police chief disbanded Camden’s police force and persuaded the county to create a department with a division dedicated to the city. “If we can help them get a more efficient county police service—so that they get more service for the same amount of money—then that will get people saying the city is on an upturn,” says Thomas Neff, the state’s director of local government services.40

Economic stability and growth

Another motivation for state intervention is strengthening the state’s economy. Avoiding contagion, securing high bond ratings, and maintaining safety and health are important for overall state economic health. The financial condition of cities is closely intertwined with their ability to borrow the money they need to build roads, schools, and amenities such as parks that attract residents and businesses to create good-paying jobs. “The municipal securities market is the bedrock for funding of local government projects throughout our country,” says Securities and Exchange Commission Chairman Mary Schapiro.41

Vibrant, financially stable communities are the building blocks of strong statewide economies and help produce tax revenue that pours into state government coffers. Michigan leaders say they cannot retool their economy unless their largest city, Detroit, is financially healthy. “The state can only be as strong as its component parts,” says Terry Stanton, communications director for the Michigan Department of Treasury. “Having financially sound, vibrant local units only makes the state better from an economic standpoint, a livability standpoint, and from the standpoint of attracting companies that will create jobs and call the state home.”42
State approaches to intervention

State laws on local intervention vary regarding who carries out the action and what practices are used. The following sections take a closer look at these differences between states.

Who conducts the intervention?

States generally choose from among three groups to carry out the intervention, or use a combination of them:

Receiver, financial manager, overseer, or coordinator. States may appoint an outside person, usually with an extensive financial and legal background, to take charge of the distressed city’s operations and budget. Such a receiver or overseer is in place temporarily, until the city recovers. Rhode Island Governor Lincoln Chafee first turned to Robert G. Flanders, a specialist in municipal restructuring, to guide Central Falls out of bankruptcy in 2011-12.43

State agency. Another approach used in some states, such as Pennsylvania, is to designate an agency within the state government instead of an outside person to supervise the city’s restructuring. The secretary of the Pennsylvania Department of Community and Economic Development appoints a coordinator to develop and manage a city’s recovery plan. The coordinator may be a state employee within the agency but more often is a local expert, such as the Pittsburgh law firm that handled that city’s recovery.

Financial control board or state-appointed board or commission. Finally, a state may opt to appoint a financial control board or commission, usually consisting of a combination of local and state officials, some with budget expertise.

A state may use just one of these strategies or a combination. Massachusetts does the latter, deciding which approach to take on a case-by-case basis. The state may send an overseer to a severely distressed city or appoint a financial control board. The legislature dispatched a receiver to Chelsea in 1991 after the city ran out of cash to pay workers and bills. The receiver restored Chelsea’s finances with spending cuts and left in 1995.

Springfield, Massachusetts’ third-largest city, was similarly distressed in 2004 when state lawmakers established a five-member financial control board made up of state and local appointees.44 In exchange for taking over the city’s day-to-day operations, the state guaranteed a $52 million interest-free loan so that Springfield could pay its bills. The board’s powers were significant, including the authority to replace binding arbitration with voluntary mediation for future labor contracts; hiring and firing city employees; approving all contracts for goods and services; organizing the city government as it saw fit; and raising or cutting any fee, rate, or other charge for a city service, license, or permit. The board was dissolved and management of the city restored to the local government after Springfield ended the 2009 budget year with $35 million in reserves.45
Intervention practices

Apart from who administers the oversight, the actual intervention practices vary among the 19 states that have laws in place. No two are alike, but there are similarities in the types of assistance they extend to local governments. Some allow restructuring of finances, including debt, labor contracts, taxes, fees, and credits. Some provide technical assistance, while others offer loans and grants. Here are examples of intervention practices:

**Debt.** Fourteen of the 19 states allow the receiver, state agency, or control board to approve bond sales or renegotiate the terms of existing bonds on behalf of the city government. New York state lawmakers created corporations in New York City in 1975 and Troy in 1995 to sell bonds to help those cities raise money and balance their budgets, among other things.46 The Illinois Legislature stepped in to rescue East St. Louis in 1990 with an unprecedented package of loans, state bonding authority, a financial manager, and a five-member Financial Advisory Authority.47

**Labor.** Seven states permit intervenors to reduce labor costs in distressed cities by giving them the authority to renegotiate existing labor contracts, including multiyear pacts that called for increases in salaries, benefits, or other compensation. Nevada’s “severe financial emergency” law allows a manager, appointed by the state Department of Taxation, to negotiate and approve most collective bargaining agreements for a city in a crisis.48 Rhode Island gives its state-appointed receivers the ability to negotiate new union contracts.

**Taxes, fees, and credits.** Ten states give intervenors authority to increase existing taxes and fees or implement new ones. The Central Falls receiver used his power to raise property taxes 4 percent in five successive years as part of a plan for the city to emerge from bankruptcy in 2012.49 The tax hikes, public pension benefit cuts, and reductions in city services he implemented were not popular with residents.

**Emergency financing.** Although 13 states provide in statute for state loans (often no- or low-interest loans), grants, or credit guarantees, few offer these options to municipalities in practice because of dwindling state revenue and the risk that the states will have to dole money out to every city or county that asks for help. New Jersey gives cities modest amounts of money, which it calls transitional aid. After years of escalating state aid, the program has contracted under Governor Chris Christie from about $200 million when he took office in 2010 to about $95 million in fiscal 2014.50

**Technical assistance.** All of the states with intervention programs, except New Hampshire, offer technical advice to financially troubled local governments. The assistance includes auditing records, creating a financial plan, putting together a balanced budget, negotiating and approving labor and other contracts, and approving spending. In Ohio, the state auditor charges local governments for technical help with financial reports, accounting, and forecasts. The consulting is free if the auditor has placed the city, county, or school district under a fiscal caution, watch, or emergency, the three designations of financial distress.51 In 2012, the mayors of the villages of Tiro and Newcomerstown asked auditor Dave Yost to conduct an analysis of village finances. After the audits, Yost placed them both in the fiscal emergency category and offered support in developing a recovery plan.

**Dissolving or consolidating local government involuntarily.** Michigan, Nevada, and Tennessee allow the intervenor to dis-incorporate and dissolve a city and consolidate it with other nearby jurisdictions. The Nevada Department of Taxation, the state agency charged with intervening in local government financial emergencies, took over the small city of Gabbs in 1999 after concluding that increasing property taxes and water and sewer fees would not raise enough money to balance Gabbs’ budget. Two years later, the Nevada Legislature, which originally had incorporated Gabbs, voted to dissolve and dis-incorporate the city and place it under control of the county government.52
**States’ intervention programs for distressed localities reflect a range of practices**

Table 2: Strategies employed in the 19 states that allow intervention in local finances, early 2013

<table>
<thead>
<tr>
<th>State</th>
<th>Receiver/Financial Manager/Overseer/Coordinator</th>
<th>State Agency</th>
<th>Financial Control Board/State-Appointed Board or Commission</th>
<th>Restructure Finances: Renegotiate, Approve, or Issue Debt</th>
<th>Restructure Finances: Labor</th>
<th>Restructure Finances: Taxes, Fees, Credits</th>
<th>Emergency Financing (Enhanced Credit Backing, Loans, Grants)</th>
<th>Supervise Finances/Technical Assistance (Including Approving Budgets)</th>
<th>Disincorporate/Dissolve/Consolidate Local Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>CT</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FL</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IL</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IN</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ME</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MA</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MI</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NV</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NH</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NJ</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NM</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NY</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NC</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OH</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OR</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PA</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RI</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TN</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TX</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source*

The Pew Charitable Trusts
Connecticut: The state deals with fiscal distress in an ad hoc manner. Four special acts have been enacted to restore fiscal sustainability within municipalities. See LCO 4532 (Waterbury); SA 92-5 (West Haven); SA 88-80, 89-23, 89-47, 90-31, 91-40 (Bridgeport); and SA 93-4 (Jewett City) [http://cga.ct.gov/2001/rpt/2001-R-0312.htm].

Florida: See F.S.A. § 163.05, 163.055, and 218.50-218.504.

Illinois: See 65 ILCS 5/8-12-1 through 65 ILCS 5/8-12-24 (Financially Distressed City Law) and 50 ILCS 320/1 through 50 ILCS 320/14 (Local Government Financial Planning and Supervision Act).

Indiana: See IC § 6-11-20.3-1 through 6-11-20.3-13 (Distressed Unit Appeal Board).

Maine: See 30-A M.R.S.A. § 6101-6113 (Municipal Finance Board).

Massachusetts: The state deals with fiscal distress in an ad hoc manner. See MA Session Laws: Chapter 58 of the Acts of 2010 and Chapter 169 of the Acts of 2004. Given this ad-hoc approach, we reviewed the text of the two Acts dealing with the Lawrence and Springfield fiscal crises.


Nevada: See N.R.S. 354.655 through 354.725.


New Mexico: See N.M.S.A. 1978, § 12-6-1 through 12-6-14 (Audit Act), N.M.S.A. 1978, § 6-1-1 through § 6-1-13, § 10-5-2, and § 10-5-8.

New York: The state deals with fiscal distress in an ad hoc manner. New legislation is passed for each municipality, establishing an emergency financial control board and laying out its powers. We looked at two cases in which such boards were established, for New York City and for Yonkers. See New York State Financial Emergency Act for the City of New York [NY Unconsolidated Law Ch. 22 § 5, http://public.leginfo.state.ny.us/]; Financial Emergency Act for Yonkers [http://codes.lp.findlaw.com/nycode/YFA/notes]; and Local Finance Law [§ 85.00 to 85.90, http://public.leginfo.state.ny.us/].

North Carolina: See N.C.G.S.A. § 159-1 through 159-180; N.C.G.S.A. § 63A; and § 159D. School districts are explicitly excluded from these provisions in the statute.

Ohio: See Ohio’s R.C. § 118, 133.34, and 3735.49. In the event that fiscal emergency is declared, a Financial Planning and Supervision Commission is formed for each distressed locality, or the state auditor becomes the financial supervisor if the locality has fewer than 1,000 people.

Oregon: See O.R.S. § 203.095-100 and § 287A.630. Oregon’s fiscal control board is established in the event that a county is declared to be in a state of public safety emergency.


Rhode Island: See RI GEN LAWS § 45-9-1 through 45-9-14.


Texas: See T.C.A., Local Government Code § 101.006. Municipalities that cannot pay their debts can voluntarily request that a receiver be appointed (this is a court-appointed receiver).
The ad hoc intervention approach

New York, Connecticut, and Massachusetts do not have comprehensive intervention programs, though they do assist their distressed local governments. Each case is treated differently. Following a series of financial problems in New York cities, the state permitted Yonkers and Newburgh to sell bonds but required them to reserve a portion of their tax revenue in a special fund managed by the state comptroller to pay debt service. Lawmakers were stricter with the cities of Buffalo and Troy and the counties of Erie and Nassau. Each municipality is run by a state oversight board, and each board has its own set of duties, according to the legislation that created the boards.

New York does have one common intervention tool that applies to all cities and school districts. The state allows local governments to borrow money to plug operating budget gaps, but the bond sales are subject to the strict oversight of the state comptroller. Source: New York Local Finance Law, section 10.10.


Northeastern states are most likely to have intervention laws, which may reflect the distress in many older cities that is aggravated by the decline of manufacturing

Figure 1: The 19 states that permit intervention into local finances

Sources

National Conference of State Legislatures survey of legislative fiscal officers, November 2011.

Challenges and solutions

Although no single intervention approach fits every state, Pew’s research did identify several practices that states should consider in adopting or altering their intervention programs:

Local governments will continue to confront slow revenue growth and spending pressures in the near term. State governments should not merely react to local crisis. Rather, states need to be proactive in monitoring local government financial challenges and instituting long-term financial planning.

Challenge: Detecting local government financial challenges

Historically, states react to crises instead of trying to prevent them. Gina Raimondo was a partner in a venture capital firm before she was elected treasurer of Rhode Island. The greatest lesson she learned in the private sector was that the best chief executive officers recognize and tackle problems early instead of waiting for them to escalate. States should do the same, she says, with the executive branch leading the way. Adds Rosemary Gallogly, Rhode Island’s revenue director: “The goal is to help cities avoid oversight” in the first place.53

Solution: Establish a local government monitoring system

That is the aim of New York state’s new local government monitoring system, established by Comptroller Thomas DiNapoli, in which cities and school districts send him financial data throughout the year. Using that data and nine financial indicators, DiNapoli created a stress-scoring system similar to Michigan’s. The scores classify levels of distress—significant, moderate, “nearing fiscal stress,” or none of those. The comptroller’s office offers technical assistance such as early-stage budget planning to help the city or school district correct problems and forestall a deeper crisis. In this way, DiNapoli says, “We can have a more honest conversation about the status of their budgets, what the numbers are, as a way to come up with solutions.”54

In North Carolina, the high credit ratings of cities and towns mean their borrowing costs are low. Investors know that their bonds are relatively safe because of the structure in place to support and advise North Carolina cities. “The framework has been very effective,” says Matt Fabian of Municipal Market Advisors.55 (See profile of North Carolina, page 34.)

If California had a monitoring system in the 1990s, state officials might have detected that Orange County had a large amount of interest income from risky investments that accounted for a higher-than-average percentage of its revenue. That information could have indicated that Orange County was headed toward trouble.56 In 2012, driven by the series of recent municipal bankruptcies in the state, California Treasurer Bill Lockyer proposed an early warning system for California similar to the New York model.57 (See profile of California, page 43.) James Spiotto, the municipal bankruptcy lawyer, says that although some financial monitoring triggers are unique to certain states, it would be helpful for all states to develop objective criteria that everyone could use to detect trouble in local governments.58
Challenge: Short-term financial outlooks

So many decisions that cities and states make are long term—leases, retirement benefits, and bonds—yet officials generally take a short-term, year-to-year approach to managing their finances. Richard Ravitch, a former New York lieutenant governor who helped New York City avert bankruptcy in 1975, says too many local governments use one-time measures to paper over ongoing problems. For example, some local (and state) governments borrow to solve short-term budget and long-term pension problems. One reason for New York City’s 1975 financial crisis was that the city used short-term debt to cover budget deficits and repay past borrowings.59 Ravitch and other specialists say states should encourage local governments to borrow only when it makes sense, such as for long-term capital needs.

Solution: Cities and states should institute long-term financial planning and offer technical advice to localities

To limit intervention, states and cities should learn how to look to the future by developing multiyear financial plans to guide their decisions. This strategy provides governments with a structure to match expenses and revenue over several years. Ravitch says one of the reasons that New York City has avoided another budget crisis is its emphasis on long-term plans.60

Those plans should include a focus on so-called legacy costs such as retirement benefits. One reason Pittsburgh has stabilized its shaky finances in the past few years is its reliance on five-year plans to increase public pension contributions and pay down debt.

States should also consider offering city officials more technical finance training. Michigan Treasurer Andy Dillon says he is amazed in some instances by the lack of budget sophistication at the local level, even on such basics as comparing actual financial results to projections in budgets. “It’s stunning to me how much lack of training there can be,” Dillon says.61

Creating state intervention programs would come with costs at a time when states are facing limited funds and staffing, which test their ability to monitor local government fiscal trends or offer direct aid to struggling cities. State officials will need to balance assisting cities with managing their own resources and making strategic decisions about whether to intervene and, if so, how.

Challenge: States are facing their own budget constraints and have limited resources to help localities

Direct aid to local governments, though an option for states, is not easy. States may not have money to offer grants or loans to cities, as some once did. And some officials worry that the availability of state aid could serve as an incentive for localities that are experiencing financial distress to neglect their problems. New Jersey Governor Chris Christie cut state aid to distressed local governments in part because he said cities could become too dependent on state money. (See profile of New Jersey, page 37.) Even if money is available, state officials say they may be leery of bailing out cities for fear of sending a signal to other local governments that it’s OK to overspend because the state will rescue them. When Massachusetts leaders considered giving Springfield a $20 million cash grant and $30 million interest-free loan during its 2004 budget crisis, the House speaker blocked the grant, saying it would prompt other local lawmakers to ask for money, burdening the state treasury.62
Some costs are necessary. Michigan and Rhode Island, two states squeezed by the Great Recession, are hard-pressed to take on additional spending. Yet Michigan is paying Detroit’s state-sponsored emergency manager $275,000 a year.\textsuperscript{63} Rhode Island, after expanding its intervention program in 2010, enlarged the state finance department and gave Central Falls a one-time allocation of $2.6 million to soften the impact of public pension benefit cuts on retirees over five years.\textsuperscript{64}

**Solution: States can make strategic (and creative) choices about how they intervene**

Some states have mitigated the costs of helping local governments by using existing resources. New York is using current staff to oversee its recently expanded local monitoring system. Although tradeoffs remain, the state has avoided the immediate expense of hiring and training additional employees.

And there are times when the state can help cities with limited risk, such as when New York state agreed in March 2013 to advance the timing of a $7.8 million payment due to Albany to balance its budget.\textsuperscript{65}

New York also demonstrated how states can be creative with financial aid. During the 1975 New York City financial crisis, the state essentially used its credibility in the bond market to assist the troubled local government. The state advanced the city about $800 million, but it also created the Municipal Assistance Corporation to sell up to $3 billion in state-backed bonds to refinance the city’s debts. This form of bridge financing gave New York City much-needed immediate cash and helped it climb back without dipping into the state’s coffers.\textsuperscript{66}

City officials and local residents often resent state government stepping in to manage their affairs. When possible, the intervention should be designed to involve all stakeholders in discussions, to be transparent with financial information, and to limit tension by resolving financial problems and returning control to local officials as quickly as possible.

**Challenge: Balancing state oversight with local control**

Pew’s research shows that state intervention often is viewed as a usurping of local democracy because unelected state officials make decisions usually left up to local mayors and councils. Unions, a powerful political force in some states, often resist state oversight because they are afraid it could affect wage and benefit negotiations. Protests and division among city and labor leaders marked Michigan’s takeover of Detroit in 2013. In nearby Allen Park, officials unsuccessfully contested Governor Rick Snyder’s September 2012 decision to appoint an outside emergency financial manager. “Any city that has an EM [emergency manager] has suffered a tremendous erosion in how people view that city,” says Mayor William Matakas. “An EM is a very harmful thing for the future of a city.”\textsuperscript{67} Despite Rhode Island’s positive portrayal of the Central Falls bankruptcy, resentment lingers. “It looks like the Germans occupying Paris, that’s what it looks like,” said a lawyer for some members of the Central Falls City Council, which reluctantly moved aside when the state-appointed receiver took over in 2011.\textsuperscript{68}
Solution: Engage stakeholders, be transparent, and be efficient

To overcome those fears, intervenors should engage the entire community—unions, elected officials, city employees, investors, municipal bond lawyers, and other stakeholders—to gain its trust. Rhode Island officials’ intervention in Central Falls was relatively fast because they emphasized negotiation, not litigation and confrontation, says Theodore Orson, the attorney who represented the state and receiver in the bankruptcy. It was not easy at first, because the state was trying to persuade city employees and retirees, most of whom were represented by a labor union, to voluntarily roll back their pension benefits. State officials say they convinced the stakeholders of their sincerity through transparency: showing the retirees the numbers and building the case that they would otherwise eventually lose benefits altogether. Also key was a signed pledge by city officials that they would not cut pension benefits again for at least five years.69

In their effort to be inclusive of all stakeholders, Rhode Island officials also did something no state had ever done to reassure investors. Lawmakers approved a measure guaranteeing bondholders top priority for payment over other creditors in municipal bankruptcies. The law ensured that Central Falls would not default on its bond obligations. Including bondholders favorably in the process contributed to the relatively fast resolution of the bankruptcy. In September 2012, a federal judge approved a plan allowing the city to come out of bankruptcy after only 13 months. “It’s record time, and record efficiency,” Judge Frank Bailey said from the bench. “In a way, I think this is an example—for not only Rhode Island, but maybe the nation—on how to run a Chapter 9.”70

Within two months, the credit-rating agencies raised Central Falls’ rating. The debate on the bondholders-first law lingers, however, because some analysts say it is not needed to ensure that a bankrupt city will still be able to borrow. “The bond market view tends to be if you do anything that prevents us from getting 100 cents on the dollar, the world is going to come to an end,” says David Skeel, a University of Pennsylvania law school professor and bankruptcy expert. “And my view is, there’s just no evidence of that.”71 Matt Fabian, a managing director at Municipal Market Advisors, counters that bond buyers, nervous about a distressed city, would be more curious about the safety of the city’s bonds, adding hours of research for underwriters and slowing the pace at which bonds come to market.72

Faced with sluggish revenue growth, limited money to aid their localities, and resentment from local officials for intervening in the first place, some states struggle to find the right intervention strategy to fit their needs. Fortunately, steps can be and have been taken to strike that balance. With the help of states, cities can act early to monitor and, hopefully, mitigate financial problems. In addition, states can use existing resources to decide upon the best intervention strategy by creating a plan that values transparency.
State profiles

By examining seven individual states, Pew researchers explored patterns of state and local experiences with financial distress, including what motivates states to intervene or not, how political and economic conditions can affect a state’s decision on whether to get involved, and what results the state efforts have yielded.

Alabama’s largest county must resolve bankruptcy without the state’s help

A historical unwillingness to raise taxes and political divisions deterred the state government from heading off the largest county bankruptcy in U.S. history

After the worst recorded tornado outbreak in Alabama history struck two-thirds of the state in 2011, killing 230 people, the governor and lawmakers immediately united to lead an effort to clean up debris, speed aid to victims, and repair and rebuild roads, bridges, schools, and other public buildings.73

But six months later, when Alabama’s largest county was nearing insolvency, state leaders declined to intervene to avert the largest county bankruptcy in U.S. history. Jefferson County, which includes Alabama’s most populous city, Birmingham, faced years of restructuring its finances, paying creditors, and trying to deliver services that were cut sharply for four years.

“We’re letting Jefferson County die on the vine,” says state Rep. Jack Williams, a Republican from the Birmingham suburbs. He worries that the bankruptcy will impede economic growth in the jurisdiction, which brings in the most revenue of Alabama’s 67 counties and affect growth in the state as a whole.74

In declining to assist Jefferson County, Alabama is an example of a state that has chosen to stay out of local government financial problems even when the consequences seem clear. This has been a controversial choice among some people. “The state is like a parent to a city,” says James Spiotto, a Chicago attorney who specializes in municipal bankruptcy matters. “Sometimes you want to call Child and Family Services on them.”75

Part of the difficulty with Jefferson County is that officials must sort out three separate but related issues simultaneously. One is the bankruptcy, which stems from the mismanaged and corrupt financial dealings around the rebuilding of the county sewer system. In June 2013, the county filed a plan in federal court to exit the bankruptcy in part by raising sewer fees.76 A second issue is Jefferson County’s operating budget. Officials have slashed $119 million from the budget in the past two years and may need to consider future cuts.77 In 2011, the Alabama Supreme Court struck down an occupation tax on workers’ salaries that provided more than a quarter of the county’s general fund revenue, and state lawmakers have been unable to approve legislation for a new tax.78 Finally, the county has struggled to meet fast-rising costs for a public hospital that serves the indigent. Officials took a big step to slash those expenses by eliminating inpatient care and reorganizing the hospital as an ambulatory and urgent care facility beginning in 2013.79
Alabama’s constitution limits county government power

Viewed through the lens of Alabama history, the state’s lack of intervention with Jefferson County is understandable. The 777-page state constitution, drafted in 1901, reinforced the long-held view of rural lawmakers that urban county governments should have little power. Alabama is a Dillon’s Rule state, meaning that the Legislature determines how much authority counties can have. Under this system, Jefferson County must have the state’s permission to raise revenue, and state lawmakers, eager to avoid being accused of raising taxes, are loath to give counties approval to levy taxes. (By contrast, Alabama cities do not need state approval to manage their finances.)

Also, Alabama has a limited state government and lacks experts to monitor the financial condition of local governments or advise them when they need help. For example, lawmakers did not rescue the town of Prichard when its public pension fund ran out of money in 2009 and officials stopped sending retirees their checks. The city later reached an agreement with the retirees to resume benefits at a reduced amount.

The state’s problems often end up with the federal government or courts, which have had to untangle state issues created from crowded prisons, gerrymandered legislative districts, inadequate mental health care, and insufficient civil rights protections.

“The problems at the state level are so severe that the Legislature feels it has its hands full just dealing with the state’s financial problems,” says Bill Stewart, a professor emeritus at the University of Alabama.

State leaders have not ignored Jefferson County. Governor Robert Bentley and his predecessor, Robert Riley, convened several meetings of elected officials and county business leaders to press for a solution. Riley unsuccessfully tried to negotiate an agreement with the county’s creditors. But neither Riley nor Bentley elevated the crisis as an urgent state matter, as only a governor can do.

“The primary problem is, it’s not viewed as a statewide issue,” says David Carrington, president of the Jefferson County Commission.

He worries that the state will miss opportunities to add jobs and revenue if its leaders do not help resolve the county’s troubles. Alabama recently has reinvented itself as an automobile and aircraft manufacturing center, but those companies have bypassed Birmingham for Tuscaloosa, Montgomery, Mobile, and Anniston.

State and county leaders are often split

Governor Bentley has said he understands the stakes involved, calling Jefferson County’s financial troubles “an impediment to economic growth.” His spokesman, Jeremy King, stressed that the leadership and fiscal breakdown is unique to Jefferson County and does not reflect on the rest of the state. Bentley is willing to intervene to help find a solution, King says, but the governor cannot go to the Legislature with a proposal until Jefferson County’s senators and representatives first reach a consensus.

“Without a unified delegation to go to Montgomery, there’s very little that Jefferson County can get done,” says Mark Griffith, a professor at the University of West Alabama.

The county’s eight senators and 18 representatives are split on proposals asking the GOP-controlled legislature to allow Jefferson County to impose taxes that would help it cover the budget gap and resolve the bankruptcy faster. Urban lawmakers generally favor taxes, while their suburban counterparts oppose them. The latter group says their
constituents do not see why they should bail out a local government that mismanaged its finances while raising sewer bills to finance the malfeasance of former elected officials. Seventeen people were convicted of bribery and fraud in the sewer scandal, which centered on risky interest-rate swaps connected with refinancing bonds.

Many lawmakers across Alabama embrace the same thinking. In the past three years, various proposals permitting Jefferson County to raise taxes have cleared either the House or Senate but have never been approved by both chambers and sent on to the governor. Many lawmakers believe a compelling case for state intervention has not been made.

“In areas outside Jefferson County, the feeling is, why should we bail them out for their poor financial management, for their bribery and kickbacks, and for what was a seedy, nefarious indebtedness?” says state Senator Arthur Orr, who represents the Huntsville area.

“That’s an excuse for not solving the problem,” responds Carrington, whose two predecessors on the county commission went to prison. He says residents in Jefferson’s richest suburban district support his rescue efforts. The county has laid off hundreds of workers; closed satellite courthouses; crammed its jails beyond capacity; stopped responding to minor traffic accidents; and curtailed mowing, weeding, and repaving.

Orr says economic studies are inconclusive as to whether Jefferson's bankruptcy will damage Alabama's other metropolitan areas. So far, the Chapter 9 filing has not affected the state’s borrowing costs. Surveys show job creation is state lawmakers’ top priority. Still, Carrington says potential businesses that once listed Jefferson County/Birmingham among their top five potential sites have dropped the area to a lower spot on the list.

Outside Alabama, analysts who follow municipal finances say state lawmakers’ recalcitrance can only hinder the state’s ability to emerge from the Great Recession. Matt Fabian, a managing director of Municipal Market Advisors, calls Alabama an example of “state exacerbation” instead of intervention.
Pennsylvania’s intervention program, one of the first, has had mixed success

State laws and poor local decision-making have hamstrung already struggling cities

Brian Jensen, an economic development specialist, calls it “the measles map.” A drawing shows an outline of Pennsylvania with 27 red splotches marking financially distressed cities in every corner of the state. Four in 10 Pennsylvanians have lived in one of them.

The 27 cities and towns have qualified for a 26-year-old state intervention program aimed at rescuing worst-case local governments that have chronic budget deficits, are in danger of failing to pay employees, or face default on bond payments. Officials simply call the program Act 47, the title of the legislation.

Pittsburgh is the largest Act 47 city. Harrisburg, the state capital, is the best-known recent addition because of its fight to avert bankruptcy. There is also Scranton, which raised taxes 22 percent in January 2012 to stay afloat. Reading, which has the largest share of residents living in poverty among U.S. cities of more than 65,000 people, is an obvious participant. Philadelphia would qualify, but lawmakers created a separate oversight board to handle its problems. More cities may be added in this state, which has the second-highest number of local governments in the country after Illinois.

If Pennsylvania’s goal is, as the law says, “to foster fiscal integrity” of its local governments, Act 47 has had modest results. Only six of the 27 cities have successfully emerged from the program, and a dozen others have been distressed for more than 10 years. Johnstown has submitted five recovery plans since joining in 1992. Aliquippa and Farrell, the first two Act 47 cities, are still in the program 26 years later.

“We’ve had success with it, and we’ve also had failure with it,” says Fred Reddig, head of the state department that runs Act 47.

However well intentioned the act may be, Pennsylvania demonstrates how a combination of forces beyond a state’s control as well as outdated state policies and local governments’ mistakes can block progress in helping cities rise from a cycle of despair.

“The problems that Pennsylvania municipalities face run far deeper than Act 47 can or was intended to resolve,” says Jensen, executive director of the nonprofit Pennsylvania Economy League of Southwestern PA.

Outside events play a role in local economics and in states’ ability to help

The drop in manufacturing jobs in Pennsylvania, especially in the steel and textile industries, hurt cities large and small. It was caused by external events, including increased foreign competition, advances in worker productivity, and a series of crippling recessions. From 1990 to 2009, manufacturing jobs declined 40 percent in Pennsylvania. Aliquippa, northwest of Pittsburgh, was typical. Its main job provider was an LTV Corp. steel mill that employed 14,000 workers at its peak but fell to about 3,500 by 1988, when the city entered the Act 47 program. The collapse of the plant, which closed in 2000, drained so much tax revenue that the city had trouble delivering basic services.

Aliquippa and Pennsylvania were caught in the recession of 1981-82, when the steel and coal industries began their decline, and the Great Recession of 2007-09, which resulted in four municipalities being added to Act 47 and prevented others from escaping it. One of the latter is Chester, a Delaware River city south of Philadelphia that was among those affected by the realignment from manufacturing to service and technology. Companies and people, most of them affluent whites, started fleeing Chester in the 1960s for jobs, better housing, and
superior schools elsewhere in the area. Tax revenue fell so precipitously that the city failed to balance its budget for six consecutive years before state officials accepted Chester into the Act 47 program in 1995. The financial challenges have continued ever since.102

On a larger scale, Pittsburgh went through a similar emptying of its urban core, culminating in a 2003 financial crisis that led to layoffs of 446 city workers, including 100 police officers. Though still in Act 47, Pittsburgh has recently improved its financial condition significantly by replacing manufacturing with health care, education, and technology jobs.103

Local officials also cannot predict when natural disasters might occur or when a judge might rule against them. In Plymouth, in northeast Pennsylvania, extensive flooding from the remnants of Hurricane Ivan in 2004 heightened the borough’s financial crisis. Three months later, a fire swept through the Municipal Building, disrupting operations for months and delaying Plymouth’s recovery.104

Westfall Township in northeast Pennsylvania took the rare step of filing for bankruptcy protection in 2009 after a federal judge awarded $20 million to a developer whom local officials had refused permission to build houses and a hotel. The township brings in only about $1 million a year in revenue.105

A 2011 state Supreme Court ruling created barriers to Scranton’s efforts to exit Act 47 after 20 years.106 As part of its financial recovery plan in 2002, the city tried to check rising labor costs by freezing wages and cutting benefits for unionized police and firefighters. Arbitrators awarded workers bonuses and raises, but a lower court reversed them, saying the pay increases would make it difficult for Scranton to carry out its financial recovery plan. After years of litigation, the high court sided with the workers, saying that a city’s Act 47 recovery plan does not negate Pennsylvania’s law promising binding arbitration to public safety workers in return for their agreement not to strike. Essentially, the decision meant that Scranton and other cities do not have the power to adjust public pension and retiree health care benefits and arbitration awards. The ruling knocked a $20 million hole in Scranton’s budget. Mayor Chris Doherty said: “Scranton did everything we were asked to do, and then we got bit by the state.”107

Pennsylvania has failed to address the underlying causes of municipal woes

Doherty and other city officials say the court ruling is further proof that state law has tipped in favor of organized labor in arbitration awards and public pension and retiree health care benefits. They say that until the Legislature, local officials, and union leaders collaborate to change state law and allow municipalities to cap personnel costs based on a government’s ability to pay, Pennsylvania inevitably will have more Act 47 cities.

York, just south of Harrisburg, could eventually join the program because its revenue and spending cuts cannot keep pace with fast-growing police and firefighter costs. Arbitrators have twice boosted public safety retirement benefits, triggering job cuts and steep increases in sewer fees and property taxes. City officials are projecting several more years of budget shortfalls. “We try to write as many parking tickets as we can,” quips Michael O’Rourke, York’s business administrator.108

Jensen argues that state law protects defined benefit pensions for police and firefighters, which he says will strap local governments for decades unless state lawmakers allow cities to cut benefits, including shifting to defined contribution, 401(k)-style plans for new hires. He says the unfunded local government pension liability statewide is $7 billion, of which Philadelphia accounts for $5 billion.

Local government officials also have urged state legislators to improve what they call Pennsylvania’s antiquated, unfair tax structure. State law bars cities from collecting property taxes from government buildings, churches,
hospitals, colleges, and social service agencies. This restriction removes a huge potential revenue source for many cities at a time when costs are rising faster than revenue. More than half of the assessed value of property in Harrisburg and Johnstown is tax exempt. State legislators have considered but not approved a bill that would channel money to local governments with large amounts of tax-exempt property. In 2013, some lawmakers proposed allowing the Legislature, instead of state courts, to decide which institutions should be deemed “purely public charities.”

In many places, the tax-exempt properties primarily serve people who live outside the city but do not pay taxes to finance city services. Pennsylvania has an earned income tax, but suburban commuters pay that to the communities where they live, not where they work. In York, 8,000 residents pay the tax on $345 million of income while 38,000 commuters earn $1.1 billion in the city but pay nothing to the city. Former governor Edward Rendell says the cities’ inability to collect tax from nonprofit organizations is their “single biggest problem.” Lawmakers from suburban jurisdictions tend to fight commuter wage tax proposals to protect their constituents. “There’s no political will to address the underlying causes of distress,” says York’s O’Rourke.

State officials say they hope that hydraulic fracturing, or fracking—the extraction of oil and gas from shale—could replace lost local government tax revenue through impact fees, a potential boost for Pennsylvania’s economy. The fracking issue is complicated by political and environmental concerns, however.

Cities’ poor decisions have contributed to their fiscal troubles

Pennsylvania’s cities contribute to their own distress through mismanagement, political infighting, and poor financial judgment. Reading has a history of sloppy recordkeeping, borrowing from its sewer fund for other operations without paying the money back, and failing to make its annual public pension payments. In Scranton and Harrisburg, the mayor and council are split over how to manage their fiscal crises. Scranton Mayor Doherty cut city workers’ pay without the council’s consent. Harrisburg’s collapse is due in large part to bad decisions by elected officials about a failed trash incinerator. The mayor and council officials have often fought between themselves; when the City Council filed for bankruptcy protection in 2011, the mayor blocked it.

Harrisburg and Scranton officials also engaged in a risky pattern of guaranteeing the obligations of financially shaky independent authorities that issued debt for the incinerator and downtown parking garages, respectively. When the authorities could not pay their debts, the cities were stuck with those costs on top of their other financial challenges. Taxpayers were left out of these decisions because bond guarantees are not put to popular vote.

The state can do only so much through Act 47. A state-appointed coordinator prepares a recovery plan for each distressed city but cannot force the jurisdiction to carry it out. The act also allows local officials to raise taxes above what the state usually permits, but they are often reluctant to do so. In a separate program, the state offers emergency loans and grants to help cities pay bills, but it is not as if Pennsylvania has plenty of spare cash. It advanced Harrisburg more than $4 million in 2010 to avert default, but that was an exception. “It’s not a panacea,” state administrator Reddig says.

One way to strengthen the program, Reddig says, would be for the state to offer incentives to relatively healthy local governments to merge with weaker neighbors. In this way, governments would share the tax base; the Minneapolis-St. Paul region pioneered this tax-sharing concept. Combining governments is difficult, however. In 2004, voters in five jurisdictions in Pennsylvania’s Mercer County rejected consolidation because they did not want to subsidize the two poorest cities.

“We’re going to have to come to a point where labor and taxpayers grapple with what it will take to operate a municipality and what sacrifices will have to be made,” Jensen says. “We’re not yet set up to have that conversation.”
Special North Carolina agency is a local government lifeline

State oversight and intervention help cities avoid distress

Nevada, Rhode Island, California, and North Carolina have some of the nation’s highest unemployment rates. All except North Carolina are replete with financially challenged local governments.

North Carolina’s success at dodging similar crises is due in large part to a little-known state agency called the Local Government Commission. Other states have formal and informal tools to assist local governments, but none has the same reach as North Carolina’s commission, which imposes budget controls and advises troubled communities.

The three large credit rating agencies that evaluate municipal bonds think so highly of the commission that they have rewarded North Carolina communities with bond ratings higher than those in most of the United States. The higher the rating of bonds sold by local governments, the more money taxpayers save on borrowing costs.

“The influence and oversight of the Local Government Commission is a major reason why North Carolina local government issuers have been able to weather this recession to this point,” says Andrew Teras, an associate director of Standard & Poor’s Financial Services rating agency. “North Carolina’s oversight model is one of the strongest of any state.”

The state program has its roots in the Great Depression

The commission is one of the oldest agencies in the state, created by the North Carolina Legislature in 1931 after a wave of municipal bond defaults in the first years of the Depression. The idea was to apply the state government’s conservative fiscal management philosophy to local governments.

The approach has largely worked. Since 1942, when most of the 414 Depression-era defaults had been refinanced, no North Carolina city, county, or special district has failed to meet a bond obligation. The local government commission has had to take financial control of only four cities and one water and sewer district during that 70-year period, a remarkable run considering the frequency of hurricanes that strike the state and the vulnerabilities created by the recent Great Recession.

“A lot of the credit [for avoiding financial troubles] goes to the presence of the commission,” says North Carolina Treasurer Janet Cowell, whose office includes the oversight agency.

The North Carolina commission does not back up its financial management of local governments with actual state dollars if a city, county, or special district is nearing default. Some states give cash to troubled governments; Pennsylvania advanced its capital city of Harrisburg $4.2 million in loans, grants, and state funds in 2010 to avoid a default on municipal bonds. California offers emergency loans to school districts, reducing their borrowing costs because the rating agencies rate the bonds more favorably. North Carolina’s Local Government Commission does nothing like that.

Still, North Carolina’s program is relatively trouble free, a key reason the state is one of only eight in the country with the top bond grade from all three credit rating agencies. Says Rob Shepherd of the state’s League of Municipalities: “I’ve got to believe we’d have more local governments in distress, perhaps even in default, if we didn’t have an authority like this.”

North Carolina’s commission keeps local debt in check by approving and selling bonds issued by cities, counties, and special districts for capital projects such as fire stations, water plants, and parks. In 2012, the commission
rejected the town of Navassa’s request for a loan to finish a sewer project, insisting that the town plug a budget gap first.129 By contrast, the commission approved a request by the beachfront town of Nags Head to sell tax-financed bonds to pay for the replacement of eroding sand, deeming the city fiscally strong enough to manage the additional debt.130

A watch list helps state oversight by keeping troubled localities on the radar

The commission, which has a professional staff and a nine-member board, also examines local governments’ financial reports to spot problems and recommend fixes. Governments in the worst fiscal shape go on a watch list; if they cannot correct their difficulties, the commission can step in and run their day-to-day operations, including raising taxes, until local officials resolve the underlying crisis. The state is proactive so that local officials can work out their problems before the commission is forced to assume control. Other states are more reactive. Instead of detecting distressed localities, for example, Pennsylvania aids cities only after state officials declare a financial emergency.

Adding to the centralized financial oversight of state and local governments, North Carolina lawmakers set up a single, consolidated public-sector pension system. The system, operated from the treasurer’s office, is one of the best-funded in the nation, so strong that local government contributions are scheduled to decrease 2 percent in fiscal 2013, something almost unheard of nationally.131

There is nothing complicated about the commission’s oversight. The key indicator is a local government’s fund balance, or the difference between its assets and liabilities. A healthy level of reserves—the Government Finance Officers Association suggests at least 16 percent of operating expenses, or about two months’ revenue—protects against downturns and natural disasters and ensures stable services.132

The commission suggests a minimum fund balance of 8 percent and will not approve a bond issue if the level slips below that. Many local governments in North Carolina require reserves higher than 8 percent, another reason the credit rating agencies say the state has weathered a prolonged downturn driven in part by the decline of its tobacco, textile, and furniture-manufacturing base.

The state relies on low fund balance as a key indicator of municipal fiscal distress

“It’s typically a telltale sign if the local government keeps dipping into their fund balance,” says Shepherd of the municipalities league. “Once below that 8 percent, the warning letters start to come. If they don’t right the ship, the commission will sound the warning horn a little louder.”133

Bob Davis, former chair of the Scotland County Commission, received such a warning letter in January 2012. “The county has serious financial problems which the county’s governing board must address immediately,” the commission’s letter said, noting that the fund balance had fallen from 9 percent to 6 percent in one year and ordering county officials to submit a plan detailing how they would resolve the problem.134

Like many local governments, Scotland County overestimated the amount of tax revenue it would receive. In addition to revising those estimates, the local government responded to the state commission’s warning by raising taxes, cutting 25 jobs, ordering furloughs, and reducing its 401(k) contributions for county employees. “They’re on the right track now,” says T. Vance Holloman, the deputy state treasurer who supervises the Local Government Commission.135
Chowan County erred in its revenue estimates for several years, prompting the commission to bar officials there from borrowing money until the county worked out its finances through tax hikes and spending cuts, a cycle that ended in 2010.136 The town of East Spencer was not so fortunate. The commission took control of the town's finances in 2001 after officials failed to go along with its directives to erase a budget deficit, improve property tax collections, and correct internal accounting methods.137 Eventually the town regained management of its affairs, though officials had to raise residents’ water and sewer rates by 23 percent, among other corrective actions needed to balance the budget.

Negligence is often the core problem for cities in fiscal trouble

Sometimes the problem is mismanagement or wrongdoing, especially in small jurisdictions that lack financial expertise. The commission took over Princeville in July 2012, saying the town’s staff lacked the ability to manage a crisis stemming from a budget deficit and an was unable to keep up with loan payments. The state auditor also found in 2013 that the mayor and former finance officer improperly used the town credit card without keeping appropriate receipts.138

In Maxton, a former town manager overestimated revenue for several years but did not cut expenditures when the mistakes were revealed, the commission said. The manager spent down the town’s reserves, contending that the commission’s 8 percent target was excessive. After state officials warned the Maxton town board that it would run out of money, local officials laid off two of the town’s 11 police officers and raised taxes and fees.139

“I’m so grateful the local government commission is working with us so we can resume our stance as a town,” Maxton Mayor Sallie McLean said in May 2012. “I think they’re doing what they got to do.”140

There is undeniable tension at times between the state agency and local governments, forcing the commission to navigate tricky political circumstances. Although McLean welcomed the commission’s involvement, her predecessor and others in Maxton did not.

“We’ve always tried to serve an advisory rather than regulatory role, even though we have that authority,” says Holloman. Cowell, the North Carolina treasurer, adds that the commission includes members who have served as elected officials and understand the political sensitivity of asking a local government to raise taxes and cut services to balance a budget. “We don’t ask them to do anything that we aren’t doing ourselves at the state level,” she says.
Distressed New Jersey Cities struggle despite state aid

The state has a long history of helping its cities, but some, like Camden, may never be self-sufficient

New Jersey has tried just about everything to help Camden, one of the nation’s poorest cities. The state has poured millions of dollars in loans, grants, and direct aid into Camden over the past 15 years to plug persistent budget gaps. It has pumped money into major development projects, especially along the waterfront across from Philadelphia. State dollars also went to universities and a hospital for new or expanded buildings. New Jersey even assumed control of the city’s government, school system, and police department.

Despite this broad intervention, Camden has largely been unable to regain its footing. In the most recent sign of failure, the city laid off all of its police officers in April 2013 and is using state aid and its own tax dollars to pay Camden County to patrol its streets at a lower cost. Camden set a record in 2012 with 67 homicides, a rate that makes it one of America’s most violent cities.

Governor Chris Christie announced the state takeover of Camden schools in March 2013. Christie also approved a program under which private nonprofit companies would build schools in Camden under state oversight.

New Jersey historically has been more willing than many other states to assist troubled local governments and school districts and to intervene in emergencies, as it now is doing on a broad scale in shore communities ravaged by Hurricane Sandy in 2012. Despite New Jersey’s aim to wean local governments from state assistance, some cities, such as Camden, seem destined to permanently depend on the state government to avoid insolvency.

State officials created an agency called the Division of Local Government Services, with a governing board, to keep an eye on local government finances. The division must approve local budgets to ensure that localities can pay their debts. If a city fails to show it can meet those obligations, the state has the authority to raise taxes on city residents. The agency also has approval power over local requests to file for Chapter 9 but prides itself on the fact that because of its oversight, which includes technical advice, no New Jersey city has ever gone into municipal bankruptcy. “The reason all New Jersey municipalities have made their full debt payments for over 80 years, even in the most trying times … is strong state oversight,” state officials said in January 2013 in analyzing the impact of Hurricane Sandy on local governments. After the storm, the division proactively contacted each coastal community to discuss its financial situation.

Programs aid cities, but money is dwindling

In the most severe cases of financial distress, such as Camden, the state intervenes with money and takeovers. For years, three state programs—Extraordinary Aid, Special Municipal Aid, and Capital City Aid (aimed at Trenton)—handed out money to New Jersey’s most distressed cities. Christie consolidated them into a single program known as Transitional Aid, which does what the name implies. The intent, according to the state’s Division of Local Government Services, was to allocate scarce funds to only those municipalities with severe fiscal distress that agreed to pursue structural budget reforms overseen by the state. Overall, the state handed out $170 million in Transitional Aid in the 2012 budget year, falling to $109 million in 2013 and $95 million planned in 2014. The number of cities receiving state aid dropped from 22 in 2011 to 10 by early 2013.

The lesson of Camden may be that state involvement can go only so far to rescue cities facing difficult economic challenges. How Camden got to this point is hardly unique. “It’s in the same category as Bridgeport [CT] or Gary [IN] or even Detroit,” says Rutgers University-Camden historian Howard Gillette. “All the factors that affected
other cities after World War II hit Camden but hit it with a particular intensity.148 Although they lasted longer than those in many industrial cities, Camden’s mainstay employers—New York Shipbuilding Corp., Campbell’s Soup, the Esterbrook Pen Co., and, above all, RCA Victor—did what most urban manufacturers in the Northeast and Midwest did from about 1960 onward: They shut down or moved to the suburbs and elsewhere.149 Half the city’s manufacturing jobs disappeared between 1950 and 1970;150 today, only the Campbell’s headquarters remains.

The middle class fled, too, leaving “an enclave of concentrated poverty, with no pockets of wealth to balance the city’s demographics,” according to a report by the Annie E. Casey Foundation.151 Bad decisions by government at every level degraded whole neighborhoods in Camden. One mayor located a county waste plant in a south Camden neighborhood in exchange for money to close a budget gap. Another arranged for a state prison along the waterfront. The county built a trash-to-steam plant in another neighborhood, next to the city’s last remaining working-class enclave. “At the point where the tax base was already being eroded by the loss of the working class, you got pretty much every kind of not-in-my-backyard intrusion into Camden’s neighborhoods,” says Gillette.

**Corruption is another reason for Camden’s decline**

Things were no better at Camden City Hall than they were in the residential neighborhoods. The city was rocked by a series of corruption scandals that led to the imprisonment of three mayors. By 1998, Camden was so broken that then-Governor Christine Todd Whitman put in place a financial control board, only to propose a full state takeover two years later. After Whitman left to head the federal Environmental Protection Agency, then-Governor Jim McGreevey handed the Camden reins to an appointed chief operating officer with extensive powers, effectively stripping the mayor and City Council of their power. City leaders are split over whether the takeover made a significant difference; much of the $175 million the state gave Camden went to a handful of major institutions and developers and others connected to the Democratic Party.152

The takeover money did help a few “anchor” institutions in the city, such as the aquarium, which prevented further economic decay. What is also undeniable, though, is that Camden’s reliance on state subsidies grew worse under the takeover because the size of government expanded instead of contracting. In the first year of state control alone, city spending rose 20 percent, fueled by spikes in public employee salaries and benefits—especially for police and firefighters—that arose from a state arbitration ruling. Overall, total pay for city employees rose from $73 million in fiscal 2000153 to $83 million by fiscal 2008 while state aid quadrupled.154 The steady pay increases were a main reason that officials cut hundreds of jobs and dissolved the police department. The police job losses were so deep that Governor Christie sent state troopers to help patrol the city for a few weeks in 2011 because of rising crime, especially murder.155

Even so, Camden’s financial picture has improved slightly after two years of budget cutting under Mayor Dana Redd that included the elimination of more than 400 jobs.156 In 2011, the city undertook its first property reevaluation in two decades, and the net taxable value of its property doubled. City leaders raised property taxes in part to meet Governor Christie’s request to reduce Camden’s reliance on state aid.157 “They’ve taken so many steps that are structurally positive,” says Thomas Neff, director of the Division of Local Government Services.158

Still, Camden’s fundamental conundrum is its tax base, which is the smallest among the state’s major cities. The city spends $150 million a year, but its annual tax revenue is less than $25 million. Governments and nonprofits own the most valuable property along the waterfront, a big reason that more than half of Camden’s land is tax-exempt. Bill Dressel, executive director of the New Jersey State League of Municipalities, says: “What makes New Jersey unique, at least in the Northeast, is that municipalities in other states have revenues other than property taxes to pay for the broad spectrum of services. We don’t.”159
Christie said his goal is to make New Jersey’s local governments self-sufficient. But in taking over Camden’s schools and putting its police department under regional control in 2013, he was conceding that the state is justified in intervening more heavily in some cities than others. “Camden needed the help they’re getting today, and they needed it badly,” Christie said in announcing the regional police department. “I can’t sugarcoat what the reality was. The reality was citizens feeling unsafe and risking their lives merely by walking the streets. The basics of public safety were diminished, and we needed to rebuild them.”
Rhode Island adopts aggressive intervention stance

The state’s proactive approach provides a way to trim rising public pension costs

The phones began ringing at the Rhode Island Department of Revenue after a Superior Court judge appointed a receiver to oversee Central Falls’ deteriorating finances in May 2010. Stunned municipal officials and bondholders were asking the same question as the state government: Why had Central Falls unilaterally decided to go into receivership, and what impact would that have on the rest of Rhode Island’s local governments?

“If a municipality could choose on its own to go into judicial receivership, the credit markets might view that as a threat to [the cities’] payment of debts,” says state revenue director Rosemary Booth Gallogly. “We wanted to make sure access to credit markets was protected for all the communities in Rhode Island.”

Gallogly and lawmakers quickly responded with a plan to scrap the state’s limited intervention program and replace it with an expanded version that would allow Rhode Island to get involved with distressed cities earlier. Until that point, state law had called for a budget commission to take over a city’s finances, but only if a local government defaulted on its debt or if its bond rating dropped to junk grade.

Under the revised program, the revenue director supervises a graduated, three-step process for financially shaky cities. First, the state appoints an overseer to advise officials on whether the city is able to balance its budget on its own. If the city cannot square its books, the revenue director appoints a budget commission, which supplants the city’s elected leaders. The commission consists of the mayor, the chief local legislative official, and three state appointees. If the panel cannot balance the budget, the state appoints a receiver, whose powers include declaring the city bankrupt. Central Falls’ finances were so dire that Gallogly skipped the first two steps. The state replaced the court-appointed receiver with its own.

Other Rhode Island cities share Central Falls’ distress

Rhode Island’s rush to tighten its approach to faltering cities may have been kick-started by Central Falls, but as House Speaker Gordon Fox said, the city was “the canary in the mine shaft.” By the end of 2010, the state had intervened in three more distressed cities: North Providence, Pawtucket, and Woonsocket. Providence, the capital and largest city, later joined the list. The Moody’s rating agency said Rhode Island local governments had experienced “economic weakness, revenue stagnation and pension expense growth that are more acute than in most other states.” Or to put it more bluntly: “You have a state that is literally on the brink of economic disaster,” said Edward Mazze, co-director of the state economic forecast.

Rhode Island’s cities face a confluence of harmful forces. The state’s economy has been ailing for decades, ever since its manufacturing base began to decline. Manufacturing accounted for more than one-third of total statewide employment in 1970 but now is less than 9 percent. Few new jobs have been created since 2006. Rhode Island routinely ranks at or near the bottom among states in economic competitiveness. On top of a moribund economy, direct state aid to local governments and schools fell 20 percent from fiscal 2008 to 2013.

But a major cause of the need for state intervention is the cities’ poor decision-making on spending, labor contracts, and public pensions. Central Falls was an extreme example of that. The city sits amid a string of old textile towns that stretch north from Providence along the Blackstone River Valley, called the “birthplace of the American industrial revolution.” Central Falls never really got over the shuttering of the textile mills and other factories that anchored the area’s economy. With about 19,000 people crammed into slightly more than one square mile, Central Falls is Rhode Island’s densest city. It is also among the poorest, with a quarter of its residents below the poverty level—twice the statewide percentage.
Central Falls’ downfall was triggered by budget mismanagement and escalating labor costs

In the years preceding the bankruptcy filing, city leaders not only failed to engage the community about the challenges but also mismanaged Central Falls’ finances, piling up multimillion-dollar budget deficits. The city’s cash was divided among 54 accounts, some of which had been created years and even decades in the past and forgotten. Invoices for some unpaid bills were stuffed into a desk drawer. The most serious financial issue, though, lay in Central Falls’ labor and public pension agreements with firefighters, police officers, and other municipal employees. Each contract was calculated and paid differently, producing disparities among employees. The city was paying $1 million a year in overtime to police and firefighters. “If you’re only bringing in $16 million in revenues, then $1 million in overtime is crazy,” says Gayle Corrigan, chief of staff to Robert Flanders, the second state-installed receiver.170

The labor contracts also called for generous retirement benefits that the city promised to workers but failed to fully pay for. By the time the receiver took over, Central Falls had racked up an $80 million shortfall between what it had promised in pension and health care benefits and what it had set aside to finance them.171 The city skipped its required pension fund payments altogether in fiscal years 2009-11. Officials were allowing many police officers and firefighters to retire as early as age 43 on reduced salary, between 50 percent and 66 percent, along with lifetime health benefits for themselves and their families if they went out on disability. And about 60 percent of the public safety workforce took advantage of this option, says Corrigan. The pension-funding crisis came to a head in July 2011 when Flanders, Gallogly, and other state officials met with the city’s 144 retirees to ask them to voluntarily cut their retirement benefits, including the annual cost-of-living increases. If the retirees failed to agree, Flanders warned them, Central Falls would be forced to file for bankruptcy protection. The workers overwhelmingly rejected the proposal, and on Aug. 1, 2011, Central Falls became the state’s first city to file for Chapter 9 bankruptcy. 172

The filing coincided with an extraordinary statewide discussion about public finances in general and public pensions in particular. It was spearheaded by state treasurer Gina Raimondo, a Democrat who won election in 2010 largely on a promise to fix the pension challenge—arguing that unless it was dealt with decisively, the state’s ability to provide services would be hampered. Governor Lincoln Chafee, a Democrat, also had been touting the need for pension reform. In a little-noticed move in spring 2011, he helped persuade Rhode Island’s retirement board to lower the estimated investment returns on the state’s pension funds from 8.25 percent to 7.5 percent. The funds had averaged a return of only 2.28 percent over the previous decade,173 but the board’s move had a bracing political effect. It meant that starting in July 2013, the strapped state and its cities and towns would have to contribute an additional $250 million a year to finance the public pension system.174

Central Falls’ bankruptcy hit a few months later. “You can never say any bankruptcy is fortuitous, since it involves a lot of fiscal strain and human suffering,” says Raimondo. “But having said that, throughout 2011 I would often say if we didn’t fix this pension mess, bad things would happen, like people wouldn’t get their pension checks, municipalities would go bankrupt, and budgets would explode—and the fact that this was now happening in our backyard lent credibility to the argument. People realized it wasn’t just a theoretical possibility.”175
The state was the first in the nation to cut core pension benefits for current workers

In the fall of 2011, the state legislature met in a special session to adopt the most comprehensive pension measure in the country—unusual because it was the first to call for most current and newly hired workers to agree to reduced retirement benefits. As far-reaching as it was, the pension reform bill did not cover the 36 local plans that are not part of the state-run system. Those plans face a collective unfunded liability of $5.6 billion for pensions and health care. Chafee and the state legislature are still trying to come up with a solution for that.

Though significant, pensions are just one of the issues facing Rhode Island’s cities in which the state is involved. Woonsocket’s city government asked the state to take over its cash-strapped school system. In Providence, working with Chafee and other state officials, Mayor Angel Taveras has used layoffs, spending cuts, increased state aid, and renegotiated contracts with workers to cut into a budget deficit and avert bankruptcy. East Providence was placed under a state budget commission in 2011. West Warwick’s bonds were downgraded in 2011 after the city, which has an annual budget of less than $80 million, piled up a $98 million unfunded pension liability.

Central Falls, meantime, avoided the kind of prolonged bankruptcy of cities such as Vallejo, CA, which took three years to emerge from Chapter 9. That was largely because of another way the state intervened. In 2011, the Legislature approved a law guaranteeing that bondholders affected by a municipal bankruptcy would be paid in full. Usually creditors in a bankruptcy are all treated equally, but the Rhode Island law gave bondholders the right to place liens on a city’s tax revenue. The repayment guarantee helped Central Falls emerge from bankruptcy in a little over a year. “It’s record time, and record efficiency,” U.S. Bankruptcy Court Judge Frank Bailey said from the bench the day he approved the city’s debt-restructuring plan. “In a way, I think this is an example—for not only Rhode Island, but maybe the nation—on how to run a Chapter 9.”

But the bankruptcy came at a cost for Central Falls’ workers and residents. Property taxes will go up 4 percent a year for the next five years in a city where the median income is about $34,000 a year. There are 56 fewer city workers, so services and programs have been cut. Workers will collect less in retirement benefits, saving the city about $1 million a year. The receivership and bankruptcy cost the city treasury nearly $4 million.

The state government, which ended the receivership in April 2013 and turned the city back over to Central Falls’ elected officials, has been careful to stress that it sees its intervention in Central Falls as an anomaly, in part because of the toll it has taken on the community. “I don’t view bankruptcy as a tool in the toolbox,” Gallogly, the state revenue director, said. “It’s a last resort and only should be utilized if there are no other options for a community.”
California aids its school districts but not its cities, a practice tied to state history

The state and city governments operate independently, and they like it that way

The Great Recession struck Stockton and San Bernardino harder than most California cities. Home values and tax revenue plummeted when the housing bubble burst in 2008. Neither city could keep up with rising labor costs, including public employee retirement and health benefits. Officials in both cities made a series of poor financial decisions in the face of the sudden downturn. Finally, in the summer of 2012, Stockton and San Bernardino ran out of cash to pay their employees and bills. Both cities filed for bankruptcy protection within five weeks of each other.

In many states, the difficulties of major cities such as Stockton and San Bernardino would mobilize the state government to intervene and help them recover. But California offered no such aid, because it has long adhered to the belief that its cities should operate independently from the state. Nor did Stockton and San Bernardino officials ask for assistance, because, like most California cities, they prefer that the state keep out. “Cities are like the famous line from Greta Garbo, you know, ‘I want to be left alone,’ ” says Peter Detwiler, who was a longtime top California Legislature finance staffer before he retired. “We’re terribly decentralized in California. We love it that way.”

The self-governing tradition goes back as far as the 19th-century pueblo governments of Mexican rule and the Gold Rush mining camps. Early lawmakers ensured the right of cities to govern themselves by including a home rule provision in California’s Constitution in 1879. They strengthened it during World War I by giving local governments exclusive control over the spending of their property tax revenue and authorizing cities to adopt charters spelling out their public safety, health, zoning, and other laws. Los Angeles, Sacramento, San Diego, San Francisco, and San Jose are among the 121 charter cities, out of 482 cities overall.

The power to dispense local property tax revenue shifted back to the state in 1978 after California voters approved Proposition 13, which slashed those receipts by 60 percent. To offset that loss, lawmakers channeled money from the then-flush general fund to school districts and to counties, which administer state and federal programs including health care, jails, foster care, and elections. As a result, schools and counties came to rely more heavily on the state for revenue, while cities increasingly depended on revenue from sales, business, and other locally imposed taxes. State and federal sources account for less than 10 percent of California cities’ revenue.

How California distributes property tax collections is important, because it helps explain why lawmakers are willing to help school districts, but not cities, that experience financial problems. Because the state has a direct financial stake in its nearly 1,000 school districts, lawmakers set up an elaborate fiscal oversight system in 1991 requiring county offices of education to monitor school district revenue, enrollment, spending, cash flow, debt, and other costs at specific points during the year, such as when the budget is approved.

If the county-level education office identifies problems but cannot correct them on its own, the state arranges an emergency loan from the general fund. State officials issue bonds, allowing the school district to repay the loan, and appoint an administrator to run the day-to-day operations until the district is solvent. Since 1991, nine school districts have received such loans. The most recent was $55 million to the Inglewood schools in suburban Los Angeles, a victim of declining enrollment, cuts in state aid, and ill-advised financial decisions. State officials warn that more takeovers are possible in similarly troubled school districts.
Counties and cities are left alone

Although California’s 58 counties also are dependent on the state for revenue, lawmakers have not created a fiscal monitoring system or bailout fund for them. State officials oversee how counties administer federal- and state-funded programs but do not extend that scrutiny to county finances. California lawmakers treat counties much like cities, as autonomous entities created by the state that are responsible for managing their own affairs.

The state almost intervened in 1994 after Orange County, one of its most populous, filed for bankruptcy protection following a series of risky investment choices. Both chambers of the Legislature approved a plan allowing the county to cover its debts with money that had been allocated for transportation. But then-Governor Pete Wilson vetoed the measure because it also would have allowed Los Angeles County to pay some of its bills using the same gimmick. In addition, he rejected a proposal allowing a state trustee to run Orange County, saying the county should resolve its problems on its own. Orange County reorganized and bounced back 18 months later—without any significant help from Sacramento.

The state has given distressed local governments one tool to keep out of bankruptcy. In 2011, the Legislature approved a bill establishing a 60-day “neutral evaluation process” in which labor unions, creditors, and other interested parties have the option of choosing an outside mediator to attempt to settle their differences so the city can avoid bankruptcy. “This bill does not prevent a municipality from declaring bankruptcy or even throw roadblocks in its path,” Governor Jerry Brown said when he signed it. “The goal is to find alternative, less drastic solutions whenever possible.”

The legislation stemmed from the Vallejo bankruptcy in 2008, when city officials won permission from a judge to nullify collective bargaining agreements with four city employee unions, giving Vallejo officials the ability to renegotiate cheaper contracts. California’s public employee labor unions, fearing similar moves by other cities, persuaded the Democrat-led General Assembly to create the third-party mediation process. Local government officials opposed the bill, contending that cities already were doing everything they could to prevent filing for bankruptcy and would lose their ability to limit labor costs under the new system.

The state’s new mediator law is having varied effects

So far, the effectiveness of the mediation process has been mixed. Under the law, a city can bypass the 60-day system and file for bankruptcy if it can prove an immediate financial emergency. San Bernardino headed straight for bankruptcy court in July 2012 after determining it was running out of money to pay workers. Stockton did negotiate with creditors for 90 days, but the talks failed to produce an agreement. In Mammoth Lakes, a federal bankruptcy court named a judge to serve as mediator between the town and its largest creditor after the company initially refused city officials’ invitation to meet. The bankruptcy was dismissed in November 2012, after the town and the creditor agreed to a settlement. Thus none of the first three municipal bankruptcies after the mediator law was passed resulted in the out-of-court agreements its sponsors envisioned. State finance analysts inside and outside California say the state could preempt problems like those in Stockton and San Bernardino through aggressive monitoring of local finances and assisting those cities that are in the most trouble. They stop short of proposing that state dollars be directed to distressed localities, as is the case with school districts, in part because the state government has its own budget squeeze. State Treasurer Bill Lockyer is pushing for a modest system in which state officials would examine municipal government finances to detect signs of danger and offer technical help. “If the spectrum of state engagement is doing nothing on one side to a complete, total takeover on the other side, we’re talking about something in the middle,” he says. “We’re concerned about the local bankruptcies because of the stress on local services but also the worry about it being infectious and
causing more widespread credit downgrades. The policy, however, would not be to take over and assume liability for local debts.\textsuperscript{196}

Cities are likely to resist state-level oversight of their finances, not only because of their historical sovereignty but also because of labor’s political clout with lawmakers. City officials fear that any state intervention arrangement would favor employee unions, whose members have some of the most generous benefits in the country, says Michael Coleman, the principal fiscal policy advisor to the California Society of Municipal Finance Officers and the League of California Cities.\textsuperscript{197}
Michigan sees state intervention as a key to its economic revival

Emergency managers run six cities, including Detroit

For years, state officials had warned Detroit’s elected leaders to stop bickering. If the council and mayor could not resolve the city’s budget mess, Michigan’s leaders said, the state government might have to intervene to ensure that residents would get basic services and programs. This was a city so broken that at one point almost half its streetlights did not come on at night.

Detroit’s elected officials ignored the threats, and, in April 2012, a state-appointed financial advisory board stepped in to help the city avoid running out of money. That did not work either, as Mayor Dave Bing and the City Council battled the advisory panel over the best way to restructure city services. In a last attempt to assist the state’s largest city, Governor Rick Snyder in March 2013 named an emergency manager with the power to remake its budget and services instead of Detroit’s elected officials. But the emergency manager could not repair the city’s finances in time to avert bankruptcy.

Detroit has been at the center of an unusually public statewide debate over the role of the state government when cities and school districts are in financial distress, culminating in a voter referendum on the intervention program in 2012. Five other cities and three school districts, including Detroit’s, are in receivership and run by an emergency manager. From 2000 to 2010, the unemployment rate in Michigan increased from 3 percent to 14 percent, well above the national rate of 10 percent. Dozens of cities were hit with huge drops in tax revenue and could not cover expenses. The Great Recession made the problem worse.

Michigan was one of the first states to conclude that the government should have a formal program for intervening in local financial crises. In 1990, the Legislature enacted a law allowing the state to appoint emergency managers in dire situations where a city or school district had no plan to resolve its budget problems and could not deliver services. Managers were sent to seven cities from 1990 to 2010. In 2011, with municipal strain escalating from the recession, the state legislature strengthened the emergency managers’ powers, in particular allowing them to break union contracts to control rising labor costs. It also gave the state the authority to intervene earlier if officials determine through a financial review that a city is headed to insolvency.

The state revised its manager program after voters rejected the law in a statewide referendum

The enhanced powers to disrupt labor contracts were a flashpoint in an automobile-producing state with a long-standing union presence. After a divisive campaign pitting the popular Republican governor against Democrat-dominated unions, voters in November 2012 repealed the revised emergency manager law. In effect, voters sided with those who said the state program was too intrusive in local government affairs. Governor Rick Snyder and state lawmakers regrouped after the election and approved a more flexible intervention program that allows troubled local governments to choose among four options, including an emergency manager.

State oversight of Detroit is more urgent than it is for Michigan’s other local governments, not only because the metropolitan area includes half of the state’s population but also because of the important role it plays in the state’s economy. “The reinvention of Michigan will not be complete without a strong Detroit,” Snyder said in December 2012 as he signed a package of city revitalization initiatives.
There is no mystery as to why Detroit eventually became insolvent. The city that 50 years ago served as the symbol of American optimism and prosperity is no less an icon today, only this time for urban ruin. Deindustrialization, decaying schools, racial tension, white flight, increasing crime, and, most recently, the foreclosure crisis—all the destructive forces that have hammered the country's industrial cities since the 1960s—ran rampant through Detroit. Only New Orleans lost more population than Detroit from 2000 to 2010, and that was because of a natural disaster, Hurricane Katrina. Great swaths of the city lie abandoned, with close to 70,000 unimproved vacant lots. No one knows how many tens of thousands of windowless, boarded-up, abandoned houses the city has. “Each of those houses is like a black hole for the property values on that particular block,” says Lyke Thompson, director of the Center for Urban Studies at Wayne State University. Whole blocks have been bulldozed.

**Detroit borrowed to cover its public pension gap**

Detroit city government has shrunk, too, from about 29,000 workers in 1951 to just over 10,500 today, many taking pay and benefit cuts. Gone is the historical sense that part of the value of city government is as a jobs provider for residents, says Bettie Buss, who analyzes Detroit’s budget issues for the nonpartisan Citizens Research Council of Michigan. That role has grown less fiscally tenable for the city because of the accumulating budget deficit that reached $327 million by the end of fiscal 2012 and rose throughout 2013, reaching about $380 million at the time of this publication.

Falling revenue from property and city income taxes and cuts in state aid make it unlikely that the city can balance its budget anytime soon. Detroit’s approach to closing its budget shortfall has been to sell bonds. But, as former city auditor Joseph Harris warned elected officials, “Borrowing, as a quick fix to plug budget gaps, may be feasible when the gaps are cyclical. However, the city’s budget gaps are structural, i.e., they are not going to go away by themselves.” The city paid its employee retirement system bills the same way, through pension bond sales. All told, Detroit’s long-term obligations rose to nearly $15 billion by 2012, a staggering constraint. By summer 2013, as this report was being prepared, Detroit lacked the cash to pay all of its bills, and officials filed for bankruptcy in July 2013.

The deterioration of the city’s finances coincided with a political crisis that diverted leaders’ attention away from judicious management. Beleaguered Mayor Kwame Kilpatrick was beset by a series of scandals, including an affair with his chief of staff they both had denied under oath. That led to perjury charges followed by assault charges, Kilpatrick’s removal from office in 2008, a prison sentence, federal fraud and tax charges, and a federal grand jury indictment for racketeering, fraud, extortion, and tax evasion. In addition to the unflattering headlines, Detroit suffered because local officials were preoccupied with Kilpatrick’s troubles instead of the city’s finances.

Then came a political shift. The 2010 election of Gov. Snyder, a Republican, to replace Democrat Jennifer Granholm was accompanied by a new GOP majority in the House and Senate. Led by Gov. Snyder, GOP leaders pushed through a stronger state intervention program because, they argued, it was an essential tool to rejuvenate Michigan’s economy. As Terry Stanton, a spokesman for State Treasurer Andy Dillon, put it, “Having financially sound, vibrant local units only makes the state better from an economic standpoint, a livability standpoint, and from the standpoint of attracting companies that will create jobs and call the state home.”

A coalition of community, labor, and religious groups collected the required signatures to challenge the emergency manager statute in the 2012 election. The sticking point these groups cited was that citizens and elected officials of the communities taken over by the state were rendered essentially powerless. In Pontiac, which has had an emergency manager since 2009, the overseer has consolidated employee health plans, put city
property up for sale, persuaded firefighters to dissolve their contract in favor of a shared-services arrangement with the neighboring township, and outsourced a host of city services, from permitting to tax collection.

Supporters of the program argued that emergency managers beat the alternative. “The most anti-democratic thing you can do is have your town in front of a federal bankruptcy judge, who will tear up your contracts and doesn’t care if you have police service or not,” says state Rep. Al Pscholka.212 After voters repealed the law, state legislators crafted a replacement program that gives local governments a choice of having an emergency manager, entering into a consent agreement with the state, asking the governor for permission to file for bankruptcy, or instituting a mediation process to negotiate with creditors on a restructuring plan.

Detroit’s mayor and council are split on policies for the city’s fiscal future

Detroit’s leaders tried to cut costs without state intervention, but Mayor Bing and the council clashed frequently over the best approach. No one was spared in what the mayor dubbed his “reform agenda,” especially city workers, who were laid off and furloughed and agreed to pay, benefit, and pension cuts.213 But these steps were not enough to head off an emergency manager, who now is charged with moving the city into a more financially sound position.

But Detroit could not prevent bankruptcy because of its cash shortage, immense debt, and obligations to bondholders and current and future retirees. The imposition of the emergency manager came at a fractious time when internal divisions within the city and antipathy toward the state may make it more difficult for everyone to accept the solutions. “This pits stakeholders against each other instead of against the problem,” says Matt Fabian of Municipal Market Advisors.

Michigan’s experience with Detroit, a majority black city, also highlights the racial and political sensitivities that often accompany intervention. Protests in the city after Snyder’s appointment of the emergency manager stemmed in part from the fact that a white Republican governor and GOP-led legislature supported the takeover despite the objections of a black, Democratic City Council and mayor. “The goal isn’t to take them over,” Gov. Snyder says. “It’s to be a good partner to help them get back on their feet.”214

For all the challenges the city government faces, life goes on in Detroit. Its image got a lift when the Detroit Tigers won the American League pennant in 2012. City boosters note that Whole Foods—widely considered a harbinger of up-and-coming neighborhoods—opened its first Detroit store in June 2013.215 Certain neighborhoods are attracting new homebuyers with incomes over $100,000.216 Dan Gilbert, the founder of Quicken Loans, has been buying and renovating downtown properties and attracting businesses to them—including his own and Chrysler.217

“Detroit is a place where it’s possible to be a very big fish in a pond that really needs big fish,” says Bettie Buss. “It’s a place where a young person can come and make a difference—and who are, in fact, working very hard to make downtown and Midtown and historic neighborhoods like Corktown work. So when you’re talking about city government, you’re really talking about just one of many Detroits—and it’s not necessarily representative of the whole city.”218
Appendix: Methodology

This report identifies which states intervene in local fiscal distress and whether these programs strengthen state and local finances.

We first considered whether a state has a formal mechanism for dealing with local fiscal distress. Drawing on a special focus question from the 2011 original survey of legislative fiscal officers by the National Conference of State Legislatures, or NCSL, we identified state laws designating local fiscal distress, and determined whether states have a legal process in place that specifically defines distress of localities. Using data from the 2012 book “Municipalities in Distress?: How States and Investors Deal with Local Government Financial Emergencies,” we identified bankruptcy authorization, whether a state explicitly allows localities to file for bankruptcy.

We then identified which states require or allow for formal state action in the event of local fiscal distress—a category that we have termed intervention program. Informal efforts that can be undertaken by states to monitor or help remedy distress are not included here—only formal mechanisms set in place by statute. Our focus is on existing laws as of May 2013. We do not address what a state that does not have such a law in place would do in the event of a local fiscal crisis.

We conducted a series of analyses to determine the relationship between the existence of an intervention statute and various policies and external factors. We tested whether the existence of an intervention statute is correlated to the share of the state budget that is made up of intergovernmental transfers; the per-capita income of a state compared with its region; the number of tax limits in place; credit ratings; bankruptcy provisions; home rule provisions; and the region of the country. We found that the existence of an intervention statute varied by region of the country, but otherwise we did not find statistically significant relationships. We also grouped individual intervention programs to determine whether there were connections or similarities among them and to attempt to measure their strength. We found that intervention practices share similar characteristics and can be grouped accordingly. However, we were unable to measure the relative strength or effectiveness of the individual intervention programs. Such a measure proved to be challenging for a number of reasons. Primarily, choosing specific measures placed too much pressure on any one type of outcome. We found that the differences between states, such as the structure of their economies and their political traditions, underscore that there is no single model for designing an intervention program. The highly context-driven nature of state interventions in local fiscal distress led us to explore these issues on a case-by-case basis through state profiles.

We undertook a more nuanced study of selected states based on a state profile methodology, which, paired with the typology, leads us to our findings and promising approaches. These states were selected to include those with state intervention legislation (New Jersey, North Carolina, Michigan, Pennsylvania, Rhode Island) and those without (California, Alabama). Among those with intervention legislation, we selected the oldest program in the country (North Carolina), a state that has recently scaled back its role (New Jersey), a state that has recently beefed up its role (Rhode Island), and two states that have struggled particularly with distress (Michigan and Pennsylvania). An in-depth look at these seven states allowed Pew researchers to understand the range of state experiences, motivations for state intervention, the role of political and economic conditions on the decision to get involved, and the results of state efforts over time.

In developing our typology for states’ variation of intervention activity, three sets of categories were considered. The first addressed whether the state has any laws in place to intervene within its localities in times of fiscal crisis. If so, the second set identifies the entity (person, agency, board) responsible for carrying out the intervention. The third set details the specific powers granted to the intervening authority. Together these lay out the range of formal intervention mechanisms available to states.
The category definitions are as follows:

**Does the state have any laws allowing it to intervene in the event of fiscal crisis?**

Laws included in this category do not have to be universally applied to all localities of the state. States are categorized as having laws in effect even if only subsets of local governments within that state are affected by the statutes (i.e., the law applies only to cities of a certain size). Therefore, regardless of whether the law allowed for comprehensive or ad hoc intervention, it was included in our review.

Laws that affect cities, towns, villages, counties, boroughs, and/or school systems fall into this category. Because our primary focus is on intervention mechanisms that are in place to aid distressed localities, we do not include special district governments with narrow responsibilities, such as hospitals and fire protection, nor do we include school system intervention if it is the only intervention law in the state. Arizona, Arkansas, California, Iowa, and Washington allow for some form of formal school district intervention. There are however, instances where school system interventions are combined with or dependent upon existing local government laws. In those cases, we were unable to separate them, and they are included in the analysis. This specification does not align with the scope of the NCSL survey question; the definition of “local government” in the special focus question, unlike that of our typology, is broad enough to include school systems.

State actions can apply universally to all localities, or the intervention can differ based on the size of the locality or the type of government. Likewise, states can dictate intervention efforts for certain sizes or types of local governments while having no intervention mechanism for other localities. Excluded from this category are informal efforts that can be undertaken by states to monitor or help remedy distress. Only current formal mechanisms established by statute as of December 2012 are included.

**Who is given responsibility for undertaking or overseeing the state’s intervention efforts in the event of fiscal crises?**

- **Receiver, financial manager, overseer, or coordinator:** Applies to all states that appoint an individual to take charge of the state’s intervention. A new position is created, the individual is appointed, and the position is terminated when the intervention is complete. Excluded from this category are receivers who are appointed in the event of default on debt that funded a particular improvement project. In such cases, the receiver takes over operation of the project in question, but the receivership is so limited in scope that we have decided not to include it in our typology.

- **State agency:** Applies to any existing agency within the state government that is designated as responsible for intervening in fiscally distressed localities. The agency may not have purposes and responsibilities other than intervention, and it supervises an intervention when needed. An individual within the agency may oversee the effort but is in a permanent position and handles any distressed locality.

- **Financial control board, state-appointed board, or commission:** Applies to a group appointed by the state to address a specific locality’s fiscal problems. The makeup of the board or commission and the method of its appointment are specified in the establishing legislation. The board is a temporary entity and is dissolved when the intervention is complete.
What authority or power is given to the intervenor by the state to help a locality in crisis? What can be done once the state intervenes?

- **Restructure finances—renegotiate, approve, or issue debt**: Applies to states that explicitly give the intervenor the power to issue new debt on behalf of the locality, authorize the locality to issue debt, or renegotiate existing debt as an agent of the locality.

- **Restructure finances—labor**: Applies to states that give intervenors the specific authority to renegotiate existing labor contracts. Included in this category are states that allow the intervenors discretion on whether to honor provisions of existing multiyear labor contracts that called for increases in salaries, benefits, or other compensation after the first year of the contract. Note that this category does not include instances in which the intervenor is authorized to negotiate new labor contracts as an agent of the locality.

- **Restructure finances—taxes, fees, credits**: Applies to states that give intervenors the power to change existing tax rates, fees, or credits or to enact new taxes, fees, or credits as deemed necessary. This category does not apply to revenue raised by the project-specific receiverships discussed above.

- **Emergency financing**: Applies to states that offer loans (often no-interest loans), grants, or enhanced credit backing (i.e., state-guaranteed debt) to localities in fiscal distress.

- **Supervise finances, or technical assistance**: Applies to a range of state actions meant to aid localities in developing balanced budgets, including financial auditing, assistance in creating a financial plan, development or approval of budgets, negotiation or approval of contracts (labor or otherwise), and approval of expenditures and appropriations.

- **Dis-incorporate, dissolve, or consolidate local government**: Applies to states in which the intervenor has the ability to dis-incorporate the locality if such action is deemed necessary to consolidate the locality with other local governments.

To address whether states specifically require or allow for formal state action in the event of a local fiscal crisis, we started with a review of the 22 states (and the District of Columbia) that were identified in “Municipalities in Distress?: How States and Investors Deal with Local Government Financial Emergencies” as having existing state-imposed or state-enforced debt restructuring laws aimed at crisis intervention. For those 22 states (and the District), we conducted a comprehensive scan of each statute. This involved a manual review using a customized search query. Next, we used Westlaw’s online legal research services to conduct a scan for all states and the District, again using a customized search query.

We reviewed the statutes that were identified to determine which met our definition of a crisis intervention. Those that met the definition were then categorized within our typology (detailed in the bullets above), which identifies the range of intervention mechanisms in which states engage. For each state, every search and categorization was performed a second time by a different analyst to help ensure quality control.

We supplemented the Internet and Westlaw searches in all 50 states and the District by contacting officials in relevant state agencies. Our analysts reviewed state statutes and websites to determine the state agency responsible for local intervention. When that designation was unclear or unavailable, we directed our emails to the state's legislative fiscal office or similar body. We received responses from more than half the states. In their replies the officials confirmed or made suggested edits to our categorization and the identified statutes.

Also, none of the categories are mutually exclusive: A state may fall into any or all of the categories, regardless of which others apply.
Endnotes

1. The cities are Mammoth Lakes, San Bernardino, and Stockton. Mammoth Lakes’ case was dismissed in November 2012 after the town settled a lawsuit filed by its largest creditor. Another California city, Vallejo, was in bankruptcy protection from 2008 to 2011. The Pew Charitable Trusts research.

2. The nine cities are Atwater, Culver City, El Monte, Fairfield, Fillmore, Fresno, Indio, Hercules, and La Mirada. The Pew Charitable Trusts research.

3. Municipal governments also can include towns, villages, boroughs, counties, and special districts covering schools, hospitals, and utilities. This report focuses mainly on cities and counties and, to some extent, school districts.

4. The states are CT, FL, IL, IN, ME, MA, MI, NV, NH, NJ, NM, NY, NC, OH, OR, PA, RI, TN, and TX. Although the District of Columbia has a formal intervention mechanism, it is not included in our analysis. Congress exercises exclusive legislative authority over the District of Columbia, so it is up to Congress to decide how it would resolve a future DC financial crisis: re-imposing the District of Columbia Financial Responsibility and Management Assistance Authority, or “control board,” with the same authority, re-imposing it with different authority, or creating a mechanism other than a control board going forward.


6. The five cities in addition to Detroit are Allen Park, Benton Harbor, Flint, Hamtramck, and Pontiac. Emergency managers also were appointed in three school districts. http://www.michigan.gov/treasury/0,1607,7-121-1751_51556-201116--,00.html.

7. As of June 2013.


17. As noted in “Municipalities in Distress?: How States and Investors Deal With Local Government Financial Emergencies,” Feb. 2012, 12 states specifically authorize bankruptcy filing, 12 other states have conditional authorization, three states have limited authorization, two states generally prohibit a filing, and the remaining 21 states provide no authorization for a municipal bankruptcy filing. Without specific authorization from the state, a municipality may not file a petition under the U.S. Bankruptcy Code. The District of Columbia is not authorized to make use of Chapter 9 and is not a municipality as defined in the Bankruptcy Code.

18. According to the 2012 “Municipalities in Distress?: How States and Investors Deal With Local Government Financial Emergencies”: “Iowa has no specific municipal bankruptcy authorization except that a city, county or other political subdivision may file a petition under Chapter 9 of the Bankruptcy Code if it is rendered insolvent as a result of a debt involuntarily incurred.”


21. Of the eight, five were convicted of stealing public money, one was acquitted, and two were awaiting trial as of June 2013. “Crisis in Bell,” Los Angeles Times, June 2013. http://www.latimes.com/news/local/bell/


42. The Pew Charitable Trusts, interview with Terry Stanton, April 2012.


53. Raimondo and Gallogly spoke at The Bond Buyer’s 2nd annual “Symposium on Distressed Municipalities,” March 18-19, 2013, Providence, RI.


60. Remarks by Richard Ravitch, The Bond Buyer’s 2nd annual “Symposium on Distressed Municipalities,” March 18-19, 2013, Providence, RI.

61. Remarks by Andy Dillon, The Bond Buyer’s 2nd annual “Symposium on Distressed Municipalities,” March 18-19, 2013, Providence, RI.


92. Pittsburgh, which has shown resilience during the recession, has asked the state for permission to exit the Act 47 program. http://www.newpa.com/webfm_send/2779.


95. The organization is called the Pennsylvania Intergovernmental Cooperation Authority, www.picapa.org.


97. “List of Act 47 Distress Determinations.”


125. The state has taken control of Princeville, NC, two times.


151. Annie E. Casey Foundation, “A Path Forward for Camden.”


175. The Pew Charitable Trusts, interview with Gina Raimondo, April 2012.


180. Bidgood, “Plan to End Bankruptcy in Rhode Island City Gains Approval.”


Unions dominate the California Public Employees Retirement System, or Calpers, which is at the center of a dispute in the Stockton bankruptcy. Stockton officials are renegotiating debts in federal bankruptcy court, including an attempt to reduce public employee pension benefits. Calpers contends that the state constitution prohibits reductions in retirement benefits. City officials throughout California are watching what the court decides, because many say they cannot keep their pension promises to city workers and also maintain the cost of essential services.


218. The methods used in these analyses included chi-square, paired t-tests and Pearson’s Correlation analyses—dependent upon whether the variables under scrutiny were categorical, ordinal, or continuous in nature.
EVALUATION REPORT

Consolidation of Local Governments

APRIL 2012

PROGRAM EVALUATION DIVISION
Centennial Building – Suite 140
658 Cedar Street – St. Paul, MN 55155
Telephone: 651-296-4708 • Fax: 651-296-4712
E-mail: auditor@state.mn.us • Web Site: http://www.auditor.leg.state.mn.us
Through Minnesota Relay: 1-800-627-3529 or 7-1-1
Program Evaluation Division

The Program Evaluation Division was created within the Office of the Legislative Auditor (OLA) in 1975. The division’s mission, as set forth in law, is to determine the degree to which state agencies and programs are accomplishing their goals and objectives and utilizing resources efficiently.

Topics for evaluations are approved by the Legislative Audit Commission (LAC), which has equal representation from the House and Senate and the two major political parties. However, evaluations by the office are independently researched by the Legislative Auditor’s professional staff, and reports are issued without prior review by the commission or any other legislators. Findings, conclusions, and recommendations do not necessarily reflect the views of the LAC or any of its members.

A list of recent evaluations is on the last page of this report. A more complete list is available at OLA’s web site (www.auditor.leg.state.mn.us), as are copies of evaluation reports.

The Office of the Legislative Auditor also includes a Financial Audit Division, which annually conducts an audit of the state’s financial statements, an audit of federal funds administered by the state, and approximately 40 audits of individual state agencies, boards, and commissions. The division also investigates allegations of improper actions by state officials and employees.

Evaluation Staff

James Nobles, Legislative Auditor
Joel Alter
Emi Bennett
Valerie Bombach
Sarah Delacueva
Jody Hauer
David Kirchner
Carrie Meyerhoff
Judy Randall
Jodi Munson Rodriguez
Matt Schroeder
KJ Starr
Julie Trupke-Bastidas
Jo Vos
Lang (Kate) Yang

To obtain a copy of this document in an accessible format (electronic ASCII text, Braille, large print, or audio), please call 651-296-4708. People with hearing or speech disabilities may call us through Minnesota Relay by dialing 7-1-1 or 1-800-627-3529.

All OLA reports are available at our Web site: http://www.auditor.leg.state.mn.us

If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

Printed on Recycled Paper
April 2012

Members of the Legislative Audit Commission:

Every level of government must be open to reform, particularly when a reform might result in cost savings or improved service delivery. With that goal in mind, you asked the Office of the Legislative Auditor to examine the potential for greater local government consolidation—and collaboration—in Minnesota.

We found that there are opportunities for increased consolidation and collaboration around the state, particularly among smaller jurisdictions with capital-intensive services or equipment needs. In addition, we found that local government officials are often open to considering consolidation proposals, but view its implementation as potentially complex, costly, and controversial. They also voiced a strong desire to manage consolidation and collaboration efforts themselves and not have them mandated by the state.

We recommend that the Legislature facilitate local efforts by providing grants to local governments that want to evaluate consolidation prospects. We also recommend that the Legislature give more consideration to the fact that state funding for local capital projects may inhibit local governments from considering the need to consolidate or collaborate with adjoining jurisdictions. In addition, the Municipal Boundary Adjustment Unit, along with counties, should also provide more information to local governments and citizens about consolidation and the state’s processes.

Our report was researched and written by Valerie Bombach (project manager), Emi Bennett, and Becky Burand. During our evaluation, we received full cooperation from the Office of Administrative Hearings Municipal Boundary Adjustment Unit and representatives from counties, cities, and townships.

Sincerely,

James Nobles
Legislative Auditor
# Table of Contents

SUMMARY ix  
INTRODUCTION 1  
1. BACKGROUND 3  
   Local Governments in Minnesota 3  
   Options for Service Delivery and Restructuring 12  
   State Oversight of Consolidation 15  
2. PROCESSES AND TRENDS 17  
   Consolidation Processes 17  
   Trends 22  
3. CONSOLIDATION OUTCOMES 35  
   Reasons Why Local Governments Consolidate 35  
   Impact of Consolidation on Costs 36  
   Results from Minnesota Case Studies 45  
4. FUNDING LOCAL GOVERNMENT SERVICES 51  
   Number of Local Governments and Spending 51  
   Impact of State Funding on Consolidation Efforts 56  
5. CONSOLIDATION PROSPECTS 61  
   Perspectives Regarding Consolidation 61  
   State and Local Government Roles 66  
   Obstacles to Consolidation 71  
LIST OF RECOMMENDATIONS 79  
APPENDIX: Factors for Considering Consolidation 81  
FURTHER READING 83  
AGENCY RESPONSE 87  
COUNTY RESPONSE 89  
RECENT PROGRAM EVALUATIONS 91
List of Tables and Figures

TABLES

1.1 Population and Area of Minnesota Local Government Units (LGUs), 2010 6
1.2 Minnesota Local Government Units (LGUs) per Capita and Area by Economic Development Region, 2010 7
1.3 Local Government Units (LGUs) per Capita and Area, Minnesota and Comparison States, 2007 8
1.4 Key Services Provided by Minnesota Counties, Cities, and Townships, 2011 10
1.5 Continuum of Service Delivery and Restructuring for Minnesota Local Governments, 2011 13
2.1 Consolidation Options for Minnesota Local Governments, 2011 18
2.2 Consolidation Actions in Minnesota and Results, 1980-2011 26
2.3 Change in the Number of Local Government Units (LGUs) per Capita, Minnesota and Comparison States, 1992-2007 30
3.1 Select Requirements for Evaluating a Potential Consolidation, 2011 37
3.2 Examples of Consolidation Activities and Factors to Consider 42
4.1 Minnesota Local Government Expenditures, by Service Area, 2009 53
5.1 Local Government Representatives' Perspectives on Consolidation, 2011 62
5.2 Local Government Representatives' Perspectives on State Involvement in Consolidation, 2011 67
5.3 Percentage of Local Government Survey Respondents Indicating Issue is a Significant Obstacle to Consolidation, 2011 72
5.4 Petition and Referendum Requirements in Minnesota and Comparison States, 2011 76

FIGURES

1.1 Map of Minnesota County Boundaries and Economic Development Regions, 2011 5
2.1 Initiatives to Consolidate Minnesota Local Jurisdictions, January 1980-February 2011 24
2.2 Percentage Change in Minnesota Local Government Units per Capita by Economic Development Region, 1980-2010 29
2.3 Boundary Adjustment Activities in Minnesota, Filings 1980-2010 32
4.1 Minnesota Local Government Revenues, 2009 55
Summary

Key Facts and Findings:

- Minnesota has over 2,700 local units of government that range in size from very large to extremely small. (pp. 4-6)

- Consolidations among Minnesota local governments are rare. When they do occur, they are typically initiated by local officials and residents. (pp. 23-27)

- Consolidation can be a costly, controversial, and complicated undertaking, with no guarantee of savings or more efficient operations due to differences among potential partners in resources, services, and other factors. (pp. 38-45)

- In lieu of consolidation, cooperative service arrangements and incremental boundary adjustments are preferred methods to reconfigure local government services. (pp. 31-34, 62, 64)

- There are opportunities to increase collaboration and consolidation among local governments around the state, particularly among smaller jurisdictions with capital-intensive services. (pp. 39-40, 63, 65)

- State funding for local capital projects may impact consolidation efforts among some local governments. In the past, state funding has helped facilitate local collaborative projects; for others, funding diminished the need to consider collaboration or consolidation. (p. 59)

Key Recommendations:

- Consolidation efforts in Minnesota should continue to be led by local government representatives and citizens. Further, local officials should consider and pursue such opportunities. (p. 68)

- Minnesota local governments looking for service delivery options should survey citizens to determine their interest in consolidation. (p. 73)

- The Legislature should amend state laws to allow the state’s chief administrative law judge to waive select procedural requirements for mergers among cities. (p. 74)

- The Legislature should provide grants for cities and townships to evaluate consolidation proposals. The Municipal Boundary Adjustment Unit and counties should make available more information and technical materials about consolidation. (p. 70)

- The Legislature should provide funding for a pilot project to (1) develop a more comprehensive process and guidelines for consolidating counties, and (2) facilitate a merger between counties interested in consolidating. (p. 77)

- The Legislature should consider ways to encourage more collaboration and consolidation among local governments when funding capital projects and capital grant programs. (p. 59)
Minnesota has several processes available to consolidate local governments, and local officials and residents most often have a say in the final outcome.

The ability to reduce local government costs through consolidation depends in part on the extent of service overlap and duplication among potential partners.

Report Summary

Minnesota had more than 2,700 local governments in 2010, and they ranged from very large to extremely small in population and size. Minnesota also had more local governments per capita and per square mile in 2007 than most other states.

Together, expenditures for counties, cities, and townships totaled about $11.5 billion in 2009, some of which were to provide mandated services. Local governments relied mostly on taxes to fund their operations, with state grants and aids representing a smaller share of revenues in recent years.

In Minnesota, counties, cities, and townships can use various options to improve their efficiencies and service delivery. In particular, local officials or residents may seek to dissolve or fully consolidate local governments.

State law outlines several processes for local governments to combine their jurisdictions. For example, the Office of Administrative Hearings Municipal Boundary Adjustment Unit oversees consolidation and other boundary adjustments among cities, or cities and townships, and the chief administrative law judge may initiate some proceedings. However, counties handle proceedings among townships, while petitions for county mergers are handled by the Secretary of State and the Governor. Local officials and residents also have a say in approving most types of consolidation actions.

Rather than consolidate, most local representatives prefer alternative approaches to improve services and costs.

Since 1980, there have been relatively few actions to combine local governments (about 38). Most local officials said that their jurisdiction would not benefit from merging with another local government and that they preferred cooperative service agreements to streamline services and reduce costs.

Initiating and implementing a consolidation can be costly, time-consuming, and may encounter many obstacles. In particular, local representatives said that opposition by local officials and voters, statutory requirements, or differences in how local governments finance and provide services may impede consolidation efforts.

Consolidation proposals should be examined on an individual basis to determine when consolidation would be beneficial and a better alternative than other options.

According to national research, consolidation of local governments does not guarantee cost savings or more efficient operations. Studies have found that consolidations have had mixed results in terms of cost savings, service quality, and responsiveness of delivery.

Further, the potential for improving local government efficiencies through consolidation depends on a number of factors, including the assets and debts that potential partners would bring to a merger. A jurisdiction’s ability to reduce its budget and overhead costs through consolidation depends in part on the extent of service overlap and duplication.
Although most local government representatives said that their jurisdiction would not benefit from consolidation, many said that some Minnesota local governments should consolidate. Many local governments lack the expertise or resources to sufficiently evaluate the costs and benefits of consolidation prospects.

Among potential partners and, thus, the ability to eliminate excess equipment, facilities, or staff.

Among the benefits to consolidation, the literature generally confirms the potential for improving average costs per capita among smaller jurisdictions that provide mostly capital-intensive services. However, the benefits will likely vary among stakeholders and depend in part on the objectives of the consolidation.

Among several recent consolidation efforts in Minnesota, the need for large capital investments and increased demand for services were motivating factors. Local officials cited improved long-range planning and facilities, higher bond ratings, and improved average costs per capita as benefits from the merger. However, for some residents, the costs of consolidation outweighed the benefits, and voters rejected some proposals.

Local jurisdictions should retain control over consolidation efforts, rather than have the state decide which entities should merge.

Most local representatives and others we spoke with said that local governments and citizens, and not a state entity, should determine when and if local governments should consolidate. Further, over the last three decades, more locally directed initiatives than state directed initiatives resulted in mergers in Minnesota, and national research reports similar findings. Some of this success may be because determining possible cost savings and service improvements among potential partners requires knowledge of the government entities and their service arrangements, which is best provided when involving local government staff, officials, and residents.

To facilitate more consolidations among cities, the Legislature should consider granting the state’s chief administrative law judge authority to waive procedural requirements under Minnesota Statutes 2011, 414.041. Specifically, local officials viewed some requirements for appointing a consolidation commission as too challenging to comply with, particularly for smaller entities.

Local officials should consider and pursue opportunities to consolidate with neighboring jurisdictions.

Many county, city, and township officials indicated support for consolidation as an option for their own or other jurisdictions. These officials and others we spoke with had concerns about duplication or overlap of similar services and equipment in their service area.

Local officials will need to clearly assess voter interest, perhaps through surveys or focus groups, and reconcile residents’ service demands when developing consolidation plans and proposals. Among recent consolidation efforts, voters had strong concerns about preserving existing zoning and land use ordinances and fairly allocating property tax burdens.

The Legislature should provide grants to help local governments study consolidation prospects.

Many officials that expressed interest in consolidation said that they would not undertake a merger effort without first thoroughly evaluating a proposal, but they had neither the time nor expertise to do so. They also said it would be difficult to
divert monies from services for such
a study in times of fiscal constraints.

To help with these efforts, the
Municipal Boundary Adjustment
Unit and counties should provide
more information and technical
materials to local governments and
residents regarding consolidation.

**Given their statutory role and
responsibilities, Minnesota law
provides little guidance for
counties to consolidate.**

Counties may consolidate under the
same locally directed process—
*Minnesota Statutes*, 465.81-465.86—
that is available to cities and
townships. However, other state laws
provide for a different process, but
contain minimal information for
carrying out a merger.

Counties also serve a distinct role in
delivering state-supervised services
and other mandated functions on
behalf of county residents and some
county officials voiced concerns
about these requirements as obstacles
to consolidation. When compared
with a sample of other states,
Minnesota imposes a higher
threshold to initiate and approve a
merger among counties.

Proposing a consolidation among two
or more counties would be a large
undertaking, in part due to a lack of
experience in combining Minnesota
counties. The investment required to
carry out an initiative and present the
question to voters also is of concern
to county representatives, particularly
when voters may reject the proposal.

More work by state and local officials
is necessary to further develop the
process and guidelines for county
consolidations. The Legislature
should provide funding for a pilot
project to address these issues and to
facilitate a merger between two
counties demonstrating a significant
interest in consolidation.

**The Legislature should give greater
consideration to how state funding
for local capital projects affects
consolidation efforts.**

The state’s funding of some capital
projects—mostly in smaller
jurisdictions—had diminished the
probability of some local
governments consolidating,
according to several local
representatives. Specifically, because
state funds supported these capital
projects, there was no longer an
incentive for the recipients to
collaborate or consolidate with
others. On the other hand, state
funding for local projects made it
possible for other jurisdictions to
carry out large scale collaboration or
functional consolidation of some
services.

Capital costs were a primary factor in
recent consolidation efforts in
Minnesota and a deciding factor for
voters in approving or rejecting some
mergers. There may be greater
potential for improved efficiencies
among local governments with
capital-intensive services, capital
projects, or equipment.
Minnesota has over 2,700 local governments, and they range from very large to extremely small. Both the number of local governments and their wide variation in capacity have caused legislators and others to periodically consider the possible benefits of consolidation. It is a particularly relevant issue now, a time of intense searching for changes that will improve the performance and cost-effectiveness of government at all levels.

But local government consolidation is a complex and sensitive concern: both benefits and costs should be considered, as well as alternatives such as cooperative service agreements. To help the Legislature give the issue that kind of consideration, the Legislative Audit Commission directed the Office of the Legislative Auditor for an evaluation. In response, we designed this evaluation to address the following questions:

- To what extent have Minnesota townships, cities, and counties pursued consolidation? How has consolidation affected the costs and services of merged jurisdictions?
- What factors facilitate or inhibit consolidation? Should the state create incentives for consolidation? If so, what approach should the state use?
- To what extent have local governments used cooperative agreements to streamline services and reduce costs?

Our evaluation focused on Minnesota counties, cities, and townships, and did not include special districts or school districts. In our work, we did not seek to determine the optimal size, number, or configuration of local governments in Minnesota, nor did we examine whether or not certain entities should consolidate. Rather, we looked at the existing laws and examined Minnesota’s history of local government consolidation over the last 30 years.

To provide context for our evaluation, we analyzed data from the U.S. Census Bureau’s Decennial Census and Census of Governments for Minnesota and other states, as well as 2009 financial data reported by local governments to the Minnesota State Auditor’s Office. We also reviewed current and historical laws regarding Minnesota local governments, how they may be formed, and their roles in delivering services.

To determine the extent to which local governments in Minnesota pursued consolidation over the past three decades, we identified the various ways that local jurisdictions can be merged or their boundaries restructured. We also analyzed data on boundary adjustments filed with the Secretary of State and the Municipal Boundary Adjustment Unit in the Office of Administrative Hearings between 1980 and 2010.
We conducted eight case studies of past consolidation efforts in Minnesota. Where available, we interviewed local officials and other stakeholders, and compiled and reviewed relevant documents on these initiatives. We also collected data from and spoke with officials in nine other states to compare consolidation outcomes and processes used in Minnesota with those used elsewhere. However, because consolidation does not happen very often in Minnesota, we also conducted a review of the national literature to examine the impact of local government consolidation on cost savings and efficiencies, as well as factors affecting the outcome of consolidation attempts.

To obtain additional local government perspectives on consolidation and cooperative service agreements, we conducted three surveys: one of county chief administrators, one of city chief administrative officers, and one of township clerks. We mailed questionnaires to officials in all 87 counties, 855 cities, and 1,785 townships in the state. Our response rates were: 82 percent for counties, 67 percent for cities, and 71 percent for townships. We conducted follow-up interviews with some survey respondents from across the state.

We also gathered feedback from many other individuals about the value of reducing the number of local governments in Minnesota, and consolidation generally. To do this, we spoke with numerous stakeholders, including elected officials; current and former Municipal Boundary Adjustment Unit staff; legislators and legislative staff; staff from various state agencies and the Metropolitan Council; and representatives from a number of interest groups and organizations, including the Association of Minnesota Counties, the League of Minnesota Cities, the Minnesota Association of Townships, Metro Cities, the Minnesota Inter-County Association, and the Minnesota Chamber of Commerce.

Chapter 1 of this report provides an overview of local governments in Minnesota, the services they provide, and state oversight of local government consolidation. In Chapter 2, we discuss the processes available to merge local jurisdictions in Minnesota and the extent to which they have been used over the last 30 years. In addition, Chapter 2 looks at local governments’ use of cooperative service agreements and other boundary adjustment actions in lieu of consolidation. Chapter 3 examines why local governments consolidate and presents key findings and outcomes from our case studies and literature review. In Chapter 4, we provide background information on local governments’ finances and briefly discuss the impact of state funding on local governments’ consolidation efforts. In Chapter 5, we present local government officials’ perspectives on consolidation, examine the role of the state and local governments in the consolidation process, and discuss several obstacles to combining Minnesota local governments. The Appendix at the end of this report lists the statutorily required factors local governments must examine when considering consolidation. Lastly, we include a “Further Reading” section at the end of this report, with a sample list of national research, case studies, and other literature regarding consolidation.
Background

Consolidation is often proposed as a way to reform government. For example, it is frequently suggested that state governments, as well as the federal government, would operate more cost-effectively with fewer departments, agencies, boards, and commissions. Some reform advocates also suggest that reducing the number of separate units of local government—counties, cities, townships, and special purpose districts—could achieve greater efficiencies and cost savings. On the other hand, many public officials and government reform experts caution that consolidation, particularly at the local level, may not always produce positive results. At the very least, they suggest that the pros and cons of each consolidation proposal should be examined carefully. In addition, they recommend that alternatives to consolidation, such as cooperative service agreements, should be considered.

In this report, we analyze various factors we think are relevant for considering local government consolidation as a government reform initiative. We focus on actions by either state government or local governments to reduce the number of counties, cities, and townships. We start this chapter by briefly describing the number and type of local governments in Minnesota, how they are formed and their purposes, the options (including consolidation) for configuring and delivering their services, and the role of the state in overseeing these activities.

LOCAL GOVERNMENTS IN MINNESOTA

In Minnesota, the term “local government” refers to counties, statutory and home rule charter cities, townships, and special districts. With the exception of special districts, these local government units are also sometimes referred to as general purpose governments or political subdivisions. For the purposes of this evaluation, we include counties, cities (also referred to as municipalities), and townships in our definition of local government unit (LGU).

In addition to these LGUs, Minnesota also contains “unorganized territories” or “congressional townships,” which are typically 36-square-mile areas that have no governance structure; these areas often receive services from their county and/or nearby cities. Townships are generally formed from unorganized territories in order to provide more direct governance and services to residents. We also

---

1 See, for example, *Minnesota Statutes* 2011, 4A.07, subd. 1; 216D.01, subd. 7; and 473.121, subd. 6. Minnesota has two types of cities: statutory (operating under the statutory city code) and home rule charter (operating under a local charter that may contain provisions different from state law). A “town” is the governmental or political organization and a “township” generally refers to the geographic congressional territory without connection to the governmental organization; Minnesota laws use the terms interchangeably. Throughout this report, the terms town and township both refer to the governmental organization. Some laws include school districts in the definition of local governments, but school districts and special districts were not part of our evaluation.
reference select types of special districts in our report, although special districts were not the direct focus of our evaluation.²

**Number and Size**

To provide context for our discussion about consolidating Minnesota’s local governments, we looked at the number, population, and size of LGUs in the state. We also examined local governments and their populations on a regional level using Minnesota’s 13 economic development regions and compared Minnesota’s LGUs to LGUs in other states. Figure 1.1 provides a general map of Minnesota and its counties, as well as the state’s economic development regions. Based on data from the most recent decennial U.S. Census:

- In 2010, there were 87 counties, 854 cities, and 1,785 townships in Minnesota, with minimal restrictions on the size or formation of these local governments.

Minnesota had more than 2,700 local government units in 2010.³ Although Minnesota law does not impose restrictions on the number or location of counties, cities, and townships, statutes do outline parameters for the formation of new counties and towns (but not cities). Specifically, a new county must contain at least 400 square miles and have at least 4,000 inhabitants.⁴ For townships, new townships generally must have an area of least 36 square miles, unless certain other conditions are met.⁵

The population and size of Minnesota’s local governments varied greatly in 2010. About 82 percent of the state’s 5.3 million residents lived in a city, and the remainder resided in either a township (17 percent) or unorganized territory (1 percent). Overall, there were 85 cities and 213 townships with populations less than 100, and 2 cities and 4 counties with populations greater than 250,000.

---

² *Minnesota Statutes* 2011, 6.46, subd. 3, defines a special district as a “public entity with a special or limited purpose” that is not included as a component of a city, county, or town. Many special districts are formed to carry out services passed on from these other local governments. Special districts include, for example, hospital districts, watershed districts, sanitary districts, regional railroad authorities, housing and redevelopment authorities, and the Metropolitan Council.

³ Minnesota also had 456 special districts in 2007 and 79 unorganized territories in 2010.

⁴ *Minnesota Statutes* 2011, 370.01. A proposed new county also must have a total taxable market value of at least 35 percent of (1) the total taxable market value of the existing county, or (2) the average total taxable market value of the existing county (from which the new county would be formed).

⁵ Under *Minnesota Statutes* 2011, 379.02, no town shall be so formed, having less than 36 square miles, nor have its boundaries changed to reduce its territory below that area, unless after such division it shall have at least 25 qualified voters therein, and real estate valued at $30,000 or more; and no town shall be divided or have any part detached therefrom so as to make its area less than 36 square miles, except upon the petition of at least two-thirds of the voters residing in one or both areas. When Minnesota was first organized as a state, any new township had to have a minimum of 100 inhabitants. *Minnesota General Laws* 1858, chapter 75, art. 1.
Figure 1.1: Map of Minnesota County Boundaries and Economic Development Regions, 2011

SOURCES: U.S. Census Bureau and Minnesota Land Management Information Center.
As shown in Table 1.1, city populations ranged from 5 (Funkley and Tenney) to 382,578 (Minneapolis); county populations varied from a low of 3,558 (Traverse) to a high of 1.15 million (Hennepin). The geographic size of LGUs also varied; for example, county size ranged from 170 square miles (Ramsey) to 6,860 square miles (St. Louis).

Table 1.1: Population and Area of Minnesota Local Government Units (LGUs), 2010

<table>
<thead>
<tr>
<th>Population</th>
<th>Minimum</th>
<th>Median</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counties</td>
<td>22,431</td>
<td>3,558</td>
<td>Traverse</td>
</tr>
<tr>
<td>Cities</td>
<td>685</td>
<td>5</td>
<td>Funkley and Tenney</td>
</tr>
<tr>
<td>Townships</td>
<td>290</td>
<td>5</td>
<td>Hangaard</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Area (Square Miles)</th>
<th>Minimum</th>
<th>Median</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Counties</td>
<td>717.1</td>
<td>170.1</td>
<td>Ramsey</td>
</tr>
<tr>
<td>Cities</td>
<td>1.3</td>
<td>&lt;0.1</td>
<td>Tenney</td>
</tr>
<tr>
<td>Townships</td>
<td>35.7</td>
<td>2.7</td>
<td>Grey Cloud Island</td>
</tr>
</tbody>
</table>

NOTE: Local government units include counties, cities, and townships.

* The City of Tenney dissolved in 2011.

* Measured in total area (land and water).


As we describe later in this report, local governments often participate in cooperative service agreements with neighboring jurisdictions to either provide or receive services on behalf of their residents. Thus, we think it is useful to assess the number of LGUs per population on a broader, regional level. We found that:

- In 2010, the number of local governments per capita varied considerably among Minnesota’s economic development regions.

As shown in Table 1.2, the Twin Cities Metro Area Region had the lowest number of LGUs per capita—0.7 per 10,000 population—while the Northwest Region had the highest—33.2 LGUs per 10,000 population. The number of LGUs per 100 square miles ranged from about 1.2 in the Arrowhead Region to 6.4 in the Twin Cities Metro Area Region. The differences among various regions on these measures may be due to many factors, including geographic size, population density, demographics, and service needs of residents.
Among all states, Minnesota had the fifth highest number of local governments per capita in 2007.

Table 1.2: Minnesota Local Government Units (LGUs) per Capita and Area by Economic Development Region, 2010

<table>
<thead>
<tr>
<th>Economic Development Region and Region Number</th>
<th>Total Number of LGUs&lt;sup&gt;a&lt;/sup&gt;</th>
<th>LGUs per 10,000 Population</th>
<th>LGUs per 100 Square Miles&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Central—4</td>
<td>330</td>
<td>14.9</td>
<td>3.8</td>
</tr>
<tr>
<td>Southeast—10</td>
<td>306</td>
<td>6.2</td>
<td>4.4</td>
</tr>
<tr>
<td>Northwest—1</td>
<td>286</td>
<td>33.2</td>
<td>3.4</td>
</tr>
<tr>
<td>Arrowhead—3</td>
<td>256</td>
<td>7.8</td>
<td>1.2</td>
</tr>
<tr>
<td>Southwest—8</td>
<td>251</td>
<td>21.1</td>
<td>2.1</td>
</tr>
<tr>
<td>South Central—6E</td>
<td>126</td>
<td>10.6</td>
<td>2.2</td>
</tr>
<tr>
<td>North Central—5</td>
<td>220</td>
<td>13.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Twin Cities Metro Area—11</td>
<td>190</td>
<td>0.7</td>
<td>6.4</td>
</tr>
<tr>
<td>Upper Minnesota Valley—6W</td>
<td>136</td>
<td>30.1</td>
<td>4.0</td>
</tr>
<tr>
<td>Headwaters—2</td>
<td>135</td>
<td>16.3</td>
<td>1.8</td>
</tr>
<tr>
<td>Central—7W</td>
<td>132</td>
<td>3.3</td>
<td>4.4</td>
</tr>
<tr>
<td>East Central—7E</td>
<td>131</td>
<td>8.0</td>
<td>3.7</td>
</tr>
<tr>
<td>Southwest Central—6E</td>
<td>126</td>
<td>10.6</td>
<td>4.2</td>
</tr>
<tr>
<td>Minnesota</td>
<td>2,726</td>
<td>5.1</td>
<td>3.1</td>
</tr>
</tbody>
</table>

NOTES: Shading represents the median for each measure. In addition to LGUs, the following regions of the state had unorganized territories: Arrowhead (34 unorganized territories), Headwaters (30), Northwest (8), North Central (6), and Twin Cities Metro Area (1-Fort Snelling). The relatively high number of unorganized territories in two regions is partly because two Minnesota counties—Lake of the Woods County in the Headwaters Region and Koochiching County in the Arrowhead Region—do not have organized township governments; this characteristic is also reflected in their relatively low number of LGUs per square mile. Cities that straddle more than one economic development region were included in the region assigned to the county that contained the majority of the city’s population, land area, and/or city hall.

<sup>a</sup> Local government units include counties, cities, and townships.

<sup>b</sup> Measured in total area (land and water).


When we compared Minnesota’s local governments to those in other states, we also found that:

- In 2007, Minnesota had more local government units per capita and per square mile than most other states.

Minnesota had the second-highest number of local governments (counties, cities, and townships) out of all 50 states, as shown in Table 1.3.<sup>6</sup>

---

<sup>6</sup> For this analysis, we used the most recent data available from the U.S. Census Bureau Census of Governments.
Table 1.3: Local Government Units (LGUs) per Capita and Area, Minnesota and Comparison States, 2007

<table>
<thead>
<tr>
<th>Comparison State</th>
<th>Number of LGUs</th>
<th>National Rank</th>
<th>LGUs per 10,000 Population</th>
<th>National Rank</th>
<th>LGUs per 100 Square Miles&lt;sup&gt;a&lt;/sup&gt;</th>
<th>National Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minnesota</td>
<td>2,729</td>
<td>2</td>
<td>5.1</td>
<td>5</td>
<td>3.1</td>
<td>8</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>2,628</td>
<td>3</td>
<td>2.1</td>
<td>15</td>
<td>5.7</td>
<td>2</td>
</tr>
<tr>
<td>Ohio</td>
<td>2,334</td>
<td>4</td>
<td>2.0</td>
<td>16</td>
<td>5.2</td>
<td>3</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>1,923</td>
<td>6</td>
<td>3.4</td>
<td>9</td>
<td>2.9</td>
<td>11</td>
</tr>
<tr>
<td>Michigan</td>
<td>1,858</td>
<td>7</td>
<td>1.9</td>
<td>18</td>
<td>1.9</td>
<td>18</td>
</tr>
<tr>
<td>Indiana</td>
<td>1,666</td>
<td>9</td>
<td>2.6</td>
<td>10</td>
<td>4.6</td>
<td>5</td>
</tr>
<tr>
<td>New York</td>
<td>1,604</td>
<td>10</td>
<td>0.8</td>
<td>28</td>
<td>2.9</td>
<td>10</td>
</tr>
<tr>
<td>South Dakota</td>
<td>1,291</td>
<td>13</td>
<td>15.9</td>
<td>2</td>
<td>1.7</td>
<td>20</td>
</tr>
<tr>
<td>Georgia</td>
<td>689</td>
<td>16</td>
<td>0.7</td>
<td>31</td>
<td>1.2</td>
<td>27</td>
</tr>
<tr>
<td>Washington</td>
<td>320</td>
<td>32</td>
<td>0.5</td>
<td>42</td>
<td>0.4</td>
<td>38</td>
</tr>
<tr>
<td>United States</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>39,043</td>
<td></td>
<td>1.3</td>
<td></td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>458</td>
<td></td>
<td>1.2</td>
<td></td>
<td>1.2</td>
<td></td>
</tr>
<tr>
<td>Minimum</td>
<td>4</td>
<td></td>
<td>&lt;0.1</td>
<td></td>
<td>&lt;0.1</td>
<td></td>
</tr>
<tr>
<td>Maximum</td>
<td>2,833</td>
<td></td>
<td>25.7</td>
<td></td>
<td>6.7</td>
<td></td>
</tr>
</tbody>
</table>

NOTES: Local government units include counties, cities, and townships, or comparable units as defined by the U.S. Census Bureau Census of Governments. Rankings are out of 50 states, where “1” indicates the state with the highest number of LGUs, LGUs per capita, or LGUs per area. We selected nine states for comparison purposes based on the number of LGUs and the geographic region of the country, among other factors.

<sup>a</sup> Measured in total area (land and water).


However, Minnesota also ranked fifth in the number of LGUs per capita and eighth in the number of LGUs per square mile. Minnesota’s relatively high rank on these measures is partly due to the existence of township governments here and in just 19 other states. However, among all 50 states, Minnesota had the highest number of townships, seventh-highest number of municipalities, and fourteenth-highest number of counties.

In contrast with its relatively high number of counties, cities, and townships, Minnesota had fewer special districts than most other states in 2007. Minnesota ranked in the lower half of all states, with 0.9 special districts per 10,000

---

<sup>7</sup> The four states with more general purpose local governments per capita than Minnesota were other Midwestern states with townships—North Dakota, South Dakota, Kansas, and Nebraska.

<sup>8</sup> States with township governments had an average of 1,367 local governments, or more than three times the average number of LGUs in states without townships. States without townships had an average of 390 units of local government.

<sup>9</sup> On average, states in the U.S. had 63 counties, 390 municipalities, and in states with townships, 826 townships.
population, and 0.5 special districts per 100 square miles.\textsuperscript{10} In Chapter 2, we examine trends in the number of LGUs and their populations to help illustrate the extent of local government consolidations.

**Purpose of Local Governments**

In Minnesota, state law lays out processes for forming a county, city, or township government. Under the Minnesota Constitution, all local governments derive their powers from the Legislature. The Constitution says:

> The legislature may provide by law for the creation, organization, administration, consolidation, division and dissolution of local government units and their functions, for the change of boundaries thereof, for their elective and appointive officers including qualifications for office and for the transfer of county seats.\textsuperscript{11}

The basic notion that local units of government are creations of the state legislature has been well established.\textsuperscript{12} Within this context, the Minnesota Legislature has carved out powers and functions for the state’s local governments. As prescribed in state statutes:

- **In Minnesota, counties generally have distinct roles and responsibilities, while cities and townships have many overlapping responsibilities and service options.**

Counties historically have been considered “agencies of the state.” That is, counties perform certain administrative functions and deliver certain services to residents as instructed by the Legislature—either directly or through executive branch agencies—although counties may also offer other services when authorized by law.\textsuperscript{13} Counties are required, for example, to have a county sheriff, attorney, auditor, social service agency, and 911 telecommunications system, as shown in Table 1.4. In addition, counties are the only type of LGU that can provide a license bureau, a park district, and community corrections services.

\textsuperscript{10} Among all states, Minnesota’s rank was 32 on the number of special districts per 10,000 population, and 40 on the number of special districts per 100 square miles.

\textsuperscript{11} Minnesota Constitution, art. XII, sec. 3. Minnesota Constitution, art. XII, sec. 4, also grants any local government that adopts a home rule charter more substantive authority in governing its community. However, the provision requires legislation to implement such authority.

\textsuperscript{12} For example, see United States Supreme Court, City of Trenton v. State of New Jersey, 262 U.S. 182, 43 S. Ct. 534 (1923); and Minnesota Supreme Court, Town of Bridgie and Others v. County of Koochiching and Others, 277 Minn. 320, 35 N.W.2d 537 (1948).

\textsuperscript{13} The 1987 Legislature authorized Ramsey County to obtain “home rule charter” status—a status that allows the county to exercise additional powers not otherwise prescribed by the state.
### Table 1.4: Key Services Provided by Minnesota Counties, Cities, and Townships, 2011

<table>
<thead>
<tr>
<th>Entity</th>
<th>Required Services</th>
<th>Optional Services</th>
</tr>
</thead>
</table>
| County  | - Administer social service programs, including public assistance and child welfare, through a social service agency  
- Operate a 911 emergency telecommunications system  
- Provide public safety services through a county sheriff’s office  
- Provide legal services, including giving legal advice on county matters and prosecuting felonies, through a county attorney’s office  
- Order autopsies through a county coroner or medical examiner’s office  
- Conduct financial audits and prepare financial statements for the county  
- Record, transcribe, and make various county records and documents available to the public | - Establish a license bureau to issue any state license or permit  
- Plan for future development and adopt zoning regulations and restrictions  
- Conduct a solid waste management program  
- Develop and operate a community-based corrections program  
- Repair, maintain, and plow highways, roads, and bridges |
| City    | - Create departments and advisory boards as deemed necessary for the proper management and operation of city affairs  
- Provide public safety services through a police department  
- Establish and maintain sewers  
- Establish and operate a fire department  
- Plan for future development and adopt zoning regulations and restrictions  
- Carry out a housing and redevelopment program  
- Provide and regulate the water supply  
- Repair, maintain, and plow streets  
- Operate and maintain a cemetery | |
| Township| - Provide for police protection  
- Contract with the county, a nearby city, or volunteer fire department for fire protection  
- Repair, maintain, and plow roads and bridges  
- Buy and maintain a public dump  
- Operate and maintain a cemetery  
- Plan for future development and adopt zoning regulations and restrictions | - In addition to the above services, urban townships can, for example:  
- Establish and operate a fire department  
- Engage in industrial and commercial development projects |

**NOTES:** The services listed above are not exhaustive and only represent a sample of those provided by local governments. In addition, statutes require local governments to elect or appoint specific positions, or impose requirements on the services they do provide.

- **a** Per *Minnesota Statutes* 2011, 394.21, this provision does not apply to Hennepin and Ramsey counties.
- **b** Per *Minnesota Statutes* 2011, 400.02, this provision does not apply to counties in the seven-county metro area.
- **c** A county must have a population of 30,000 to provide a community-based corrections program. Two or more contiguous counties with an aggregate population of 30,000 can jointly provide these services.
- **d** Per *Minnesota Statutes* 2011, 368.01, towns that meet certain criteria can possess urban powers similar to those of cities.

**SOURCES:** Office of the Legislative Auditor, summary of select *Minnesota Statutes* 2011.
Counties, and not a state entity, are responsible for approving consolidations among townships. Counties also have a unique role among local governments in that they are responsible for approving boundary adjustments among townships as requested by their residents and for dissolving a township under certain conditions. We discuss this county function and township consolidations in later sections of this report.

Most of Minnesota’s 87 counties were formed through an act of the Legislature, although some were established or changed by voters under processes authorized in state law. The number and boundaries of Minnesota counties have not changed since 1922, when the last county established—Lake of the Woods County—was created from territory that had been part of Beltrami County.

In contrast with counties, cities and townships have the option to provide certain services outlined in law to their residents and may provide different types and levels of service. Further, cities and townships are created on the initiative of property owners and exist to act on behalf of the general welfare of their residents. Minnesota laws, however, specify areas best served by either a city or a township; for example, “the public interest requires that municipalities be formed when there exists or will likely exist the necessary resources to provide for their economical and efficient operation.” In addition, state law broadly defines the scope of cities’ services, where “municipal government most efficiently provides governmental services in areas intensively developed for residential, commercial, industrial, and governmental purposes.” For example, cities may have a housing and redevelopment program and provide and regulate water to residents.

For townships, Minnesota law states that “township government most efficiently provides governmental services in areas used or developed for agricultural, open space, and rural residence purposes.” That is, township governments typically serve areas not served by cities, and many provide fewer types of services than cities. However, the 1907 Legislature established a provision under which larger townships could adopt “urban powers”—powers and authority that are similar to

---

14 Minnesota Statutes 2011, 379.02, 365.01, 365.45-365.49, and 368.47.
15 Minnesota Territorial Laws 1849, chapter 5, secs. 1-9, and Minnesota Statutes 2011, 2.01.
16 This discussion pertains primarily to statutory cities, whose powers are enumerated in statute. Although state law grants cities discretion on the services they may provide, some laws impose requirements on the delivery of specific services. The Legislature also has divided cities into four classes—based on population—as a way to provide powers to or impose duties on cities of a certain size. Under Minnesota Statutes 2011, 410.01, Minnesota had 4 first-class cities (those with more than 100,000 inhabitants); 51 second-class cities (more than 20,000 and no more than 100,000 inhabitants); 40 third-class cities (more than 10,000 and no more than 20,000 inhabitants); and 759 fourth-class cities (not more than 10,000 inhabitants) in 2010.
17 Minnesota Statutes 2011, chapter 379, 365.10, and 414.02. The city incorporation process may be initiated by either a petition of 100 or more property owners or a town board resolution, which must be approved by township voters.
18 Minnesota Statutes 2011, 414.01, subd. 1a.
19 Minnesota Statutes 2011, 414.01, subd. 1a(2).
In Minnesota, counties, cities, and townships may provide some of the same services.

Despite the differing roles of counties, cities, and townships, they have authority to provide some of the same services. Both cities and townships can provide—or provide for—fire protection services, for example. All three LGU types may operate and maintain cemeteries, provide for public parks, and maintain roads. Their authority to provide similar services means that LGUs with overlapping jurisdictions could potentially provide the same, or duplicate, services for these areas. For example, duplication of services could occur as part of snow plowing or maintaining roads. Under this scenario, neighboring jurisdictions would need to coordinate responsibility for servicing overlapping roadways to avoid duplicating work activities. Neighboring jurisdictions also could have the same services in close proximity to one another, such as public parks or fire departments.

OPTIONS FOR SERVICE DELIVERY AND RESTRUCTURING

Discussions about reforming government structure and services often first focus on what processes and restructuring options are available to local governments. Currently:

- Minnesota local governments have a continuum of options available for delivering services and organizing their boundaries.

---

20 Laws of Minnesota 1907, chapter 193, sec. 1. Under Minnesota Statutes 2011, 368.01, a town with 1,200 or more residents or a town within 20 miles of the city hall of a first-class city with a population of 200,000 has urban township powers. In addition, a town with a population of 1,000 or more also can possess urban powers upon affirmative vote of its electors.

21 As of 2011, there were at least 55 townships with urban powers granted to them through Minnesota Statutes 2011, chapter 368, or various other special laws.

22 Minnesota townships were originally created through the federal land ordinances of 1785 and 1787. These ordinances provided for the survey, sale, and legal organization of the territory north and west of the Ohio River into congressional townships that were six miles square.

23 Minnesota Statutes 2011, chapter 365.


25 For example, the board of supervisors in townships that have adopted urban powers can operate a hospital, establish a board of health, and establish and operate a fire department.
These service delivery and restructuring options vary in complexity and range from providing services exclusively and directly to residents to full consolidation of jurisdictions, as shown in Table 1.5. Local governments may use any of these arrangements to help fulfill their responsibilities, and they may use more than one option for one or more services. The most direct approach is when a local government provides its own services and does not participate in a shared service arrangement with another jurisdiction. If a local government wants to pursue alternative ways to deliver services, the least formal approaches involve using unwritten or written agreements with other local governments to provide and/or receive services.26

### Table 1.5: Continuum of Service Delivery and Restructuring for Minnesota Local Governments, 2011

<table>
<thead>
<tr>
<th>Service Delivery Option</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Services</td>
<td>A local government provides services directly and exclusively to its residents</td>
</tr>
<tr>
<td>Unwritten Agreement</td>
<td>Two or more local government units (LGUs) enter a verbal agreement to provide or receive services</td>
</tr>
<tr>
<td>Service Agreement</td>
<td>Two or more LGUs enter a written agreement or contract to provide or receive services(^{a})</td>
</tr>
<tr>
<td>Joint Powers Agreement</td>
<td>Two or more LGUs work together through a written agreement to jointly provide a service</td>
</tr>
<tr>
<td>Joint Powers Board</td>
<td>Two or more LGUs form a board with representatives from each to oversee a specific service for their jurisdictions</td>
</tr>
<tr>
<td>Functional Consolidation</td>
<td>Two or more LGUs merge specific functions, services, or departments, but maintain separate identities and boundaries</td>
</tr>
<tr>
<td>Boundary Changes; Annexation or Detachment</td>
<td>A local government’s jurisdictional boundaries are shifted incrementally to include or exclude property and/or residents in its service areas</td>
</tr>
<tr>
<td>Dissolution</td>
<td>A local government entity ceases to exist, whereby it no longer has a governing body or provides services to its residents; a different entity may then provide some services to residents</td>
</tr>
<tr>
<td>Structural Consolidation</td>
<td>A new entity is formed by merging the entire jurisdictions of two or more local governments</td>
</tr>
</tbody>
</table>

NOTE: Townships or unorganized territories also may incorporate into a municipality, which may or may not affect jurisdictional boundaries.

\(^{a}\) Local governments also may contract with private vendors for services.


---

26 See Minnesota Statutes 2011, 471.59, for example.
Local officials or residents can pursue changes to local government boundaries.

Moving along this continuum, local governments can also enter into formal joint powers agreements, where two or more entities work together to deliver services. These agreements can involve creating a joint powers board made up of representatives from participating jurisdictions to oversee and/or administer the services. Agreements to deliver services jointly can also involve consolidating specific services or programs, or combining day-to-day operations from two jurisdictions into a single facility. Sometimes referred to as “functional consolidation,” this approach often involves establishing a joint powers board to oversee the merged service; however, the participating local governments still retain their separate governance structures. Entities can also create a joint, special district for a unique service that allows the participating jurisdictions to impose taxes and bring in revenues to fund their operations.

In addition to using shared service agreements, counties, cities, and townships, or their residents, can pursue several types of changes to their boundaries that alter the number of residents served by the local government. These boundary changes are more complex than service agreements and can occur through an annexation and/or detachment of land to either include or exclude property. Annexations typically involve small parcels of land, but they may involve larger portions. For example, a city can annex (1) unorganized territory from a county, (2) a portion of a township, (3) an entire township, and (4) land from another city. Residents in an unorganized territory may also form a township, which could change a county’s service area (but not its boundaries) as some services, such as snow plowing and road grading, would be taken over by the township. County boundaries can also be changed under a process separate from the process for cities and townships.

Another type of boundary adjustment can occur when a township or city dissolves, whereby the jurisdiction no longer provides services to its residents or has a governing body or boundaries. Under this scenario, a different local government unit—often a county—may take over responsibility for providing some services to residents, or the area is merged into another local government’s jurisdiction.

Finally, at the other end of the service continuum, local governments may fully combine their jurisdictions, sometimes referred to as “structural consolidation.” Under this scenario, two or more local governments with a contiguous boundary merge into a single governing body that serves their combined geographic areas and populations. This means that their boundary lines become coterminous and all government services, programs, and elected positions are reconfigured to support a single governing entity.

27 Ibid.
28 Minnesota Statutes 2011, chapter 370.
30 Minnesota Statutes 2011, 379.01.
31 Minnesota Statutes 2011, chapter 370.
33 Minnesota Statutes 2011, chapters 371 and 379, 414.041, and 465.81-465.86.
STATE OVERSIGHT OF CONSOLIDATION

The Legislature has absolute authority over the formation and purpose of local governments in Minnesota. Over the years, the Legislature has delegated to various state entities the authority to direct or decide local government consolidation and other boundary adjustment issues. However, we found that:

- While the state has had a role in local government consolidation issues historically, its involvement has diminished since 2002.

Specifically, the 1959 Legislature created the Minnesota Municipal Commission (more recently referred to as the Minnesota Municipal Board) to address concerns about land-use planning stemming from the significant—and disorganized—proliferation of cities, villages, and towns during the 1950s. The commission’s authority was primarily over these entities (and not counties) and included: protecting the integrity of land use planning in municipalities, townships, and unorganized territories; conducting proceedings and issuing orders regarding boundary adjustments, including consolidations; and providing for the extension of municipal government into areas in need of such services. In general, the commission had primary control over consolidation actions and proceedings filed under Minnesota Statutes, chapter 414.

In 1993, the Legislature also created the Board of Government Innovation and Cooperation (BGIC) and an alternative consolidation method to the Minnesota Municipal Board’s processes. BGIC provided grants to support local governments’ efforts to cooperate on service delivery or to consolidate, and local governments that pursued consolidation through the new process had more local control than through other processes. Unlike the Municipal Board, BGIC’s involvement in local government consolidations was only at the request of local governments—it could not initiate proceedings. LGUs that used the BGIC process were, however, required to obtain approval of their consolidation plan from BGIC. After nine years, the 2002 Legislature abolished the Board of Government Innovation and Cooperation, removed the requirement for state approval of consolidation plans, and eliminated grant funding, but retained the consolidation processes in law to provide local governments a self-directed process to merge.

In 1997, the Legislature terminated the Minnesota Municipal Board (effective in 1999) and transferred its responsibilities to the Minnesota Office of Strategic and Long-Range Planning. Boundary adjustment activities were then administered

34 Laws of Minnesota 1959, chapter 686.
35 Laws of Minnesota 1993, chapter 375, art. 15.
36 The board also granted local governments waivers to administrative rules and temporary exemptions from state procedural laws.
38 Laws of Minnesota 1997, chapter 202, art. 5, sec. 8; and Laws of Minnesota 1999, chapter 243, art. 6, sec. 24.
Currently, the Office of Administrative Hearings Municipal Boundary Adjustment Unit oversees some, but not all, consolidation proceedings.

Through the Office of Strategic and Long-Range Planning Municipal Boundary Adjustment Unit (MBAU). The Office of Strategic and Long-Range Planning also contracted with the Office of Administrative Hearings to handle contested proceedings, and it established a dispute resolution process to encourage local governments to plan jointly for their jurisdictions. In 2003, state oversight of these boundary adjustment activities was transferred from the Office of Strategic and Long-Range Planning to the Department of Administration, where the Municipal Boundary Adjustment Unit was established as a stand-alone unit; this change included reducing the staff size of the MBAU.39

In 2005, the Municipal Boundary Adjustment Unit was transferred to the Office of Administrative Hearings, where the state’s chief administrative law judge currently acts as the decisionmaker in boundary adjustment proceedings. MBAU staff activities are limited to overseeing boundary adjustments pursued under Minnesota Statutes, chapter 414 (mostly involving actions among cities, or between cities and townships). Occasionally, counties also may be involved in these boundary adjustment actions. However, state law lays out separate processes for county-county and township-township mergers, and MBAU activities do not include assisting local officials or residents with consolidations pursued under these other state processes. We discuss details of Minnesota’s consolidation processes, trends in local governments’ consolidation efforts, and LGUs’ use of collaborative service agreements in Chapter 2.

39 Minnesota Department of Administration, Reorganization Order No. 188, March 13, 2003.
Processes and Trends

Given the wide array of local government services and responsibilities, restructuring counties, cities, and townships can be complicated. Any initiative to fully consolidate two or more local jurisdictions requires determining how consolidation should occur and who should be involved. Consolidations, thus, take time—sometimes years—to fully implement, and the processes can have a substantial impact on the outcome of a consolidation effort.

This chapter provides a brief overview of the processes available to merge local jurisdictions in Minnesota, including the roles of citizens and state and local governments. We also describe consolidation actions in Minnesota during the past several decades, trends in other types of local government boundary adjustments, and local governments’ use of cooperative service arrangements in lieu of consolidation.

CONSOLIDATION PROCESSES

As we discussed in Chapter 1, local governments are creations of the state, and the Legislature has the authority to determine their number and configuration. Aside from this authority, the Legislature has created other processes to restructure local government boundaries and fully consolidate jurisdictions. According to state law:

- In Minnesota, there are several processes available to consolidate local governments, most of which require either residents or local governing bodies to initiate an action.

Generally, consolidation occurs when either two or more local governments merge into a single jurisdiction or a local government unit dissolves its governing body and boundaries. Table 2.1 outlines these consolidation options and shows that these processes, and the state’s involvement, differ somewhat for counties, cities, and townships. For each of these types of entities, state law provides for more than one process and more than one method to initiate consolidation. In the next section, we briefly describe these processes, including those administered through the state’s Municipal Boundary Adjustment Unit, locally directed processes, and processes unique to counties.1

---

1 In Chapter 1, we provided historical information on various state entities charged with overseeing consolidations and other boundary adjustment activities for Minnesota local governments. Throughout this report, we occasionally reference actions by state entities—such as the Minnesota Municipal Board—that were charged with overseeing processes under Minnesota Statutes chapter 414, but no longer exist. We differentiate among these various entities in our discussions when it is appropriate to do so.
### Table 2.1: Consolidation Options for Minnesota Local Governments, 2011

<table>
<thead>
<tr>
<th>Option</th>
<th>Process via Minnesota Statutes 2011</th>
<th>Description</th>
<th>Who Can Initiate Proceedings</th>
<th>Final Voter Approval Required?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidation of two or more cities</td>
<td>414.041</td>
<td>State law specifies procedural requirements and factors to consider. The Office of Administrative Hearings Municipal Boundary Adjustment Unit oversees the process.</td>
<td>• Resident voters • Governing bodies • Chief administrative law judge</td>
<td>Yes&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>465.81-465.86</td>
<td>Consolidation follows a maximum two-year period of cooperation and planning; no state oversight or approval required.</td>
<td>• Governing bodies</td>
<td>Yes</td>
</tr>
<tr>
<td>Consolidation of city and township</td>
<td>414.0325</td>
<td>One or more townships and one or more cities may designate an entire township for orderly annexation into the city’s jurisdiction.</td>
<td>• Governing bodies</td>
<td>X&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>414.031 and/or 414.033</td>
<td>The chief administrative law judge may order an entire township annexed into a city following public testimony and evidentiary hearings. Annexation may also occur by city ordinance under certain conditions.</td>
<td>• Property owners • Governing bodies</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>465.81-465.86</td>
<td>Consolidation follows a maximum two-year period of cooperation and planning; no state oversight or approval required.</td>
<td>• Governing bodies</td>
<td>Yes</td>
</tr>
<tr>
<td>Consolidation of two or more counties</td>
<td>Chapters 371 and 373.51</td>
<td>Voters must submit a petition, or county boards must submit a resolution, to the Secretary of State for approval. The Governor then issues a proclamation, orders the question be submitted to voters, and appoints the first county board.</td>
<td>• Resident voters • Governing bodies</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>465.81-465.86</td>
<td>Consolidation follows a maximum two-year period of cooperation and planning; no state oversight or approval required.</td>
<td>• Governing bodies</td>
<td>Yes</td>
</tr>
<tr>
<td>Consolidation of two or more townships</td>
<td>Chapter 379</td>
<td>A county board can merge townships or adjust township boundaries upon petition of residents in affected territories/areas.</td>
<td>• Resident voters</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>465.81-465.86</td>
<td>Consolidation follows a two-year period of cooperation and planning; no state oversight or approval required.</td>
<td>• Governing bodies</td>
<td>Yes</td>
</tr>
<tr>
<td>Dissolution of a city</td>
<td>412.091</td>
<td>A city dissolves into a township or unorganized territory; state approval is not required, although the chief administrative law judge must direct proceedings.</td>
<td>• Resident voters</td>
<td>Yes</td>
</tr>
<tr>
<td>Dissolution of a township</td>
<td>365.45 or 368.47</td>
<td>A township dissolves into unorganized territory; state approval is not required.</td>
<td>• Resident voters • County board&lt;sup&gt;c&lt;/sup&gt;</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**NOTES:** State law specifies which actions may be initiated by voter petition, a resolution of one or both governing bodies, or the chief administrative law judge. Consolidations may also occur through special legislation; historically, such actions require final voter approval.

<sup>a</sup> For actions initiated by residents and approved by resolution, final voter approval is required only if residents request a referendum.

<sup>b</sup> *Minnesota Statutes* 2011, 414.0325, does not explicitly require the city or the township to obtain voter approval through final referenda. For several recent orderly annexation agreements that subsumed the entire township and dissolved the town board, town officials sought approval from electors before entering into the agreement. The chief administrative law judge, by way of state agency order to extend municipal service to an area, also may designate an area for orderly annexation under certain conditions.

<sup>c</sup> A county board may initiate and approve proceedings only under certain conditions. Dissolutions initiated under *Minnesota Statutes* 2011, 368.47, require final approval by township voters for townships in Cass, Itasca, and St. Louis counties.

**SOURCE:** Office of the Legislative Auditor, summary of select *Minnesota Statutes* 2011.
Currently, the state’s Municipal Boundary Adjustment Unit and chief administrative law judge, through the Office of Administrative Hearings, oversee three statutory processes for consolidating local governments: (1) consolidation of cities under *Minnesota Statutes*, 414.041; (2) orderly annexation agreements between cities and townships under *Minnesota Statutes*, 414.0325; and (3) consolidation of cities and townships by order of the chief administrative law judge under *Minnesota Statutes*, 414.031.2

Under *Minnesota Statutes*, 414.041, state law sets forth the legal framework, governance structure, and procedures and timelines for two or more cities to consolidate. This process may be initiated by petition of local residents, resolution of the cities’ governing bodies, or order of the state’s chief administrative law judge. The process includes establishing a consolidation commission made up of local representatives to: conduct hearings; evaluate various factors regarding the proposed merger; and develop findings, recommendations, and a final report for the chief administrative law judge.3 The chief administrative law judge then must consider the commission’s findings and recommendations and hold public hearings. The law also outlines conditions under which the chief administrative law judge is required to approve the merger and refer the matter to voters for final determination.4

The second procedure overseen by the chief administrative law judge is the locally determined “orderly annexation” process by which one or more cities and one or more townships can combine.5 Orderly annexation agreements are joint agreements between the governing bodies of a city and township that designate small or large areas of township land to bring into a city’s jurisdiction. These annexations typically occur incrementally over several years, and they proceed at either the initiative of the city or at the request of individual property owners who desire additional services beyond those provided by the township.

2 Under *Minnesota Statutes* 2011, 414.033, full annexation of a smaller township also could occur by city ordinance under certain conditions, for example, if the city entirely surrounded the township. Because of the rarity of these circumstances, our discussion of consolidation focuses on more commonly used processes.

3 The Appendix at the end of this report contains a list of these statutory factors to consider.

4 If a consolidation is initiated by voter petition, a judge’s order for consolidation is final upon approval by resolution of each city council, unless at least 10 percent of the voters in each city petition for a referendum. If a consolidation is initiated by resolution of each city council, a consolidation order is final unless at least 10 percent of voters in each city petition for a referendum. If the chief administrative law judge initiates a consolidation, an order for consolidation is not effective unless it is adopted by each city council and by a majority of the voters in each city.

5 *Minnesota Statutes* 2011, 414.0325. For this discussion, we focus on consolidation between two jurisdictions with governing bodies. Under *Minnesota Statutes* 2011, 414.0325, subd.1(f), the chief administrative law judge may also designate an area of orderly annexation if a state agency—other than the Minnesota Pollution Control Agency—orders a municipality to extend service to an area. Cities and counties can also enter into orderly annexation agreements regarding unorganized territory.
For many jurisdictions, orderly annexation agreements offer an alternative, incremental approach to full consolidation. Specifically, local governing bodies—through a joint resolution—may forego incremental annexation agreements for smaller land areas and agree upfront to merge an entire township with one or more cities. Under this scenario, the entire township can be merged in a single event—or portions of the township can be annexed over several years—and the town board and governance structure no longer exists. When full consolidation occurs over several years, it gives a city time to expand its services and infrastructure in a more cost-effective manner, and allows township landowners more advance notice about changes in land use planning. The chief administrative law judge also is required to approve these agreements when they conform to state law.

A third process by which an entire township can be annexed by a city is by order of the chief administrative law judge. Under Minnesota Statutes, 414.031, the governing body or residents of either a city or a township may petition the chief administrative law judge to annex some or all township land. However, the chief administrative law judge always makes the final decision. These types of actions have almost always involved individual parcels of land—not entire townships—and often have been initiated when there was disagreement among neighboring governing bodies and/or residents over the demand for services, property development and tax revenues, or environmental concerns stemming from wastewater.

Under the consolidation processes in Minnesota Statutes, chapter 414, the state’s authority to initiate a consolidation action is restricted to mergers among cities. However, the state—currently through the chief administrative law judge—also may review the potential for larger Minnesota townships to consolidate with other jurisdictions. First established in 1959, these reviews were initially mandatory and their intent was to identify and make recommendations to townships that would be better served by either incorporating or annexing into a village. The law has since been amended, and now the nature and purpose of these reviews is not explicitly defined. Townships also are not required to act on these recommendations.

Locally Directed Processes

Minnesota Statutes, 465.81-465.86, provide an alternative, locally directed process for all three types of LGUs to consolidate. This process involves

---

6 Minnesota Statutes 2011, 414.0325 (the orderly annexation process), does not explicitly require the city or the township to obtain voter approval through final referenda. For several recent orderly annexation agreements that subsumed the entire township and dissolved the town board, town officials sought approval from electors before entering into the agreement.

7 Under Minnesota Statutes 2011, 414.0325, subd. 1(h), if a joint resolution designates an area as in need of orderly annexation, provides for the conditions for its annexation, and states that no consideration by the chief administrative law judge is required, the chief administrative law judge may review and comment, but shall, within 30 days, order the annexation in accordance with the terms of the resolution.

8 This process can also involve annexations of land in unorganized territories.

9 Under Minnesota Statutes 2011, 414.051, the chief administrative law judge may conduct reviews of townships with populations greater than 2,000 following each federal census.
In Minnesota, there are several processes available for counties, cities, and townships to direct and administer consolidations.

minimal state oversight, and local governments have more flexibility in handling consolidation initiatives when compared to the processes administered through the Municipal Boundary Adjustment Unit. Under this locally directed process, counties may merge with other counties, and cities and townships may merge with other cities and/or townships. The process is initiated through a resolution of the governing bodies, and local officials are required to develop a consolidation plan that includes an initial period of cooperation (up to two years) and steps for obtaining approval from voters through referenda. State law requires that the merger be completed within four years of beginning the process.

State law also outlines a separate process for townships to merge with other townships. This process does not involve state oversight; rather, this function is performed by county boards. Township voters can petition their county board to alter their township boundaries or merge their township with another township. A county board may, but is not required to, approve and act on these requests.

Residents in cities or townships also may seek to dissolve their governing bodies and jurisdictional boundaries. When a city or township dissolves and the service area is not merged with another city or township—that is, the area becomes an unorganized territory—another government entity typically provides some services to the residents. Often, dissolutions are pursued in small jurisdictions that are experiencing challenges in providing services or in finding residents to act as governing officials. Occasionally, residents may seek to dissolve their LGU when they are dissatisfied with their elected officials. Although city residents must submit a petition to the chief administrative law judge to initiate the dissolution of a city, state permission or approval is not required to proceed. Rather, the chief administrative law judge must schedule a referendum for voters to approve or reject the action. For townships, a county board must approve a residents’ petition following a town election and affirmative vote on the matter; in some situations the county board can initiate the dissolution.

---

10 Local governments still must comply with other Minnesota laws, for example, election laws when holding a referendum. In addition, local governments in the metropolitan area must submit their consolidation plan to the Metropolitan Council for review and comment; however, the local governments do not need the council’s approval to proceed with their merger.

11 *Minnesota Statutes* 2011, 365.01.

12 *Minnesota Statutes* 2011, chapter 379. According to data reported to the Municipal Boundary Adjustment Unit, a consolidation among townships rarely occurs (the most recent merger occurred in 1993). Rather, counties are more often involved in responding to requests from residents in unorganized territories to form townships.

13 *Minnesota Statutes* 2011, 412.091. The petition must be signed by a number of voters equal to one-third of those voting in the last preceding city election.

14 *Minnesota Statutes* 2011, 365.45-365.49. *Minnesota Statutes* 2011, 368.47, allows a county board to declare by resolution a town dissolved when: (1) the voters have failed to elect any town officials for more than ten years continuously; (2) a town has failed for a period of ten years to exercise any of the powers and functions of a town; (3) the market value of a town drops to less than $165,000; (4) the delinquency of a town, exclusive of taxes that are delinquent or unpaid because they are contested in proceedings for the enforcement of taxes, amount to 12 percent of its market value; or (5) the State or federal government has acquired title to 50 percent of the real estate of a town. Dissolutions initiated under *Minnesota Statutes* 2011, 368.47, require final approval by resident voters for townships in Cass, Itasca, and St. Louis counties.
County Consolidation

Among the various ways that local governments can pursue consolidation, the process under *Minnesota Statutes*, chapter 414, provides the most direction for cities, or cities and townships, to merge. However,

- Minnesota law provides minimal guidance for counties to consolidate.

Counties may consolidate under the same locally directed process—*Minnesota Statutes*, 465.81-465.86—that is available to cities and townships. The process is initiated by resolution of the governing bodies and lays out a maximum two-year time frame for cooperation and subsequent approval of the consolidation. Other state laws outline different processes for counties to merge, but provide few specifics beyond basic timelines, requirements for creating new commissioner districts, setting a new tax rate, and appointing new officers. For instance, at least 90 days before a general election, voters from each county must submit a petition, or county boards must submit a resolution, to consolidate to the Secretary of State for review and approval. The Governor must then issue a proclamation at least 60 days before the general election and direct that the question of consolidation be presented to voters of the affected counties. If voters approve the consolidation, the Governor appoints a new county board to handle county matters until the consolidation becomes effective.

However, counties serve a distinct role in delivering state-supervised services and other mandated functions on behalf of county residents—and for city and township governments. State law also requires counties to maintain certain elected or appointed positions for individuals who serve on behalf of all county residents. Local officials we spoke with expressed concern that state statutes do not clearly specify how counties should reconcile or address these responsibilities, or specific factors to consider, when consolidating.

State laws also lay out conflicting threshold requirements for voter approval of county-county mergers. Specifically, *Minnesota Statutes* 2011, 465.82, allows counties to determine whether a majority of those voting in each county or a majority of those voting in the entire area that will be combined is needed to approve the consolidation, whereas *Minnesota Statutes* 2011, 371.07, requires at least 60 percent of voters in each county to approve the consolidation proposal. We discuss these requirements and processes for county-county mergers further in Chapter 5.

TRENDS

In this section, we examine the use of local government service delivery and restructuring options in Minnesota over the past three decades. First, we look at

---

15 *Minnesota Statutes* 2011, chapter 371.

16 *Minnesota Statutes* 2011, 371.02, requires that a petition for each affected county, signed by at least one-fourth of those voting in the last general election, be filed. Laws passed in 2011 expands the authority to initiate consolidation to county boards by resolution. See *Minnesota Statutes* 2011, 373.51.
the extent to which Minnesota’s consolidation processes have been used and the response of voters to these actions; this includes comparing trends in the number of Minnesota’s local governments with those in other states. We then briefly discuss trends in other boundary adjustment activities and local governments’ use of cooperative service agreements in lieu of consolidation.

Consolidation Actions

We reviewed how often Minnesota local governments have merged or dissolved in recent decades, and found that:

- Consolidation of two or more local governments rarely occurs in Minnesota.

Despite the availability of numerous statutory processes to consolidate, there have been relatively few actions to combine two or more of the state’s local governments.\(^{17}\) Since 1980, there have been about three dozen merger attempts among cities and/or townships, as shown in Figure 2.1.\(^ {18}\) State records also indicate that there have been no actions filed to consolidate counties.\(^ {19}\) Among 38 initiatives during this time period, 26 have resulted in fewer local governments (27 fewer), and most involved smaller cities and/or townships.\(^ {20}\)

For example, the most recent dissolution of a city occurred when voters in the City of Tenney (population 5) agreed to dissolve in early 2011. Prior to that, the most recent consolidation proposed to voters involved the cities of Elko and New Market in Scott County. Voters approved this merger in early 2006, thereby creating the City of Elko New Market in January 2007.

---

\(^{17}\) We based this conclusion on data maintained by the Municipal Boundary Adjustment Unit and the Secretary of State. The Municipal Boundary Adjustment Unit maintains records and oversees processes pursued under *Minnesota Statutes*, chapter 414. MBAU also keeps some historical records of, but does not oversee, consolidation efforts pursued under *Minnesota Statutes*, 465.81-465.86 (the locally directed process). MBAU also does not oversee or have authority over county-county consolidation activities or township-township mergers pursued under other processes.

\(^{18}\) The 38 initiatives include actions filed and reported to the Municipal Boundary Adjustment Unit between January 1980 and December 2010, the filing and dissolution of the City of Tenney in February 2011, and actions initiated through resolution under *Minnesota Statutes*, 465.81-465.86. In addition to the initiatives and entities listed here, other local governments also may have initiated consolidation within their jurisdiction during this time period.

\(^{19}\) This analysis is based on records kept by the Secretary of State. State law requires county residents and—as of July 2011—county boards seeking to consolidate to file a petition and/or notice with the Secretary of State.

\(^{20}\) We also surveyed LGU officials about the extent to which their jurisdictions have pursued a merger with another entity in recent years. Only 2 percent of respondents reported that their local government had taken actions toward consolidation between 2005 and 2011. Other than the consolidation of Elko and New Market in 2007, only 39 respondents—from cities and townships only—reported taking any action. The most common activities reported were that (1) governing board members’ had initiated a resolution for consolidation and (2) LGUs had surveyed citizens to determine their interest in consolidation.
Figure 2.1: Initiatives to Consolidate Minnesota Local Jurisdictions, January 1980-February 2011

NOTES: The figure represents initiatives to consolidate or dissolve Minnesota cities and townships. There have been no attempts by Minnesota counties to merge during this time period. More information about these initiatives is contained in Table 2.2.

SOURCE: Minnesota Municipal Boundary Adjustment Unit.
How Consolidation Actions Were Initiated

Depending on the process, Minnesota law allows for the state, local governing bodies, or residents to commence a merger or dissolution of local governments. We examined how consolidation actions in Minnesota have been started and found that:

- Over the past three decades, most local government consolidation actions were initiated by either local governing bodies or citizens.

Out of 38 efforts to reduce the number of local governments, 33 were initiated by either resolution of the governing bodies or a petition by residents. The remaining five were directed by the Minnesota Municipal Board during the 1990s. Table 2.2 shows these efforts, how they were initiated, and the final results. For example, a few townships merged with other townships—most of these actions occurred through residents’ petition to their county board.

In 7 of these 38 consolidation actions, city and township governing bodies—by board resolution—fully merged their jurisdictions using the orderly annexation process. Some of these efforts involved multi-year incremental annexation of township sections, but most involved immediate annexation of entire township land. Overall, more of these orderly annexation agreements (four) occurred in the 2000s than in the previous two decades combined.

Among the various ways to reduce the number of Minnesota local governments, actions to dissolve an LGU have not happened very often, also shown in Table 2.2. Since 1980, four townships have been dissolved and became unorganized territories—most of these occurred in the 1990s. Three of these dissolutions were at the initiative of township residents; one occurred through special legislation and county board action. Among cities, there have been only four petitions by residents filed with the state to dissolve; three of which were approved by voters.

---

21 We based our analysis on state records from January 1980 through February 2011.

22 The seven orderly annexation agreements referenced here include those actions where the township was fully annexed by January 2012. There were seven additional such agreements filed with MBAU between January 1980 and December 2010 that designate an entire township for eventual annexation over the next several years or decades. These additional agreements involved the following cities and townships: Fergus Falls and Fergus Falls Township, Becker and Becker Township, Gilbert and Fayal Township, Mankato and South Bend Township, Shakopee and Jackson Township, and Sartell and LeSauk Township. One agreement—between Hutchinson and Lynn Township—was also filed but later rescinded.
Table 2.2: Consolidation Actions in Minnesota and Results, 1980-2011

<table>
<thead>
<tr>
<th>Consolidation Type and Jurisdictions</th>
<th>Approx. Year Initiated</th>
<th>Method of Initiation</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consolidation:</strong> Minnesota Statutes 2011, 465.81-465.86 (Locally directed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Norwood/Young America</td>
<td>1994</td>
<td>Resolution</td>
<td>Voters approved</td>
</tr>
<tr>
<td>Redwood Falls/North Redwood</td>
<td>1996</td>
<td>Resolution</td>
<td>Voters approved</td>
</tr>
<tr>
<td>Orono/Long Lake</td>
<td>1999</td>
<td>Resolution</td>
<td>Voters rejected</td>
</tr>
<tr>
<td>Baytown/Lake Elmo</td>
<td>1999</td>
<td>Resolution</td>
<td>Voters rejected</td>
</tr>
<tr>
<td>Rockville/Pleasant Lake/Rockville Twp</td>
<td>2001</td>
<td>Resolution</td>
<td>Voters approved</td>
</tr>
<tr>
<td>New London/Spicer/New London Twp</td>
<td>2001</td>
<td>Resolution</td>
<td>Voters rejected</td>
</tr>
<tr>
<td>Elko/New Market</td>
<td>2004</td>
<td>Resolution</td>
<td>Voters approved</td>
</tr>
<tr>
<td><strong>Consolidation:</strong> Minnesota Statutes 2011, 414.041 (Process involves state oversight)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deephaven/Greenwood</td>
<td>1983</td>
<td>Resolution</td>
<td>Voters rejected</td>
</tr>
<tr>
<td>International Falls/South International Falls</td>
<td>1988</td>
<td>Resolution</td>
<td>Voters approved</td>
</tr>
<tr>
<td>Centerville/Lino Lakes</td>
<td>1991</td>
<td>Residents’ petition</td>
<td>Municipal Board denied</td>
</tr>
<tr>
<td>Branch/North Branch</td>
<td>1992</td>
<td>Resolution</td>
<td>Voters approved</td>
</tr>
<tr>
<td>Lexington/Blaine</td>
<td>1993</td>
<td>Residents’ petition</td>
<td>Council rejected</td>
</tr>
<tr>
<td>Virginia/Franklin</td>
<td>1993</td>
<td>Resolution</td>
<td>Approved w/o referendum</td>
</tr>
<tr>
<td>Rushford/Rushford Village</td>
<td>1994</td>
<td>Municipal Board order</td>
<td>Council/residents rejected</td>
</tr>
<tr>
<td>Albertville/Ortego</td>
<td>1995</td>
<td>Municipal Board order</td>
<td>Board rescinded order</td>
</tr>
<tr>
<td>Winona/Goodview</td>
<td>1995</td>
<td>Municipal Board order</td>
<td>Council/residents rejected</td>
</tr>
<tr>
<td>St. Cloud/Waite Park</td>
<td>1996</td>
<td>Municipal Board order</td>
<td>Board rescinded order</td>
</tr>
<tr>
<td>Minnetrista/St. Bonifacius</td>
<td>1997</td>
<td>Municipal Board order</td>
<td>Voters rejected</td>
</tr>
<tr>
<td><strong>City Dissolution:</strong> Minnesota Statutes 2011, 412.091 (Locally directed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Island View</td>
<td>1990</td>
<td>Residents’ petition</td>
<td>Voters approved</td>
</tr>
<tr>
<td>Kingston</td>
<td>2002</td>
<td>Residents’ petition</td>
<td>Voters rejected</td>
</tr>
<tr>
<td>Ronneby</td>
<td>2008</td>
<td>Residents’ petition</td>
<td>Voters approved</td>
</tr>
<tr>
<td>Tenney</td>
<td>2011</td>
<td>Residents’ petition</td>
<td>Voters approved</td>
</tr>
<tr>
<td><strong>Township Dissolution:</strong> Minnesota Statutes 2011, 365.45-365.49 (Locally directed; county board administered)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>McKinley</td>
<td>1990</td>
<td>Residents’ petition</td>
<td>Voters approved</td>
</tr>
<tr>
<td>Dean Lake</td>
<td>1994</td>
<td>Residents’ petition</td>
<td>Voters approved</td>
</tr>
<tr>
<td>Wahnena</td>
<td>1995</td>
<td>Residents’ petition</td>
<td>Voters approved</td>
</tr>
<tr>
<td>North Red River</td>
<td>2000</td>
<td>Resolution; Minnesota Laws 2000, chapter 256</td>
<td></td>
</tr>
<tr>
<td><strong>Orderly Annexation:</strong> Minnesota Statutes 2011, 414.0325 (Locally directed; process involves state oversight)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>St. Cloud/Waite Park/St. Cloud Twp</td>
<td>1995</td>
<td>Resolution</td>
<td>Statute does not require final referenda</td>
</tr>
<tr>
<td>St. Michael/Otsego/Albertville/Frankfort Twp</td>
<td>1996</td>
<td>Resolution</td>
<td></td>
</tr>
<tr>
<td>Grand Rapids/Laprairie/Colearaine/Grand Rapids Twp</td>
<td>1999</td>
<td>Resolution</td>
<td></td>
</tr>
<tr>
<td>Pequot Lakes/Sibley Twp</td>
<td>2002</td>
<td>Resolution</td>
<td>Statute does not require final referenda</td>
</tr>
<tr>
<td>Rogers/Hassan Twp</td>
<td>2003</td>
<td>Resolution</td>
<td></td>
</tr>
<tr>
<td>Wyoming/Wyoming Twp</td>
<td>2005</td>
<td>Resolution</td>
<td></td>
</tr>
<tr>
<td>Chaska/Chaska Twp</td>
<td>2005</td>
<td>Resolution</td>
<td></td>
</tr>
<tr>
<td><strong>Township Consolidation:</strong> Minnesota Statutes 2011, 379.02-379.04, 379.06 (Locally directed; county board administered)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clough/Cushing</td>
<td>1989</td>
<td>Residents’ petition</td>
<td>Statute does not require final referenda</td>
</tr>
<tr>
<td>Grove Park/Tilden</td>
<td>1992</td>
<td>Residents’ petition</td>
<td></td>
</tr>
<tr>
<td>Meadowlands/Payne</td>
<td>1993</td>
<td>Residents’ petition</td>
<td></td>
</tr>
<tr>
<td><strong>Annexation by Chief Administrative Law Judge Order:</strong> Minnesota Statutes 2011, 414.031</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Winona/Goodview/Winona Twp</td>
<td>1995</td>
<td>Resolution</td>
<td>Statute does not require final referenda</td>
</tr>
<tr>
<td>Forest Lake/Forest Lake Twp</td>
<td>1999</td>
<td>Residents’ petition</td>
<td></td>
</tr>
</tbody>
</table>

NOTES: Some actions involved multiple filings under multiple processes or required special legislation; jurisdictions are listed under the process by which the action was primarily resolved. Orderly annexations include agreements where the entire township was annexed by January 2012. In addition to the entities listed here, other local governments may have initiated consolidation during this time period. For example, the City of Kinney and Great Scott Township received a state grant to study consolidation.

SOURCE: Office of the Legislative Auditor, summary of public documents and Municipal Boundary Adjustment Unit data.
Finally, the process by which an entire township is annexed by order of the state has occurred only twice in the last three decades: in 1995, the Winona City Council submitted a resolution to the Minnesota Municipal Board seeking to annex all of Winona Township; and in 1999, Forest Lake Township residents submitted a petition to the Municipal Board seeking to be annexed into the City of Forest Lake. Both of these actions were prompted in part by disputes over development and environmental issues. Following multi-year contested proceedings and attempts to resolve the conflicts through arbitration, the state’s chief administrative law judge granted these requests for annexation. Because of the rarity of two jurisdictions merging under these circumstances, we focus on the other procedures for consolidating local governments in the remainder of this report.

Voter Approval of Consolidation Proposals

Over the last three decades, most consolidation and dissolution initiatives used an approach that involved obtaining approval from voters. As shown in Table 2.2, these initiatives included: 2 in the 1980s, 17 in the 1990s, and 6 since 2000. Among the other 13 actions, 7 mergers occurred through the orderly annexation process. Three other actions were initiated by township residents to consolidate with another township; these were approved by the respective county boards. Only two consolidations—each involving a city and a township—occurred by order of the chief administrative law judge. The remaining action was to dissolve a township through special legislation and a voter referendum was not required.

We found that:

- Since 1980, Minnesota voters and local governing bodies have approved the majority of locally initiated consolidation proposals and rejected every consolidation action ordered by the state.

Specifically, voters approved four of the seven consolidation efforts that used the locally directed process (Minnesota Statutes, 465.81) and proceeded to referenda. Voters also approved three of the six actions initiated by residents or local governing bodies to merge through the process in Minnesota Statutes, chapter 414.041. In contrast, among the five consolidation actions formally initiated by the state’s Municipal Board during the 1990s, either the governing bodies and/or voters rejected the proposal or the board rescinded its order.

Number of Local Governments, 1980-2010

To better understand the outcomes of local government consolidation actions, we looked at trends in the number of counties, cities, and townships in Minnesota.

---

23 Statement is based on actions reported to or filed with the Municipal Boundary Adjustment Unit or included in other state records.

24 As we discussed earlier in this chapter, Minnesota Statutes 2011, 414.0325, does not require final referenda be held by either the city or the township. For several recent orderly annexation agreements that subsumed the entire township and dissolved the town board, town officials sought approval from electors before entering into the agreement.
between 1980 and 2010 and compared these changes with trends in the state’s population. First, we found that:

- Over the past three decades, there has been little change in the overall number of Minnesota counties, cities, and townships.

Between 1980 and 2010, the overall number of Minnesota local government units (LGUs) decreased less than 0.4 percent, from 2,735 in 1980 to 2,726 in 2010. During this time period, there were no changes in the number of counties, no net changes in the number of cities, and a net decrease of nine townships. Among the state’s 13 economic development regions, the Arrowhead Region gained the most LGUs (seven total, all townships) and the Central Region lost the most (five total). Overall, the change in the number of Minnesota’s LGUs during this time period was quite small compared with the total number of LGUs.

When we compared the changes in the number of LGUs to the state’s population, however, we found that:

- Due largely to an increase in the state’s population, the overall number of Minnesota local governments per capita declined, although these changes varied considerably around the state.

While the state’s overall population grew 30 percent from 4.1 million in 1980 to 5.3 million in 2010, the number of LGUs per capita decreased 23 percent, from 6.7 per 10,000 population down to 5.1 per 10,000 population. Different regions of the state, however, experienced different growth levels, as shown in Figure 2.2. For example, the state’s Central Region experienced an 81-percent increase in population and a decrease of 5 LGUs, resulting in a 47-percent decrease in LGUs per capita. That is, counties, cities, and townships in the Central Region served many more residents in 2010 than they did in 1980 and did so with fewer LGUs. On the other hand, the Upper Minnesota Valley Region lost about 24 percent of its population but maintained the same number of LGUs, resulting in a 32-percent increase in the number of LGUs per capita.

---

25 The net changes in the number of local government units in each economic development region from 1980 to 2010 were: Twin Cities Metro Area (-4), North Central (-4), Northwest (-3), East Central (-2), Southeast (-1), Southwest (-1), Southwest Central (0), South Central (0), Upper Minnesota Valley (0), West Central (1), and Headwaters (+3). During this same time period, the overall number of unorganized territories increased by 19.
NOTES: The changes in LGUs per capita are largely due to growth and shifts in population. Between 1980 and 2010, Minnesota experienced a 30-percent increase in population overall but a 0.3-percent decrease in LGUs—resulting in a 23-percent decrease in LGUs per capita. The net changes in the number of local government units in each economic development region from 1980 to 2010 were: Twin Cities Metro Area (-4), North Central (-4), Northwest (-3), East Central (-2), Southeast (-1), Southwest (0), South Central (0), Upper Minnesota Valley (0), West Central (1), and Headwaters (+3).

SOURCE: Office of the Legislative Auditor, analysis of U.S. Census Bureau and Minnesota Land Management Information Center data.
We also compared trends in the number of Minnesota’s LGUs and populations with those in other states. We found that:

- Minnesota’s decrease in local governments per capita between 1992 and 2007 is close to the national average.

Between 1992 and 2007, Minnesota had the fourth largest net decrease in the number of general purpose LGUs—15 total—among all states. However, Minnesota’s change in the number of LGUs per capita was similar to the national average (an 18-percent decrease), where Minnesota ranked 21st among all states on this measure, as shown in Table 2.3.

### Table 2.3: Change in the Number of Local Government Units (LGUs) per Capita, Minnesota and Comparison States, 1992-2007

<table>
<thead>
<tr>
<th>State</th>
<th>Net Change in LGUs</th>
<th>Percentage Change</th>
<th>National Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minnesota</td>
<td>-15</td>
<td>-18.0%</td>
<td>21</td>
</tr>
<tr>
<td>South Dakota</td>
<td>-52</td>
<td>-17.8</td>
<td>22</td>
</tr>
<tr>
<td>Ohio</td>
<td>-10</td>
<td>-6.4</td>
<td>47</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>-8</td>
<td>-6.7</td>
<td>45</td>
</tr>
<tr>
<td>Georgia</td>
<td>-4</td>
<td>-33.5</td>
<td>6</td>
</tr>
<tr>
<td>Michigan</td>
<td>-1</td>
<td>-6.0</td>
<td>48</td>
</tr>
<tr>
<td>New York</td>
<td>-1</td>
<td>-7.2</td>
<td>43</td>
</tr>
<tr>
<td>Indiana</td>
<td>+1</td>
<td>-14.4</td>
<td>29</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>+2</td>
<td>-13.9</td>
<td>31</td>
</tr>
<tr>
<td>Washington</td>
<td>+13</td>
<td>-24.6</td>
<td>14</td>
</tr>
<tr>
<td>United States</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>+66</td>
<td>-19.3%</td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>+1</td>
<td>-16.8</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>+1</td>
<td>-18.2</td>
<td></td>
</tr>
<tr>
<td>Range</td>
<td>-52 to +38</td>
<td>-54.2 to -2.9</td>
<td></td>
</tr>
</tbody>
</table>

NOTES: Local government units include counties, cities, and townships, or comparable units as defined by the U.S. Census Bureau Census of Governments. “National Rank” places states in order of the percentage change in the per capita number of LGUs, where “1” is the largest percentage decrease. Minnesota had the fourth highest net decrease in LGUs between 1992 and 2007.


Like other states, the number or configuration of Minnesota counties has not changed for many years. According to the U.S. Census Bureau, eight states reported net changes in the number of counties between 1992 and 2007.26 Five of these states reported a decrease of between one and three counties, resulting

---

26 One state—Massachusetts—abolished all but six of its county governments between 1997 and 2000. The functions of the abolished counties were turned over to the state, but their boundaries still serve as political districts for election purposes.
mostly from city-county consolidations. The remaining two states reported net increases in the number of counties.

Changes in the number of LGUs and LGUs per capita present only a partial picture of efforts to reconfigure local government services in Minnesota. For example, there are many types of special districts in Minnesota, which may provide services or serve purposes previously provided by and shifted from general purpose LGUs. Between 1992 and 2007, the number of special districts in Minnesota grew by 21 percent (from 377 to 456), close to the median change among all states.27

Other Boundary Adjustments, 1980-2010

As we discussed in Chapter 1, Minnesota law provides for alternative ways to restructure local government boundaries and services in lieu of consolidation. We found that:

- Between 1980 and 2010, Minnesota local governing bodies and citizens have more often sought incremental boundary adjustments than full consolidation of their jurisdictions.

Between 1980 and 2010, there were about 7,000 filings to adjust local government boundaries; the great majority of these actions were initiated by property owners.28 Ninety-one percent of filings involved annexation of parcels of land, either by city ordinance or order of the chief administrative law judge (58 percent) or orderly annexation (33 percent). About 5 percent of boundary adjustments involved detachments, where property owners sought to detach land from one LGU and annex it to another. In contrast, less than 5 percent of boundary adjustment actions were to fully merge two or more cities and/or townships.29

Among all types of boundary adjustments, local governments’ use of orderly annexations involving parcels of land increased the most between the 1980s and 2000s, as shown in Figure 2.3. Filings for annexation by city ordinance also increased between the 1980s and 1990s, but were about the same during the last two decades.

---

27 Due to changes in reporting requirements for the U.S. Census Bureau Census of Governments, we did not use data prior to 1992 for this analysis.

28 We based this analysis on data from the Municipal Boundary Adjustment Unit and state records from other sources.

29 Percentage represents all filings to dissolve or consolidate cities and/or townships and include individual filings that are part of orderly annexation agreements to annex an entire township.
Figure 2.3: Boundary Adjustment Activities in Minnesota, Filings 1980-2010

Number of Boundary Adjustment Filings

NOTES: “Detachments” includes actions filed as a detachment and those filed as combined detachment and annexation proceedings. “All Other Filings” includes dissolutions, incorporations, and orderly annexations that subsume an entire township. Between January and September 2010, boundary adjustments filed with the Municipal Boundary Adjustment Unit included: annexation by ordinance (39), orderly annexation (58), and detachments (10).

SOURCE: Office of the Legislative Auditor, analysis of Municipal Boundary Adjustment Unit data and state records.

Cooperative Service Activities, 2005-2010

For many services, local governments can use cooperative agreements to restructure service delivery to their residents, rather than pursue more complicated boundary changes or consolidation. We surveyed representatives from counties, cities, and townships on their use of cooperative service
agreements over the past five years. This section discusses key findings from our surveys. We found that, in contrast with infrequent consolidation actions:

- The majority of local governments reported that they had cooperative service agreements in 2010, and local governments’ collaborative efforts have increased in recent years.

Among survey respondents, all county representatives, 74 percent of city representatives, and 66 percent of township representatives reported that their LGU participated in at least one cooperative service agreement with another local government in 2010. In general, counties had more cooperative service agreements in place in 2010 than did cities or townships; counties had a median of 20 cooperative service agreements, while cities had 6 and townships had 3. In addition, among local government representatives that reported they had a cooperative service agreement in 2010, 80 percent of county respondents reported that the number of cities, counties, and townships that their county collaborated with increased between 2005 and 2010. Meanwhile, 40 percent of city respondents and 13 percent of township respondents said their LGU collaborated with more local governments in 2010 than in 2005. Sixty-eight percent of county respondents also reported that their county collaborated in more service areas in 2010 than in 2005, while 34 percent of city respondents and 11 percent of township respondents said their LGU collaborated in more service areas in 2010.

When we looked at the types of service collaborations that survey respondents participated in, we found that:

- In 2010, counties’ collaborative arrangements involved joint powers boards, joint agencies, or joint service districts more often than did cities’ or townships’ arrangements.

Many county respondents reported that, among their shared service arrangements, they had progressed beyond a service agreement to establishing a

---

30 To obtain local government perspectives on consolidation and cooperative service agreements, we conducted three surveys: one of county chief administrators, one of city chief administrative officers, and one of township clerks. We mailed questionnaires to officials in all 87 counties, 855 cities, and 1,785 townships in the state. Our response rates were: 82 percent for counties, 67 percent for cities, and 71 percent for townships. We provide survey results for select questions online at http://www.auditor.leg.state.mn.us/ped/2012/consollocgov.htm.

31 Counties’ collaboration with more LGUs than cities or townships is likely an artifact of their relative size and proximity compared with other local governments, where county boundaries surround numerous cities and townships, and thus, they may have greater opportunities to collaborate.
joint powers board or merging select services. Overall, counties had a median of nine joint boards, agencies, or districts that represented a range of service areas, while cities and townships had two and one, respectively.

Finally, when we asked about the nature of LGUs’ written service agreements, we found that:

- Counties more often had agreements to provide services to other LGUs, while townships more often had agreements to receive services.

Among counties, 85 percent of respondents reported that they had written service agreements to provide services, while 63 percent reported they had agreements to receive services. Among township respondents, 17 percent reported that they had agreements to provide services and 46 percent reported they had agreements to receive services. About equal shares of city respondents reported that they had agreements to provide or receive services.

There may be many reasons why there is not more consolidation among local governments, including: preferences for service type, fewer services or lower service levels overall, geographic size, or lack of desired expertise or resources among neighboring jurisdictions. We discuss these and other obstacles to collaboration and consolidation in Chapter 5. In the next chapter, we review more closely consolidation efforts and outcomes in Minnesota and elsewhere and discuss findings from the national literature on the potential for consolidation to improve the efficiency of local governments.

---

32 Respondents provided us with numerous examples of these efforts, including: building a regional joint juvenile corrections facility for use by participating entities; merging five public safety dispatch centers into a single facility; and merging multiple counties’ health and human services departments. For example, Lincoln, Lyon, Murray, Pipestone, and Rock counties established a joint public health board to serve their residents under Minnesota Statutes, 145A.03, subd. 2. Several jurisdictions reported that they have standing organizations with representatives from neighboring LGUs to improve service efficiencies. For example, the long-standing Scott County Association for Leadership and Efficiency facilitates opportunities for cost and service sharing among LGUs within Scott County (and with other jurisdictions).

33 For example, for townships, these arrangements were most often in the area of fire, emergency medical services, and rescue services. Cities most often had a joint entity to provide services for: general government, administration, and libraries; law enforcement; fire, emergency medical services, and rescue; and sanitation, sewer, and utilities.
Consolidation Outcomes

As we discussed in Chapter 2, complete mergers of two or more local governments occur infrequently in Minnesota. In this chapter, we examine the circumstances under which consolidations are initiated, the costs and benefits of consolidating, and the outcomes of past consolidation efforts. For our work, we relied on national research on this topic and looked in-depth at a sample of eight local government consolidation actions undertaken in Minnesota since 1997. Among these eight case studies, five actions resulted in the jurisdictions merging; the remaining three initiatives were rejected by voters. To provide context, we also spoke with representatives from nine other states about their experiences with consolidation.

REASONS WHY LOCAL GOVERNMENTS CONSOLIDATE

Local governing bodies, state officials, and residents pursue consolidation for a variety of reasons, and these reasons may differ among individuals or entities. Commonly, their objectives may include a desire to achieve greater efficiency in government operations or in capital spending in order to lower tax rates. According to the national literature:

- Opportunities for cost-savings and economies of scale often are an impetus for consolidation, but they are not the only factors.

Beyond these objectives, national research also identified increasing economic growth and reducing urban sprawl as motivating factors for pursuing consolidation. Frequently, local governments also seek increased equity between the resources of neighboring jurisdictions and payment for services used by their residents.

Among our eight Minnesota case studies, the most cited reasons for consolidating were:

- Concerns about coordinating long-term planning with neighboring jurisdictions, in some cases prompted by population growth and development pressures;
- Recent annexation and/or detachment actions;

---

1 These eight consolidation initiatives included the following five initiated under the locally directed process Minnesota Statutes, 465.81-465.86: the cities of Elko and New Market; the cities of Norwood and Young America; New London Township and the cities of New London and Spicer; Rockville Township and the cities of Rockville and Pleasant Lake; and the cities of Long Lake and Orono. One effort involving the cities of St. Bonifacius and Minnetrista was initiated by the state under Minnesota Statutes, 414.041. The remaining two used the orderly annexation process under Minnesota Statutes, 414.0325: the City of Pequot Lakes and Sibley Township; and Grand Rapids Township and the cities of Grand Rapids, LaPrairie, and Coleraine. More information about these initiatives is contained in Chapter 2, Table 2.2.
Concerns about long-term planning and reducing capital costs prompted several recent consolidation efforts in Minnesota.

Evaluating the potential impact of consolidation on costs and services can be complex.

- Increased citizen demand for services, or opportunities to improve staffing and expand services;
- Opportunities to reduce duplicate services or equipment;
- The need for large capital investments (often tied to the impact of wastewater on the environment) and potential savings from sharing capital expenses;
- Concerns about capital spending practices (which also affected some local governments’ willingness to merge); and
- A desire to reallocate tax burdens to help cover service costs.

Unique circumstances also motivated some local officials to look more closely at consolidation as a service delivery option. Specifically, state highway expansion projects were a primary catalyst for two initiatives, where the projects prompted local officials to reexamine long-range plans for their communities and assess the impact of the projects on their jurisdictions. State and federal requirements pertaining to water quality or preserving the environment also pressured some local officials to look to consolidation to resolve issues in their communities.

Among our case studies, population decline was not observed or cited as a reason for consolidating; however, one merger was prompted in part by the loss of tax revenue due to a large business relocating out of the jurisdiction.

**IMPACT OF CONSOLIDATION ON COSTS**

One common objective of consolidation is to reduce local government costs, where the expenditures for a combined entity will be lower than the sum of expenditures for the two (or more) individual entities. Another goal is that the average cost per resident of providing government services will decrease after consolidation.

Minnesota law requires jurisdictions to estimate the impact of any proposed merger, including both the fiscal impact and impact on services in the areas under consideration. As shown in Table 3.1, the information needed to prepare these estimates is complex, and the required analysis varies depending on the consolidation process used. For example, local officials must evaluate the fiscal impact on property tax rates and state aid and whether services can be provided adequately and economically by the existing government; however, jurisdictions do not have to demonstrate that a merger would result in more efficient service delivery.

---

2 The two projects involved: Highway 12 in Long Lake and Orono; and Highway 23 in Rockville, Pleasant Lake, and Rockville Township.

3 Either declining population or loss of revenue base may be why some Minnesota cities or townships dissolved in the past; for example, public documents indicate that the City of Tenney dissolved in 2011 due in part to a severely declining population.

4 *Minnesota Statutes* 2011, 414.0325, 414.041, and 465.82.

5 These and other statutory criteria are also contained in the Appendix at the end of this report.
Table 3.1: Select Requirements for Evaluating a Potential Consolidation, 2011

Factors for Consideration of Consolidation – *Minnesota Statutes* 2011, 414.041 and 414.0325

- Past and present population, number of households, and projected population growth for the area;
- Existing levels of governmental services being provided to the subject area, including water and sewer service, fire rating and protection, law enforcement, street improvements and maintenance, administrative services, and recreational facilities and the impact of the proposed action on the delivery of the services;
- Fiscal impact on the subject area and adjacent units of local government, including present bonded indebtedness; local tax rates of the county, school district, and other governmental units, including, where applicable, the net tax capacity of platted and unplatted lands and the division of homestead and nonhomestead property; and other tax and governmental aid issues; and
- Whether delivery of services to the subject area can be adequately and economically delivered by the existing government.

Contents of Cooperation and Combination Plan – *Minnesota Statutes* 2011, 465.82

- Changes in services provided, facilities used, and administrative operations and staffing required to effect the preliminary cooperative activities and the final merger, and a two-, five-, and ten-year projection of expenditures for each unit if it combined and if it remained separate;
- Financial arrangements for the merger, specifically including responsibility for debt service on outstanding obligations of the merging units; and
- One- and two-year impact analyses, prepared by the granting state agency at the request of the local government unit, of major state aid revenues received for each unit if it combined and if it remained separate, including an impact analysis, prepared by the Department of Revenue, of any property tax revenue implications associated with tax increment financing districts and fiscal disparities resulting from the merger.

NOTES: *Minnesota Statutes* 2011, 414.041 (Consolidation of Municipalities), references the requirements listed in *Minnesota Statutes* 2011, 414.02, subd. 3. *Minnesota Statutes* 2011, 414.0325 (Orderly Annexations), references the requirements in *Minnesota Statutes* 2011, 414.031, subd. 2. These and other required factors are contained in the Appendix at the end of this report.

SOURCES: *Minnesota Statutes* 2011, 414.02, subd. 3; 414.041; 414.0325; and 465.82, subd. 2.

In the following sections we discuss the likelihood that consolidation improves the efficiency of local governments and reduces costs. We also discuss how these outcomes may impact stakeholders. Generally, efficiency is measured by the amount of services provided compared to the associated costs, where costs include time, money, or other resources.\(^6\) For purposes of our discussion, efficiencies mostly refer to decreased expenses or lower average expenditures per capita, rather than improved worker productivity. From our small sample of Minnesota case studies we were able to obtain only limited pre- and post-merger expenditure information. Thus, we primarily relied on national research to determine whether local governments are able to reduce costs through consolidation.\(^7\)

---

\(^6\) A measure of efficiency, however, does not necessarily capture the effectiveness or quality of the service provided. In some cases, there may be a trade-off between efficiency and effectiveness.

\(^7\) We include a list of select research studies and other literature in the Further Reading section at the end of this report.
Evidence From National Research

We found a considerable amount of national literature on the issue of local government consolidation that includes both empirical research and in-depth case studies of consolidation actions. According to national research:

- Consolidation of local governments does not guarantee cost savings or more efficient operations.

In a recent literature review conducted by Rutgers University School of Public Affairs, the authors observed that government consolidations have had mixed results in terms of cost savings, service quality, and responsiveness of service delivery. The study concluded that consolidation may be beneficial in some situations but not in others and that there are no general rules that can be applied to determine when consolidation would be in a community’s best interest. As a result, a case-by-case analysis is needed for any potential merger to determine when consolidation would improve upon the status quo or be more efficient than sharing or contracting for services.

Other research involving case studies also found that consolidation has produced mixed results, with some mergers exhibiting evidence of cost savings and others showing no cost savings or even increased costs. For example, a 2010 analysis of nine city-county consolidations in the United States found evidence of improved efficiency in about half of the cases, but it also found that expenditures in the other half of the consolidated governments grew faster than in the nonconsolidated comparison entities. This study concluded that:

…there is no support for the hypothesis that consolidations predictably lead to increased efficiency in local government. It can—and does—happen, but increased efficiency is not a predictable outcome of consolidating city and county governments.

---

8 Most of the case studies were largely based on city-county consolidations, which may be quite different than the types of consolidations of interest in Minnesota.

9 Marc Holzer et al., “Overview of the Literature Review and Analysis on Five Subjects Related to the Cost-Efficiency of Municipal Government” (report to the New Jersey Local Unit Alignment, Reorganization, and Consolidation Commission, Rutgers University School of Public Affairs and Administration, Newark, May 2009), 7. The Rutgers review was commissioned by the Local Unit Alignment Reorganization and Consolidation Commission created by the 2007 New Jersey Legislature.


Similarly, a 2011 literature review examined eight different studies of city-county consolidation and reported that only two of the eight studies found evidence of improved efficiency. The authors of this review also examined numerous other studies of government consolidation and found similar results. Regarding the claims often made by proponents of local government consolidation that it improves efficiencies, they concluded that: “Overall, the research provides little support for the efficiency argument.”

Other studies have examined the extent to which consolidation improves the average cost per resident—or economies of scale—in the delivery of local government services. We found that:

- Among the benefits to consolidation, the literature generally confirms the presence of economies of scale for some government services—in particular, capital-intensive services.

National studies support the notion of economies of scale for capital-intensive services (such as sewer and water services) in jurisdictions with larger populations. For example, the Rutgers literature review found that overall average government costs decline as the size of the population served increases, up to about 25,000. The review authors found that smaller municipalities (those with populations less than 25,000) tend to be less efficient, but only when

---

13 Lawrence L. Martin and Jeannie Hock Schiff, “City-County Consolidations: Promise Versus Performance,” 167-177. Two of the other studies that were reviewed had mixed results for efficiency after consolidation. The remaining four of the eight studies showed no evidence of improved efficiency, and two of these showed evidence of increased spending and taxes.

14 Ibid., 170-171.

15 Ibid., 171.

16 See, for example, Dagney Faulk and Michael Hicks, Local Government Consolidation in the United States (Amherst, NY: Cambria Press, 2011). Some studies suggest careful consideration when evaluating costs per capita, due to differences in accounting methods, for example. See William F. Fox, Size Economies in Local Government Services: A Review (Washington D.C.: U.S. Department of Agriculture, August 1980), 4-5; and Holzer et al., “Overview of the Literature Review and Analysis on Five Subjects Related to the Cost-Efficiency of Municipal Government,” 1. Further, it is important to isolate each jurisdiction’s actual costs and identify the population served by those costs. Most local governments have cooperative service agreements with multiple jurisdictions—jurisdictions that may differ among program areas. Thus, the number of recipients of any particular local government’s service may differ from that jurisdiction’s actual population.

17 For example, see Holzer et al., “Overview of the Literature Review and Analysis on Five Subjects Related to the Cost-Efficiency of Municipal Government,” 5; Igor Vojnovic, “The Transitional Impacts of Municipal Governments,” Journal of Urban Affairs 22, no. 4 (Winter 2000): 385-417; and Fox, Size Economies in Local Government Services: A Review, 24-30. This latter study noted that costs for sewer services varied widely in sparsely populated areas, depending on service levels.

18 The Rutgers literature review found that government efficiencies increase—that is, average municipal government costs decline—until a government serves a population of about 25,000. The overall average costs per capita are roughly constant for governments serving populations between 25,000 and 250,000. As populations exceed 250,000, overall efficiencies decrease—that is, average costs increase. In Minnesota, all townships, 695 cities, and 46 counties had fewer than 25,000 residents, and 2 cities and 4 counties had more than 250,000 residents. We note that other studies have identified the presence of economies of scale at population thresholds different than the thresholds presented here.
There may be opportunities to improve efficiencies among smaller jurisdictions that provide capital-intensive services. Services are capital-intensive or specialized and/or are minimally used by any one local government, like high-tech crime labs. Other studies also have identified local government size or scale inefficiencies among smaller governments in the provision of rural road maintenance, a service that requires trucks and road graders. These findings suggest that there may be opportunities to improve efficiencies among smaller jurisdictions that provide capital-intensive services.

On the other hand, national research has also observed that average costs are greater in large jurisdictions for some labor-intensive services. In other words, smaller governments appear to produce labor-intensive services at a lower average cost per resident than larger governments. Thus, if labor-intensive services represent a higher share of the costs of local government than capital-intensive services, it may be more challenging to improve overall efficiencies through consolidation.

Factors That Limit Efficiencies

Combining two or more local governments is a complicated process that requires considering an array of factors and planning and carrying out numerous restructuring activities. Table 3.1 outlines key fiscal analyses that Minnesota local governments must complete when considering a merger. However, completing these analyses requires much more extensive background work than is described in statute. For example, calculating the impact of a merger on administrative operations and expenditures in any one service area often involves more than simply examining staffing levels and personnel budgets; it can require taking an inventory of information technology systems, determining compatibility among the systems, and estimating integration and/or upgrade needs, among other tasks.

The results of these analyses and subsequent administrative decisions by local officials can have a large impact on how a newly combined entity is administered and serves its residents and, thus, may affect its costs. For example, local stakeholders must determine the form of the new governance structure, including:

19 Fox, Size Economies in Local Government Services: A Review, 24-25. See also Steven C. Deller and John M. Halstead, “Efficiency in the Production of Rural Road Services: The Case of New England Towns,” Land Economics 70, no. 2 (May 1994): 247-259. The authors suggest that there are both size and managerial inefficiencies in smaller units of government. Size or scale inefficiencies refer to higher average costs incurred by smaller units of government, while managerial inefficiencies refer to the government unit’s inability to achieve the lowest average costs it should be able to achieve for a government of its size. Managerial inefficiencies may result because officials are making decisions about services with little or no input from individuals with the appropriate technical or other expertise.

20 Vojnovic, “The Transitional Impacts of Municipal Governments,” 387-388, 407. The author suggests that the higher per capita costs are due to the higher levels of service provision and standards in larger jurisdictions, where the differences translate into more municipal vehicles and uniforms per capita and greater complexity in information and accounting systems, for example. See also Holzer et al., “Overview of the Literature Review and Analysis on Five Subjects Related to the Cost-Efficiency of Municipal Government,” 6.

21 One study observed that reduced levels of service and expectations in smaller jurisdictions may also be operating to reduce costs. See Holzer et al., “Overview of the Literature Review and Analysis on Five Subjects Related to the Cost-Efficiency of Municipal Government,” 6.
the size and composition of the new governing body. Other decisions to equalize service levels among jurisdictions may require new capital investments that quickly offset any promised gains in efficiencies. These and other examples of consolidation issues to consider are contained in Table 3.2. When we looked into the likelihood that consolidation results in efficient services, we found that:

- The potential for improving local government efficiencies through consolidation depends on a number of factors, including the assets potential partners would bring to a merger.

Most local governments share a border with multiple jurisdictions and, therefore, have more than one potential consolidation partner. Each of these partners has different assets, resources, and expertise they would bring to a consolidation, which would result in varying scenarios for cost-savings. A jurisdiction’s ability to reduce its budget and overhead costs through consolidation depends in part on the extent of service overlap and duplication among partners and, thus, the ability to eliminate excess resources, such as equipment, facilities, or staff. The potential for savings is also tied to service levels; jurisdictions that provide relatively few services may yield fewer savings to taxpayers if they consolidate or dissolve.

The geographic size, demographics, and population density of a local government also affect the likelihood of reducing costs through consolidation. Some studies suggest that smaller jurisdictions have been better able to realize greater efficiency in service delivery and local governance through consolidation when compared with larger jurisdictions. A 1997 study of Minnesota counties found that combining counties that have large geographic areas might be detrimental to the county’s ability to deliver services and contain expenditures. For these jurisdictions, the type of service and the way services are delivered can have a large impact on per capita costs, where service providers may have to travel farther to deliver services in sparsely populated areas.

---

22 In presenting this information, we note that the nature and scope of factors to consider vary for counties, cities, and townships.

23 For example, a merger between two jurisdictions may produce savings in health-related services, but may increase costs for law enforcement.


Table 3.2: Examples of Consolidation Activities and Factors to Consider

<table>
<thead>
<tr>
<th>Subject Area</th>
<th>Description of Activities and Factors to Consider When Consolidating</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td></td>
</tr>
</tbody>
</table>
| Government Structure          | • For counties, decide on the form of administrative structure; and elected or appointed executive position(s), county auditor, treasurer, sheriff, and recorder  
|                               | • For cities, decide on a home rule charter or statutory city, and executive option  
|                               | • For townships, determine administrative structure and option for urban/rural powers  
| Governing Body                | • Determine number of representatives and election system  
| Interim Government            | • Determine composition of interim government  
| Commissions/Boards            | • Plan for existing and new commissions and/or boards and their composition and authority  
| Administration                |                                                                     |
| Personnel                     | • Determine staff complement, expertise, surplus/gaps, and potential for combining functions  
|                               | • Evaluate pay levels and impact on retirement benefits, and negotiate union contracts  
|                               | • Renegotiate professional and other private and interlocal service contracts  
| Information Systems           | • Inventory information technology systems and determine compatibility and/or upgrade needs  
| Selected Services             |                                                                     |
| Overall Services              | • Compare range of services and service levels; determine impact on delivery of services; and coordinate interlocal service agreements  
| Health/Human Services         | • Coordinate service delivery with state agencies, such as oversight of various care facilities or services  
| Road Maintenance and Snow Plowing | • Determine inventory and infrastructure and maintenance needs  
| Law Enforcement/Corrections    | • Coordinate law enforcement services and coverage; for counties, coordinate with state agency for facility oversight and corrections services  
| Fire Protection               | • Determine the type of fire department and staffing (full-time, volunteer); location of fire halls; and impact on insurance ratings and residents’ premiums  
| Sewer/Water                   | • Evaluate current and projected: facility and infrastructure capacity, service demands and extensions, impact on rates, and (for water) fire protection systems  
| Development, Land Use, and Zoning | • Evaluate projected population, commercial, industrial, and agricultural growth; compare comprehensive plans, environmental protection plans, and existing land use controls; and draft and adopt new plans  
| Ordinances                    | • Compare and reconcile ordinances; determine application of ordinances among newly combined areas; and adopt new ordinances  
| Utilities                     | • Coordinate gas and electric services and determine impact on services and rates  
| Facilities and Equipment      |                                                                     |
| Overall Inventory             | • Assess inventory, use, and space needs; and determine needed infrastructure investments and potential for reducing inventory and/or repurposing space  
| Overall Costs and Savings     | • Analyze the end costs and savings across all functions and services, including payroll, taxes, facilities, and other infrastructure  

NOTES: The activities above represent only a sample of factors that were or may be evaluated as part of consolidation efforts by Minnesota LGUs. Consolidation among counties would likely require (1) a more extensive review of these issues and other issues or functions due to counties’ administrative role in delivering state services, and (2) special legislation to address state-mandated functions.  

SOURCE: Office of the Legislative Auditor, review of Minnesota statutes and select local government consolidation studies.
According to national research, the probability of improved efficiency from consolidation is often diminished by the need to accommodate competing interests.

Research also has found that:

- **Administrative decisions made post-merger can reduce the potential for improved efficiencies.**

Most notably, a consolidated government may set the wage and benefit rates for employees at the highest level of the governments being merged, thereby offsetting any anticipated savings. If officials decide to make significant changes in employment or wage levels, there may be negative impacts on employee morale and, thus, worker output. Even if there are potential savings in personnel budgets, elected officials may not pursue cuts in staff or wages in the consolidation proposal since they may adversely affect the constituents they serve (and voters’ approval of the merger). To this latter point, one study observed that the probability of increased government efficiency is often lowered because officials must compromise on service areas and staffing that could otherwise yield savings to taxpayers. Without assurances to at least preserve the status quo, a consolidation proposal may face strong opposition by employees or service recipients.

Finally, although one objective to consolidation is to reduce costs, it is also important to note that:

- **Any consolidation effort promoted solely as a “cost-savings” initiative may not win voters’ approval.**

A recent national study of a sample of consolidation efforts in other states found that voters often did not approve initiatives grounded in cost savings. That is, when consolidation supporters focused primarily on efficiency or equity issues, voters rejected the consolidation. Numerous stakeholders in Minnesota and other states advised us that consolidation is not just about the money, that voters are often more concerned about factors other than efficiency, and that citizens equate “saving money” with lower service quality. According to an official from another state, “consolidations that go forward with promises of cost-savings are more likely to have unhappy citizens [when the cost-savings are not realized].”

These findings suggest that local government consolidation—as a government reform option—may have potential for producing savings, but that there will need to be other motivating factors for voters to approve a merger. Further, proposals offering the strongest potential for savings may not have been approved by voters and, thus, may not have been included in some post-merger studies of consolidation outcomes.

---


Impact on Stakeholders

One factor to consider when assessing whether consolidation will improve efficiencies is “to whom would the benefits accrue?” There are many stakeholders in any consolidation initiative, including state and local elected officials, public employees, residents, taxpayers, and service recipients. Thus, it is likely that:

- In circumstances where consolidation does improve efficiencies, the benefits among stakeholders will vary.

From a local perspective, the value of consolidation will depend in part on the type and level of services provided by each potential partner. Further, the extent that residents benefit from consolidation will depend on their individual expectations and need for services. As one of our survey respondents observed about consolidation:

At this point, I see no gain for [our city or neighboring townships from consolidation]. Distance would make it impossible to run infrastructure out to any of the townships, which are agricultural, so there are no services we can provide to benefit them. Maybe the circumstances for other entities frees up a building or equipment that could be sold, but that would not apply in [our case].

Consolidation also may bring about changes in service delivery, and accessing services that require face-to-face interaction may become more or less of a burden for some residents. For these residents, driving time and fuel expenses could increase or decrease dramatically if a new county seat or other major service hub were relocated.

Although a common objective of consolidation is to reduce costs, cost savings could mean a one-time reduction in local government operating expenses that may not be passed on to taxpayers. On the other hand, a merger could result in substantive savings that are passed on to residents through reduced property taxes. However,

- It is unlikely that taxpayer burdens are precisely the same between any two jurisdictions, and thus, some equalization—increases and decreases—in property taxes among residents would occur from consolidation.

To illustrate, in one Minnesota consolidation proposal we looked at that was rejected by voters, planned changes in residential property tax rates ranged from a decrease of 42 percentage points for some residents in one jurisdiction to an increase of 5.6 percentage points for residents in the neighboring jurisdiction.\(^{29}\) Forecasted changes in property taxes varied less in other cases. For example, one proposal projected that taxes in each jurisdiction would be about 6 percentage

---

\(^{29}\) Estimates represent rates in the third year following consolidation.
The impact of local government consolidations on state agencies would likely vary among state programs. Most local jurisdictions hired consultants to estimate the fiscal impact of their proposed consolidation.

points lower than if a merger did not occur. This consolidation was approved by voters in both jurisdictions.

From a state perspective, the impact on state services of combining two or more local governments would likely vary among agencies and programs. We spoke with a small sample of representatives from various state agencies about consolidation. Some said that they see opportunities for greater economies of scale among LGUs and their services, and that fewer local government units might ease their workload by reducing the number of local representatives with whom they work. However, some state employees said that reducing the number of LGUs would not impact their work because: (1) much of their work and services is no longer provided in-person but through information technology and their staffing already has been reduced accordingly, and (2) over the years some administrative work has been delegated to local governments, and particularly to counties. On this latter point, some questioned whether mergers among counties—which would involve combining and possibly reducing county staff—might actually increase state agencies’ workload.

Some individuals suggest that any savings that might accrue to the state’s budget from a merger of two local jurisdictions—particularly small entities that provide minimal services—would be insignificant. Other individuals point out that even a small annual savings to the state would add up over the years. We discuss state funding for local governments and its impact on local officials’ decisions about consolidation further in Chapter 4.

RESULTS FROM MINNESOTA CASE STUDIES

In our review of eight consolidation efforts in Minnesota, we observed issues similar to those noted in the national literature and discussed in the previous section, but we also identified several issues that appeared unique to Minnesota. In the next sections, we highlight a few of these issues and several actions that affected the outcomes of the consolidation initiatives.

Estimates of Fiscal Impact

Our review of eight consolidation initiatives included examining local jurisdictions’ estimates for savings. Notably, we found that: (1) comprehensive cost estimates were developed in only six of the eight initiatives;\(^{30}\) (2) the scope of these estimates varied somewhat, and some jurisdictions were unable to forecast the fiscal impact for some service areas; and (3) most jurisdictions hired financial consultants to help develop the estimates and technical reports. This information was included in feasibility reports—or consolidation proposals—and

\(^{30}\) The local jurisdictions that merged using the orderly annexation process did not conduct extensive pre-merger feasibility studies of these issues. In one initiative, residents demonstrated significant support for the merger early in the process. In the other initiative, the merger was prompted by a severely declining tax base and a need for wastewater infrastructure improvements.
was made public for voters to review prior to a referendum. From our review of these reports, we found that:

- Local officials estimated that consolidation would reduce overall costs and improve efficiencies; in some cases, the improved fiscal outlook was largely due to increases in state aid.

Most of the consolidation proposals we looked at estimated that the jurisdictions would achieve some modest savings in operating costs, usually by combining staff positions, eliminating duplicate contracts for private consultants, or eliminating a governing body or joint powers board. In three initiatives, the estimates for additional state aid that the jurisdictions would receive following a merger generally exceeded the estimated savings in operating costs. For example, the pre-merger estimates for St. Bonifacius and Minnetrista included annual savings of $99,500, compared with a net increase of $245,000 in additional state aid. For the New London, Spicer, and New London Township initiative, the consolidation plan forecast that the merger “should reduce the overall administrative expense of local government” based on a number of factors, and would make the combined jurisdiction eligible for $200,000 in state aid for road maintenance and construction. In both of these initiatives, voters in one or more of the jurisdictions rejected the proposal.

**Post-Merger Outcomes**

Local representatives from each of our eight case studies described how their consolidation initiative affected the costs and services of their jurisdiction. We found that:

- Among recent consolidation efforts in Minnesota, the impact of consolidation on spending was difficult to measure.

Several officials said that external factors—such as changes in the state’s local government aid formula—negatively impacted their consolidation objectives and made it difficult to accurately assess the financial outcomes. Others said that the economic and financial crises beginning in 2007 adversely affected their revenues due to a declining housing market, and it forced them to unexpectedly cut their budgets. In addition, stakeholders often had more than one objective for merging and not all were linked to reducing near-term costs. Among the five consolidations that did occur:

- Local officials said that improved coordination of planning was among the most important benefits to their newly combined community.

---

31 We also asked whether they had conducted any post-initiative analysis of the effort. Two jurisdictions where voters approved the merger were able to provide us with some summary information on key measures; others were able to provide only anecdotal information because they no longer had historical records dating back to the merger.
These officials said that having a single entity responsible for planning and administration helped ensure a unified vision for their area, and would help control costs over the long term. For example, consolidation would eliminate costs incurred for annexation and detachment proceedings between the two jurisdictions. In addition, several of these mergers involved joint projects to improve facilities or other infrastructure, and officials said these changes brought about higher bond ratings, improved services and facilities for residents, and better property tax rates (than if each local government had undertaken the projects separately).

Some local governments realized more direct savings; for example, the combined city of Norwood Young America sold five fire trucks and still maintained a sufficient fire rating. In several jurisdictions, local officials said they were able to combine staff functions and eliminate what they viewed as duplication in services or additional layers of government.

Among several case studies, we also found that:

- For some property owners, the costs of consolidation outweighed the benefits.

For example, according to some residents, the resulting tax increases and other assessments imposed after one merger created severe financial difficulties for some landowners. And in a merger involving the City of Rockville, a group of property owners sought and were granted a request to detach from the city to the neighboring township several years after the merger occurred. These residents were unhappy with the new infrastructure investments and resulting increases in property taxes. Among the three consolidation initiatives where voters rejected the effort, several individuals we spoke with said that their jurisdiction was in a better financial position than if the consolidation had been approved. Citizens were also more satisfied with the range and level of current services than those that were proposed in the consolidation plan.

**Limitations to Cost Savings**

Among our Minnesota case studies, certain factors mitigated any immediate cost savings among the jurisdictions that did consolidate. The factor local officials cited most often was that:

- The costs of preparing for the consolidation and implementing the objectives largely offset any near-term savings.

---

32 For this initiative, the consolidation plan and proposal to voters included these planned infrastructure and capital projects.

33 On the other hand, other stakeholders expressed concerns about the ongoing viability of their community after voters rejected the merger. They commented that the merger was a lost opportunity to improve services and reduce government costs in the region, that one or both of the participating jurisdictions did not have the population to support their infrastructure, and/or that ongoing fiscal constraints were forcing them to cut budgets or look to volunteers to assist in service delivery. Other individuals pointed to increased property tax rates or the increased disparity in tax rates between the jurisdictions as issues that a merger would have mitigated.
Most of these officials said that the consolidation required considerable resources and time—sometimes several years—to prepare for and implement. For three consolidation actions that received voter approval, representatives said that additional work continued sporadically for two to three years after the vote. Several officials reported that they relied significantly on volunteers—sometimes dozens—to work through the lengthy process, and that their costs would have been much higher without these resources.

Among our case studies, other transition costs—such as the need for outside technical, financial, and legal expertise—offset potential savings from consolidating. Some jurisdictions also reported that their implementation expenditures were higher than anticipated. For example, they had additional expenses for combining their accounting and other technology systems and reconciling comprehensive plans, ordinances, and budget documents.

Finally, several jurisdictions had forecast that overall costs would increase post-merger because of the need for capital investments; their intent was to improve the average costs per capita by completing projects jointly. However, some representatives from the Grand Rapids area reported that the increased costs from required water and sewer infrastructure improvements in the newly combined area were very high and that any increases in efficiencies would have resulted from cuts in other services.

**Addressing Voter Concerns**

In Chapter 2, we described how Minnesota residents have a final say in approving or rejecting almost all types of consolidation actions. The outcome of any referendum depends largely on how residents perceive the costs and benefits of a consolidation initiative. Thus, a significant challenge for local officials when crafting a merger proposal is ensuring that the proposal and plan satisfy a majority of their voters. We found that:

- Some local officials addressed key concerns of voters in their consolidation proposals; by doing so, voters approved the merger.

In several of our case studies, local government officials advised us that they wanted to ensure a consolidation resulted in a win-win scenario for citizens from both jurisdictions and, thus, negotiated on key issues to avoid alienating voters. For example, residents in several jurisdictions were very concerned about changes in zoning ordinances and where land development was likely to occur under a merger. The proposals addressed these concerns by explicitly preserving the existing land-use and zoning ordinances, including preserving hunting

---

34 Local officials from all eight initiatives cited these extra costs. Their estimates for consultants’ services ranged from $5,000 to $40,000; one entity reported the legal costs totaled about $10,000 annually for several years.
Some officials observed that an advocate in the community is necessary for advancing a consolidation proposal.

- Local officials said that voters approved their consolidation in part because they had included residents in the study and implementation process.

In several of our case studies, officials set up committees and study groups comprised of local officials, administrators, and residents to help evaluate the feasibility of merging. They asserted that this approach helped identify and address areas of voter concern, as well as inform residents about the issues and the process. To this latter point, some officials observed that informing the voter required a lot of work, and that having an advocate in the community was necessary. They said that involving residents in the process helped convey to voters that local officials were not imposing a merger on residents.

In the jurisdictions where the consolidation did not occur, we looked into the reasons why residents opposed the initiative. We found that:

- The primary reasons Minnesota voters rejected recent consolidation attempts were: (1) potential changes in land use and zoning ordinances, and (2) projected increases in property taxes.

---

35 In reviewing these proposals, we observed that where the proposal did not explicitly preserve the status quo, or in fact promoted greater opportunities for development, voters rejected the consolidation.

36 Some officials told us that the need for additional revenues was the primary factor driving some jurisdictions’ merger efforts, which created an inherent obstacle to successful negotiations. In two cases where residents voted down the merger, officials cited projections of significantly higher tax burden for some residents as the reason for the rejection.

37 Minnesota Statutes 2011, 414.041, subd.7; and 465.82, subd. 4, allow jurisdictions to set up differential tax rates as part of their merger.

38 In Rockville, for example, only the first 200 feet of rural residential property was taxed at the residential rates applied in other areas of the jurisdiction.

39 Several officials observed that it is extremely difficult to move a consolidation forward—regardless of the facts—when there is strong opposition in the community. Representatives from nine comparison states we spoke with voiced similar reasons why voters rejected consolidation efforts in their state.
As indicated by voters’ rejection of these mergers, the consolidation proposals and their conditions did not adequately address and reconcile the many competing interests among citizens. Voter opposition was most often due to the possibility of changes in land use and zoning ordinances, including increased development for housing and businesses and restrictions on hunting. Some other reasons why voters rejected the proposal included: (1) projected increases (sometimes large and sometimes small) in property taxes, particularly when there was little or no increase in services proposed; (2) resistance to paying for the maintenance or lack of maintenance of the neighboring jurisdictions’ roads, water and sewer infrastructure, or facilities; (3) general disagreements over the level of service and spending among jurisdictions; and (4) expected loss of identity with their jurisdiction, either due to a jurisdiction’s name change or from expanding the boundaries to include land zoned for different purposes.40 The outcomes of these initiatives demonstrate that one of the most difficult tasks for local officials attempting a merger is negotiating and developing a proposal that is supported by residents.

In the next chapter, we provide background information on the finances of counties, cities, and townships. We also discuss local officials’ perspectives regarding state grants and aids and the impact on consolidation efforts.

---

40 Representatives from nine comparison states we spoke with voiced similar reasons voters rejected consolidation efforts in their state. They said that fear of the unknown, loss of community identity with their home jurisdiction, and loss of local control over decisions in their community were common reasons that consolidation efforts failed.
Funding Local Government Services

The likelihood that consolidation improves efficiencies and reduces average per capita costs depends on many factors, including the objectives of the merger, the extent of overlap and duplication in services among potential partners, and their assets and debts. In this chapter, we briefly discuss research findings regarding the relationship between spending and number of local government units and provide information on the finances of Minnesota counties, cities, and townships. We also discuss local officials’ perspectives regarding the impact of state funding for local services and capital projects on their consolidation efforts.

NUMBER OF LOCAL GOVERNMENTS AND SPENDING

In Chapter 1, we observed that Minnesota had more local government units and more LGUs per capita than nearly all other states. Some stakeholders suggest that reducing the number of Minnesota local governments through consolidation will help resolve state and local fiscal challenges. National research has looked at the relationship between higher numbers of government units—sometimes referred to as fragmentation—and spending. Overall, researchers have found that:

- The impact of more local government units on spending is complex and difficult to measure.

For example, a 2011 study demonstrated that the impacts of more local government units are “complex and multidimensional.”\(^1\) The authors concluded that the presence of overlapping general purpose local governments and special purpose governments have a more significant effect on total local government spending than fragmentation, but that further research is needed to better isolate the impacts of special purpose governments and other factors on local government spending overall. Other studies have not found a statistically significant relationship between government spending and either fragmentation or general decentralization of government, or they have yielded mixed results.\(^2\)

For instance, one large 2009 study found that there were somewhat offsetting

---


The potential to reduce costs through consolidation depends in part on the extent to which the services provided by the local governments are complementary or duplicative.

benefits resulting from the number and size of government units. This study concluded that individual governments are more likely to be efficient at the local level—perhaps due to competitive pressures among local government units—but that fragmentation is also associated with greater overall spending, possibly due to lack of economies of scale or overlap of services.

In general, the potential to reduce costs by combining two or more local governments depends in part on the extent to which their resources and services are complementary or duplicative. Further, merging two jurisdictions will likely impact both their expenditures and their revenues. We discuss Minnesota local government finances in the following sections.

Expenditures

In Minnesota, counties generally have unique roles and responsibilities; however, counties, cities, and townships can provide some similar services. These service characteristics are partly reflected in their expenditures, as shown in Table 4.1. Overall:

- Minnesota local governments spent about $11.5 billion in 2009, and most spending was for human services; public safety; and roads, bridges, and highways.

In 2009, Minnesota county expenditures (including capital outlay and debt service) totaled about $5.8 billion, followed by cities ($5.4 billion), and towns ($260 million). Most county expenditures were for human services (27 percent of all spending), followed by public safety (18 percent) and streets and highways (18 percent). Similar to counties, two of the largest shares of city expenditures were for public safety (26 percent of all spending) and streets and highways (21 percent). Most townships in Minnesota provide a more narrow range of services and this is reflected in their expenditures, where 56 percent of all spending was for roads and bridges.

---

1 Ryan Yeung, “The Effects of Fiscal Decentralization on the Size of Government: A Meta-Analysis,” Public Budgeting and Finance 29, no. 4 (2009), 22-23. The 2009 meta-analysis looked at 61 studies that provided 749 statistical tests—including meta-regression analysis—on the relationships between spending and various measures of government fragmentation or decentralization. The meta-analysis found that most of the time there was no significant statistical relationship between spending and either fragmentation or decentralization.

4 Totals for counties, cities, and townships include spending from governmental funds as reported to the Minnesota Office of the State Auditor. For cities, expenditures include capital outlay for enterprise operations.
Local government capital projects are sometimes supported by state funds.

Table 4.1: Minnesota Local Government Expenditures, by Service Area, 2009

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Counties</th>
<th>Cities</th>
<th>Townships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Services</td>
<td>$1,541,247</td>
<td>$</td>
<td>n/a</td>
</tr>
<tr>
<td>Public Safety/Fire</td>
<td>1,057,795</td>
<td>1,379,382</td>
<td>37,857</td>
</tr>
<tr>
<td>Streets and Highways/Roads and Bridges</td>
<td>1,026,201</td>
<td>1,126,682</td>
<td>144,248</td>
</tr>
<tr>
<td>General Government</td>
<td>983,359</td>
<td>555,582</td>
<td>46,739</td>
</tr>
<tr>
<td>Health</td>
<td>261,523</td>
<td>25,372</td>
<td>n/a</td>
</tr>
<tr>
<td>Culture and Recreation</td>
<td>227,010</td>
<td>615,772</td>
<td>n/a</td>
</tr>
<tr>
<td>Housing and Economic Development</td>
<td>153,419</td>
<td>476,497</td>
<td>n/a</td>
</tr>
<tr>
<td>Sanitation</td>
<td>87,531</td>
<td>24,916</td>
<td>n/a</td>
</tr>
<tr>
<td>Conservation of Natural Resources</td>
<td>84,626</td>
<td>3,957</td>
<td>n/a</td>
</tr>
<tr>
<td>Airport</td>
<td>n/a</td>
<td>46,172</td>
<td>n/a</td>
</tr>
<tr>
<td>Transit</td>
<td>n/a</td>
<td>23,880</td>
<td>n/a</td>
</tr>
<tr>
<td>All Other</td>
<td>55,920</td>
<td>151,543</td>
<td>16,196</td>
</tr>
<tr>
<td>Total Current Expenditures and Capital Outlay</td>
<td>5,478,631</td>
<td>4,429,756</td>
<td>245,040</td>
</tr>
<tr>
<td>Total Debt Service</td>
<td>329,289</td>
<td>952,813</td>
<td>14,544</td>
</tr>
<tr>
<td>Total Expendituresa</td>
<td>$5,807,920</td>
<td>$5,382,569</td>
<td>$259,584</td>
</tr>
</tbody>
</table>

NOTES: Expenditures include calendar year 2009 data from 87 counties, 847 cities, and 1,736 townships. Expenditures for capital outlay (for the purchase, construction, or permanent improvements of buildings, equipment, machinery, and land) are included within each expenditure category; capital outlay totaled $934 million for counties, $1.2 billion for cities, and $39.4 million for townships.

a "Total Expenditures" may not sum due to rounding.

SOURCE: Office of the Legislative Auditor, analysis of 2009 local government financial data as reported to the Minnesota Office of the State Auditor.

To help sustain local government services and infrastructure, local governments in Minnesota have the authority to levy and bond for capital projects, such as the purchase, construction, or improvement of buildings, equipment, machinery, or land. Local governments can also request state funding for their capital projects through either state general appropriations for capital projects or through state bond-financed grants.5 As part of their overall spending,

- Local governments’ expenditures for capital outlay and debt service totaled about $3.5 billion in 2009.

For calendar year 2009, counties’ expenditures for capital outlay and debt service totaled about $1.3 billion.6 For cities, these expenditures were slightly higher—about $2.1 billion (including capital outlay for enterprise operations). Meanwhile, townships’ expenditures for these purposes totaled $54 million. Some local capital projects were supported by state funds, where the Legislature’s 2008

5 Minnesota Statutes 2011, 16A.86, and 16B.355.
6 Total capital outlay for counties, cities, and townships represents 2009 expenditures from various revenue sources. Seven cities and 50 towns did not report their 2009 finances to the Office of the State Auditor.
Overall, Minnesota counties, cities, and townships relied mostly on property taxes to fund their operations.

Revenues

Local governments rely on a variety of revenue sources to fund their operations, including property taxes, fees and assessments for services, and grants and aids from other units of government. As we discussed in Chapter 3, local governments are required to assess the potential fiscal impact of consolidation on various revenues, in part because some of the state’s grant and aid formulas are based on such factors as population and housing values. Any changes in funding could ultimately affect the sources of these revenues, including property owners and the state. When we reviewed local government revenues, we found that:

- In 2009, Minnesota counties, cities, and townships relied mostly on taxes to fund local government operations, with state grants and aids representing a smaller share of overall revenues in recent years.

Counties’ revenues totaled $5.7 billion in 2009, as shown in Figure 4.1. Counties relied mostly on taxes to fund their operations, where 45 percent of revenues came from property and other taxes and 25 percent came from state grants and aids. For counties, a significant share of grants was for providing mandated state or federal programs, such as food support or other human services programs.

Among all cities, 2009 operating revenues totaled $4.7 billion, and their primary sources of revenue were taxes (49 percent) and state grants (19 percent). However, cities with populations less than 2,500 relied more on state grants (about 32 percent of all revenues) than did cities with populations greater than 2,500 population (where state grants represented about 18 percent). Meanwhile, towns’ 2009 revenues totaled $263 million. Similar to counties and cities, their primary sources of revenue were taxes (70 percent) and state grants (15 percent).

---

7 Estimate is based on data compiled in: Minnesota House of Representatives, Fiscal Analysis Department, A Summary of the 2008 Session Capital Budget (St. Paul: July 2008). Funding for some projects was for multi-year projects.

8 State grants and aids for LGUs include grants from the state directly to counties, cities, and towns, and includes County Program Aid, Local Government Aid, State Aid for Streets, Disparity Reduction Aid, various other aids and homestead credits, and grant programs for human services and streets and highways. Grants among local governments are reported as a separate category.

9 Total revenues include: (1) financing considered as “revenue,” which excludes other financing sources not typically considered revenue, such as borrowing and transfers; and (2) governmental funds only (general, special revenue, debt service, capital projects, and permanent funds), which excludes revenues from enterprise operations.

10 Totals include governmental fund revenues. These data represent financial reports from 213 cities with greater than 2,500 population and 634 cities with less than 2,500 population.
Figure 4.1: Minnesota Local Government Revenues, 2009

NOTES: Revenues include general revenues and special revenues. “Service Charges, Licenses, Permits, Special Assessments, and Other Revenue” includes fees, licenses, special assessments for infrastructure improvements, funds from interest and dividends, fines, forfeits, reimbursements, lease payments, and donations. “Federal Grants and Local Unit Grants” includes grants between local government units, for example, county grants to cities or townships for streets or roads. “State Grants and Aids” include the Market Value Credit, County Program Aid, Disparity Reduction Aid, PERA Aid, Police Aid, Local Government Aid, Taconite Relief and Aids, and funds for human services, streets, and highways. “Taxes” primarily includes property taxes, but also includes revenue from tax increments; penalties and interest on delinquent taxes; and franchise, lodging, gravel, gambling, and/or local sales taxes.

SOURCE: Office of the Legislative Auditor, analysis of 2009 local government financial data reported to the Office of the State Auditor.
The proportion of local governments’ revenues by source in 2009 shifted substantially from 1990. For counties, state grants and aids as a share of all revenues decreased from 34 percent to 25 percent during this time period. For all cities, state grants and aids as a share of total revenues decreased from 29 percent in 1990 to 19 percent in 2009. For townships, state grants and aids as a share of all revenues decreased from 36 percent to 15 percent.

**IMPACT OF STATE FUNDING ON CONSOLIDATION EFFORTS**

Both the state and local governments have a financial interest in how local government services are configured and delivered. The following sections discuss the perspectives of local officials and other stakeholders regarding the impact of state funding for LGUs’ services and capital projects on their consolidation efforts.

**State Grants and Aids**

Although state grants and aids represented the second largest source of revenues for local governments in 2009, legislative actions over the past decade have reduced the state’s support of some local governments through changes in aid eligibility and payment amounts. For example, the 2001 Legislature eliminated Local Government Aid (LGA) for townships.\(^{11}\) In 2010 and 2011, the Legislature revised the state’s funding formulas for its county program aid and local government aid to reduce the amounts LGUs received through 2012 and thereafter.\(^{12}\) Further, a legislatively directed study group has been examining the principles and objectives of local government aid to cities; they are due to report their findings and recommendations in December 2012.\(^{13}\)

We briefly looked at the impact of state aid on local governments’ consolidation activities. First, we explored local government officials' perspectives on this issue and found that:

- Most local government representatives were opposed to the idea that state aid to local governments be tied to consolidation efforts.

Among our survey respondents, 72 percent of county representatives, 60 percent of city representatives, and 77 percent of township representatives disagreed that LGUs that receive local government aid should be required to consider consolidation.

---

\(^{11}\) *Laws of Minnesota* 2001, First Special Session, chapter 5, art. 3, sec. 76.

\(^{12}\) *Laws of Minnesota* 2010, First Special Session, chapter 1, art. 13, sec. 2; and *Laws of Minnesota* 2011, First Special Session, chapter 7, art. 6, secs. 15-18.

As one city official stated:

Implementing threats and mandates, such as taking away state aid, or increasing aid, for such efforts sends the wrong message as it paints a picture of winners or losers. The goal with consolidation is improvement of service delivery and to make that delivery more accessible and affordable....

However, some local government representatives said that reductions in state aid are pushing local government officials to pursue more cooperative arrangements and revisit the issue of consolidation. One city representative stated:

[Our city and two nearby cities] could very easily consolidate three ways. The cost savings would be immense without increasing services drastically.... The major obstacle remains the parochial identities of each city. But as LGA continues to remain unstable, the concept is building momentum. It just makes sense.

Other survey respondents recommended that the state impose stronger conditions for state financial support. For example, according to one city official:

The state should offer assistance, technical and financial, for very small entities. There should be disincentives via aid reductions to entities who SHOULD consolidate but refuse.

And another city official suggested:

If communities receive significant state aid or their tax rates are 15 percent greater than the norms for [their type of city], they should have to consider consolidation in order to keep receiving state aid.

However, other officials and stakeholders said that a more important priority than consolidation should be for the state to ensure that local government aid is structured in a way that encourages more efficient services and increases performance by local governments. Further, there may be many reasons—such as low population density combined with service needs—why some local governments have not dissolved or consolidated.

From a local perspective, the potential for receiving additional aid may impact how a local government configures its services, and possibly their consolidation initiatives. For example, some individuals said that the statutory 5,000 population threshold for receiving state aid for streets and roads had motivated some jurisdictions to pursue consolidating with others.14

---

14 Minnesota Statutes 2011, 162.09, subd. 1.
Local officials and residents have considered the impact a consolidation would have on state aid payments to their area. From our eight consolidation case studies, however, we could not conclude whether projected changes in state aid impacted the outcomes of their consolidation efforts. Specifically, in accordance with state requirements, local officials had estimated the impact of their proposed consolidation on state aid to their jurisdictions. Officials then published these estimates in their consolidation plans to voters. In two initiatives that estimated state aid would increase, voters approved the merger even though the additional state aid was marginal or would not be received for several years. In two other cases, a majority of voters rejected the consolidation despite estimated increases in road aid or other aid. In one of these cases, residents said the increased aid would not benefit their jurisdiction. Rather, the merger would have meant a loss of aid to their area because most of the total aid—including the new aid—would have been redistributed to pay for services in the neighboring area.

From a state’s perspective, some people suggest that the impact of combining two local governments on the state’s budget would be relatively insignificant. We compared the state’s general fund and transportation fund budgets to the amount of state grants and aids to counties, cities, and townships in 2009. For calendar year 2009, we estimated that the state’s general fund and transportation fund budgets totaled about $17.2 billion.\(^{15}\) In 2009, state grants and aids to these LGUs totaled about $2.37 billion. The largest share of these funds went to counties (about $1.4 billion), most of which was for state-mandated human services programs and for street and highway programs ($818 million total). In addition, state grants and aids to cities totaled about $882 million—including $482 million for Local Government Aid—and state grants and aids awarded directly to townships totaled about $39 million.

With more than 2,700 local government units in Minnesota receiving about $2.37 billion in state aid, the impact of any one merger on the state’s budget could be small or large, depending on the LGUs involved, the types and levels of services they provide, and the eligibility criteria of the aid program. For example, among the nearly 750 cities that received monies through the state’s local government aid program in 2009, total amounts paid to individual cities ranged from $86 up to $80 million.\(^{16}\) A total of 69 cities received about $1 million or more, and 352 cities received about $100,000 or less. Among our case studies, consolidation proposals estimated a net increase in total state aid for some of the jurisdictions, but no change or a reduction in total state aid for some others.

---

\(^{15}\) Total state grants and aids for counties, cities, and townships are based on 2009 financial reports to the Office of the State Auditor by counties, cities, and townships, and exclude interlocal grants, such as county-approved state grants to townships for road and bridge projects. The general fund and transportation fund combined budget is estimated based on fiscal year 2009 and 2010 state budget data.

Funding Capital Projects

For any local government, state funding for their capital projects could represent a sizable share of their expenditures. In 2009, local governments’ expenditures for capital outlay and debt service totaled $3.5 billion. State funding for local capital projects totaled more than $400 million for fiscal years 2009 and 2010. Among individual governments, these expenditures may have been for periodic maintenance, infrastructure improvements, or for new capital assets. Regarding the state’s support of local projects, we found that:

- State funding for capital projects may have a significant impact on the consolidation efforts of some local governments.

Some local government representatives and other stakeholders told us that the state’s funding of some capital projects—mostly in smaller jurisdictions—had diminished the probability of local governments merging in their region. Specifically, because state funds had supported and made it possible for these local capital projects to move forward, there was no longer an incentive for the recipient to collaborate with other local jurisdictions. The projects included a government center, roads, and wastewater infrastructure. These individuals also expressed concern about the financial ability of these communities to maintain these assets in future years.

On the other hand, some local officials advised us that state funding of local capital projects made it possible for their jurisdiction to carry out large scale collaboration or functional consolidation of some services. They also suggested that the state continue to provide funding for projects when they are developed jointly or benefit more than one local government.

RECOMMENDATION

The Legislature should consider ways to encourage more collaboration and consolidation among local governments when funding local government capital projects and capital grant programs.

Local governments can obtain state funds or state-supported financing for their capital projects through either state bonds or capital grant programs. However, some state agency grant programs do not address or give preference to projects that are a collaborative effort by two or more jurisdictions. For the 2012 legislative session, preliminary requests for local government capital projects totaled $720 million for 90 projects from 58 different local governments (although many of these requests were for multi-year projects). Some of these projects were proposed as joint investments with other communities, but there may be potential for more collaboration.
In Chapter 3, we observed that there may be greater potential for improved efficiencies among capital-intensive services, equipment, and capital projects than in labor-intensive services, particularly among jurisdictions with smaller populations. In addition, capital costs were a primary factor in recent consolidation efforts in Minnesota and a deciding factor for voters in either approving or rejecting some consolidation proposals. In the next chapter, we summarize local officials’ perspectives on the potential for reducing local government costs, including capital costs, through consolidation.
Consolidation Prospects

In the previous chapters, we presented information on the extent of local government consolidation activities in Minnesota over the last three decades and discussed whether consolidation improves efficiencies and reduces local government costs. We also identified the reasons that local governments pursue consolidation and examined the impact of consolidation on various stakeholders.

This chapter summarizes local officials’ perspectives on various service delivery options—including consolidation—and discusses obstacles to local government mergers. We also make recommendations to the Legislature and local officials regarding future consolidation efforts in Minnesota.

PERSPECTIVES REGARDING CONSOLIDATION

Consolidation is a controversial topic among state and local officials, residents, and other stakeholders. Throughout our study, many individuals offered their opinions on this topic. This section presents some of their viewpoints regarding the value of consolidating Minnesota local governments and if or when other approaches would be more appropriate for restructuring the delivery of services.

Circumstances for Exploring Consolidation

We asked local government representatives in Minnesota about the prospects of consolidation for their local government and the circumstances under which consolidation should be considered by LGUs. We found that:

- Most local government representatives did not think that their local government would benefit from consolidating with another entity.

As shown in Table 5.1, 78 percent of township respondents either somewhat disagreed or strongly disagreed that their local government would benefit from consolidation, compared with 56 percent of county respondents and 47 percent of city respondents. Some stated that a merger involving their jurisdiction would likely result in more cost shifting than cost savings, or that they had already reduced service duplication through collaborative efforts. Other local officials suggested that their LGU would not consider merging with an entity experiencing real financial “issues” because they did not want to take on responsibility for what they viewed as spending or debt problems in a neighboring jurisdiction.
Table 5.1: Local Government Representatives’ Perspectives on Consolidation, 2011

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Somewhat Agree</th>
<th>Neither Agree nor Disagree</th>
<th>Somewhat Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our city, county, or township would benefit from consolidating with another local government.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Counties</td>
<td>6%</td>
<td>25%</td>
<td>13%</td>
<td>32%</td>
<td>24%</td>
</tr>
<tr>
<td>Cities</td>
<td>6</td>
<td>19</td>
<td>28</td>
<td>17</td>
<td>31</td>
</tr>
<tr>
<td>Townships</td>
<td>1</td>
<td>7</td>
<td>14</td>
<td>12</td>
<td>66</td>
</tr>
<tr>
<td>All</td>
<td>3</td>
<td>11</td>
<td>18</td>
<td>14</td>
<td>54</td>
</tr>
<tr>
<td>Some counties, cities, or townships should consolidate.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Counties</td>
<td>30%</td>
<td>38%</td>
<td>22%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Cities</td>
<td>19</td>
<td>37</td>
<td>28</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Townships</td>
<td>3</td>
<td>15</td>
<td>34</td>
<td>13</td>
<td>36</td>
</tr>
<tr>
<td>All</td>
<td>9</td>
<td>22</td>
<td>32</td>
<td>11</td>
<td>27</td>
</tr>
</tbody>
</table>

NOTE: Percentages may not sum to 100 due to rounding.


Most local government representatives reported that their local government would not benefit from consolidation.

Beyond reasons related to finances, many local officials expressed strong opposition to consolidation more generally, in part because of the impact it may have on residents. For instance, according to one city representative:

The bigger your jurisdiction gets, the less people feel they have a voice and the more political it becomes. We already have a problem engaging citizens to participate—the more removed citizens get the less chance you have to get them to participate...more consolidations will create more disengagement, especially if they feel the state is shoving something at them that wasn’t their choice in this environment.

Similarly, one township representative asserted:

We believe it is important to keep our grassroots government at the local levels. We have a better handle on issues we face and the decisions to be made, therefore we are able to use funds to the utmost benefit for our residents.
However, although the majority of survey respondents did not think that their local government would benefit from consolidation, we also found that:

- Many survey respondents agreed that some local governments should consolidate or, under certain circumstances, at least consider consolidation.

The majority of respondents from counties and cities—68 percent and 57 percent, respectively—either strongly or somewhat agreed that some LGUs in Minnesota should consolidate, as shown in Table 5.1. Meanwhile, only 18 percent of township respondents agreed that some LGUs should consolidate.

When asked about the conditions under which local governments should consider consolidation, the majority of county and city respondents agreed that LGUs with severely declining revenues should consider consolidation.¹ LGUs that have a lack of expertise for mandated services should also consider consolidation, according to 52 percent of county respondents and 42 percent of city respondents. However, less than a majority of county and city respondents said that LGUs that do not meet a minimum population threshold should consider consolidation.² In comparison, less than one-fourth of township respondents agreed that LGUs should consider consolidation under each of these conditions.

As one local representative noted:

> If citizens are happy with their local government and are willing and able to pay for the services they receive, the state should not intervene. If local revenues are inadequate and populations are dwindling, sharing of services and equipment should be encouraged and, possibly, consolidation considered.

Many survey respondents—from LGUs around the state—supported consolidation for other reasons, although these reasons varied somewhat among counties, cities, and townships.³ Both county and township respondents pointed to an overlap of like services for the same areas, particularly between counties and townships. Some township respondents said it was difficult to find citizens to serve as town officials, for example. City respondents suggested that some entities—including their own—were too small to adequately provide city services. According to one city representative:

> As a small city…we don’t have the resources to compete on our own. It is more difficult to survive and consolidation with our neighboring city may be a viable option.

---

¹ Fifty-eight percent of county respondents and 54 percent of city respondents strongly agreed or somewhat agreed that counties, cities, or townships with severely declining revenues should consider consolidation.

² We did not specify a minimum population threshold in our survey.

³ Statement represents 131 responses out of a total 1,106 open-ended responses, including responses from 16 counties, 73 cities, and 42 townships.
Many local government representatives said that consolidation of departments or functions is a more appropriate and cost-effective approach than complete consolidation of local government units.

A township respondent wrote:

> Our township would do well under county rule—if we would consolidate to [the] county. … [It is] getting very hard to get citizens to run for township office.

### Cooperative Service Agreements and Consolidation

Consolidations among counties, cities, and townships in Minnesota are a rare occurrence. In the next sections, we discuss possible reasons why more local governments do not consolidate. For example, according to survey respondents:

- Rather than consolidating their jurisdictions, most local government representatives preferred using cooperative service agreements.

Among all survey respondents, 74 percent of counties, 62 percent of cities, and 68 percent of townships said that their cooperative service agreements are a better approach for streamlining services and/or reducing costs than consolidation.\(^4\) These arrangements allow LGUs sufficient flexibility to expand services and increase access to expertise, according to survey respondents. Further, less than 3 percent of county, city, and township survey respondents reported that their 2010 cooperative service agreements reduced the overall quality of services.\(^5\)

Although consolidation of specific services among LGUs occurs less often than other types of shared service arrangements, many survey respondents said consolidating departments or functions is a more appropriate and cost-effective approach than full consolidation. For example, one county respondent stated:

> It makes very little sense for [our county] to consolidate in total with another county. What does make sense is to consider consolidation by function or line of business. From that perspective, some functions more naturally align with [a nearby city], and some align better with counties.

Another survey respondent stated:

> Consolidation of functions may make more sense. [For example,] combining police departments with [the] sheriff’s department.

As we discussed here and in Chapter 2, it appears that many local governments in Minnesota work together to provide services to their residents through the use of cooperative service agreements. In addition, incremental boundary adjustments

---

\(^4\) These totals include responses from survey respondents who also had indicated that they did not have any cooperative service agreements in 2010.

\(^5\) These totals include responses from survey respondents with at least one collaborative service agreement in 2010.
are used much more often than consolidation to restructure these local jurisdictions. Still, we suggest that:

- **Opportunities to increase collaboration and consolidation, and potentially reduce the duplication of services, persist around the state.**

Specifically, among our survey respondents, 26 percent of city respondents and 34 percent of township respondents reported that their jurisdiction did not collaborate with another jurisdiction for any services. Many LGUs also reported that the number of service areas in which they collaborated stayed the same between 2005 and 2011, and a small percentage of LGUs reported that their collaborative activities decreased during this time period.6

Some local officials told us that they were ready to progress beyond the use of service agreements, joint powers boards, or joint districts. They said that the work required to administer service contracts or coordinate with joint boards was quite time intensive—sometimes with minimal added value—and that full consolidation with one or several neighboring jurisdictions would be more cost effective. Among other drawbacks, local officials said that service agreements can result in less control over services and raise questions about service equity among partners.

Finally, many local government representatives supported consolidation, or said that there were opportunities for reducing duplication in services. In addition, many survey respondents from counties, cities, and townships either strongly agreed or somewhat agreed that their local government would benefit from consolidation.7 Some specific responses from city representatives included:

> There is a tremendous amount of money spent for duplicate services and equipment in the area of fire, police, water, sewer, wastewater, and public works. When there are small cities within walking distance of one another it only makes sense to reduce costs and merge services.

And:

> The cost of duplicative services amongst neighboring cities and/or townships is a grand example of truly wasteful government spending.

6 Among survey respondents that reported using at least one cooperative service agreement in 2010, 22 percent of county respondents, 47 percent of city respondents, and 65 percent of township respondents reported that they collaborated with the same number of LGUs as they did in 2005. Seventeen percent of county respondents, 28 percent of city respondents, and 52 percent of township respondents reported that they collaborated in the same number of service areas. About 1 percent of county, city, and township respondents reported that they collaborated with fewer LGUs or in fewer service areas.

7 Twenty-one county respondents, 134 city respondents, and 88 township respondents somewhat agreed or strongly agreed that their local government would benefit from consolidating with another local government.
Similarly, one township representative stated:

The state needs to take action on this. Township government has way too much duplication cost. Basic responsibility for township government is to maintain roads and general elections. To do this we need all the same equipment that the county already has. Lawyers, engineers, clerks, there is so much extra cost to the taxpayer.

Minnesota local governments have shown that they have a strong preference for shared service agreements—rather than consolidation—as a service delivery option. We do not recommend that local governments use one approach over the other; instead, a case-by-case analysis is needed to identify when consolidation would work better than the status quo or other options, including contracting for or sharing of services. From our survey responses it is clear that many local officials believe there is potential for greater efficiencies in local government services. In the next section, we discuss who—a state entity or local governments—should be responsible for initiating and facilitating the consolidation of local governments in Minnesota.

**STATE AND LOCAL GOVERNMENT ROLES**

Minnesota’s history of local government consolidation includes a mix of state and local initiatives to reduce the number of local governments. Most recently, voters rejected state actions by the Minnesota Municipal Board to consolidate various cities during the 1990s. Still, many individuals question why more mergers have not occurred, including whether the state should be doing more to encourage or direct more mergers.

**Oversight of Consolidation**

In Minnesota and in other states, discussions about consolidation often involve a debate about whether the state or local governments and their residents should have authority for initiating and directing the consolidation process. We found that:

- Most local government survey respondents prefer that local jurisdictions retain control over consolidation efforts, rather than have the state determine which entities should merge.

Many local government representatives, even those supporting consolidation, stated that it should be up to local jurisdictions to decide whether or not to pursue consolidation. As shown in Table 5.2, 42 percent of county respondents, 52 percent of city respondents, and 72 percent of township respondents said that the state should not be involved in identifying which local entities should merge.
Some suggest that a lack of vision and long-range plan for Minnesota contributes to local governments’ reluctance to consolidate.

State laws appear to present conflicting purposes for restructuring the framework of local governments in Minnesota.

Table 5.2: Local Government Representatives’ Perspectives on State Involvement in Consolidation, 2011

<table>
<thead>
<tr>
<th>To what extent should the state—either the Legislature or a state agency—be involved in the consolidation of cities, counties, and townships?</th>
<th>County</th>
<th>City</th>
<th>Township</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>State should not be involved</td>
<td>42%</td>
<td>52%</td>
<td>72%</td>
<td>65%</td>
</tr>
<tr>
<td>State should be less involved</td>
<td>13</td>
<td>11</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>State involvement should stay the same</td>
<td>22</td>
<td>21</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>State should be more involved</td>
<td>22</td>
<td>16</td>
<td>3</td>
<td>7</td>
</tr>
</tbody>
</table>

NOTE: Percentages may not sum to 100 due to rounding.


For many officials, considering options for restructuring boundaries—including consolidation—was an important part of their long-range planning activities. Local officials told us that their ability to coordinate decisions among neighboring jurisdictions about the strategic placement of housing, industrial parks, and capital infrastructure was key to helping local governments operate in the most cost-effective way. Among several recent mergers in Minnesota, local officials said that the improved coordination of planning and smarter growth policies were among the greatest benefits to residents.

On the other hand, skepticism about the state’s involvement in local government consolidation was tied in part to what some local officials and other stakeholders said was a “lack of vision and long-range plan” for Minnesota. Some individuals pointed to the state’s elimination of services provided by Minnesota Planning and the Local Planning Assistance Center as contributing to this problem. As another example, state laws appear to present conflicting purposes for defining and restructuring the framework of local governments, where statutes lay out processes to facilitate consolidation, but also allow for property owners to detach—some suggest too easily—from their local jurisdiction. As one local official stated:

Until the state has strong oversight of planning and priorities, [it is not clear] how it could effectively promote [local government] consolidations.

---

8 Currently, local governments provide long-range planning functions, where state law authorizes counties, cities, and townships to make development decisions about their communities. See, for example, Minnesota Statutes 2011, 394.21, 394.232, 463.353, 462.355, 462.3585, and 473.858.
Another local official observed:

The State needs to set the tone and create a plan for reorganization. Then we will follow.

To address these concerns, some individuals suggested that the Local Planning Assistance Center (or a similar entity) be reinstated to help guide state and local community planning efforts. They said that this type of department would provide a neutral forum for representatives from counties, cities, and townships to gather and discuss consolidation and other statewide planning-related topics.

While some complained about the state’s lack of planning, other officials said that the state should impose more stringent requirements on local government planning activities (although few had specific suggestions for changes). From our review of case studies, conflicts over long-range planning and development have been both catalysts and obstacles to city-city and city-township consolidation efforts in Minnesota. However, the majority of local officials we spoke with said that local governments were best suited to address these issues and plan for their jurisdiction and, thus, they should retain control over this function and their consolidation efforts.

**RECOMMENDATION**

Consolidation efforts in Minnesota should continue to be led by local government representatives and citizens. Further, local government officials should consider and pursue such opportunities.

National research has found that consolidation is more successful if implemented voluntarily, rather than mandated. The last initiative by the state to consolidate local governments was in 1997. Since then, the state has had minimal involvement in identifying or directing local governments to consolidate—an approach similar to that in most of the nine comparison states we looked at. Further, during the last three decades, more locally directed consolidation efforts than state-directed efforts resulted in consolidation. Some of this success may be attributed to the fact that determining potential cost savings and service improvements among potential partners requires knowledge of the government entities and their service arrangements, which is best provided when involving local government staff, officials, and residents.

In Chapter 3, we discussed the costs and benefits of consolidation and its potential for improving efficiencies, particularly for smaller jurisdictions that provide capital-intensive services. Even though there are challenges to consolidation and the outcomes can vary, consolidation still has value and should

---

9 For example, several states have a state-level entity designated to oversee consolidations, but only one of these has the power to initiate the action. Specifically, Wisconsin and Michigan have state-level entities with the authority to approve or reject local government consolidations; Georgia’s General Assembly has the authority to both initiate and approve or reject local government consolidations. In practice, however, the decision to initiate or consolidate is “locally driven” in all nine states.
be considered by state and local officials and citizens as one approach to improving local government services and efficiencies. Local officials also should take note that in response to our survey, a fair number of local representatives supported consolidation and said their local government would benefit from combining with another jurisdiction.

In making this recommendation, we note that voters have also rejected some mergers initiated by local governing bodies and by residents. For more local governments to consolidate, local officials will need to clearly assess voter interests and reconcile their service demands when developing consolidation plans and proposals. The likelihood that consolidation yields costs savings for residents depends on the potential partners involved, but also the extent to which local officials administer and adhere to consolidation plans to improve efficiencies following a merger.

**Assistance and Grant Funding**

Merging two or more local governments requires planning, analysis, and developing a proposal for voters to weigh in on. Further, most survey respondents said that local jurisdictions should evaluate and decide for themselves whether or not to consolidate. However,

- Many stakeholders said that the state should provide technical expertise and funding for feasibility studies to local governments that were interested in consolidation.

Specifically, many city and township survey respondents stated that they were interested in consolidation, but they did not have information about the state’s processes or how to evaluate consolidation prospects. They asked that the state develop financial models and process models to help guide local governments’ efforts. Further, some LGUs may be more likely to consider consolidation if the state or another entity provided education, advice, or financial assistance. For example, one county official stated:

> Meaningful financial incentives, commitment to reform at the state and local government levels, and well seasoned technical expertise that has actually assisted with and helped lead consolidations is especially needed.

Similarly, one township clerk wrote:

> If the state feels it’s in the best interest of the State of Minnesota, then the state should try to influence voluntary consolidation by promoting it through informational programs.

---

10 Nearly 200 survey respondents said that the state or other entity should provide education and assistance to local governments interested in consolidation. In addition, nearly 150 survey respondents stated that the state or other entity should provide financial incentives or financial assistance to local governments interested in consolidation.
In addition, most of the individuals we spoke with who were involved with consolidation efforts in Minnesota emphasized that they would not have been able to work through the process without the assistance of knowledgeable consultants and volunteers experienced in local government consolidations. Other local officials said that they would not undertake a merger effort without first thoroughly evaluating the costs and benefits, but that they had neither the time nor expertise to sufficiently assess the value of such an effort. They also said that, given current fiscal constraints, it would be difficult to divert monies from services for citizens to study consolidation. Entities with smaller populations in particular noted that they would not have the resources to undertake such an effort.

Minnesota’s Municipal Boundary Adjustment Unit provides some information about consolidation processes and statutes through its Web site, but the information does not include financial or other evaluation models. The public can access consolidation plans and studies for some past efforts to use as examples; however, the information on the MBAU Web site is limited to state-administered consolidations initiated under Minnesota Statutes, chapter 414. The MBAU Web site does not include information or documents pertinent to initiatives pursued under the locally directed process (Minnesota Statutes, 465.81-465.86) or county-county or township-township mergers. Further, the MBAU office is not staffed to provide planning or other technical assistance. In contrast, we found that some of the other states we looked at—such as New York, Michigan, and Wisconsin—provide guidebooks, case studies, and/or in-depth planning assistance to those interested in consolidation.

RECOMMENDATIONS

- The Legislature should provide grant funding—to be administered by counties—for cities and townships to evaluate consolidation proposals.

- The Municipal Boundary Adjustment Unit and counties should make available more information and technical materials about consolidating local governments in Minnesota.

The state could help facilitate local government consolidation efforts by addressing local officials’ concerns about needing technical expertise and information. First, the Municipal Boundary Adjustment Unit and counties should make available to residents and local officials more comprehensive information

---

11 MBAU does not provide this information in part because local governments do not report the information to this entity. Historical documents and information regarding consolidations handled through the previous Board of Government Innovation and Cooperation are stored at the Minnesota History Center.

12 Such assistance varied among states we looked at, but in most instances, the state or another organization provides some materials available in hard-copy or online versions, consultation over the phone, expertise on statutory requirements, and some in-depth planning assistance.
about consolidation, including guidebooks, financial models, and examples of consolidation studies.

In addition, for two or more local governments demonstrating an interest in consolidating with each other, the Legislature should provide grant funds for feasibility studies. These grants could be administered and awarded by counties, possibly through the Department of Administration as the state’s fiscal agent. Under state law, counties play a unique, local role in overseeing requests for boundary adjustments from township residents and are often involved in city and township planning efforts. Thus, counties should have a better understanding of consolidation prospects—including local interest among jurisdictions—and ways to help local grant applicants than a state-level entity.

OBSTACLES TO CONSOLIDATION

We identified some factors that may explain why consolidation does not occur more often in Minnesota. These obstacles are often unique to a jurisdiction and its population, or are specific to state processes and statutory requirements. We discuss these factors in the following sections.

Local Factors

In Chapter 3, we highlighted several issues that posed challenges to recent consolidation initiatives in Minnesota. In particular, voters had strong concerns about preserving existing zoning and land-use ordinances and fairly allocating property tax burdens. These issues were important enough to voters to influence how local officials developed the consolidation proposal and the outcomes of the referenda. Further, research has found that consolidation efforts that focus primarily on reducing costs may not be approved by voters. Through our survey, local officials also identified other factors that may impede consolidation efforts, as shown in Table 5.3. Based on our research, we found that:

- Consolidation may not be appropriate for all local governments. For jurisdictions in which consolidation may be a viable option, they still may face numerous challenges.

---

13 Four states we looked at currently have a grant program that partially or fully funds feasibility studies or the implementation of local government consolidation. In Minnesota, the previous Board of Government Innovation and Cooperation provided grants to help local governments study the feasibility of merging; these monies also helped local governments prepare information for voter review and consideration.
Table 5.3: Percentage of Local Government Survey Respondents Indicating Issue is a Significant Obstacle to Consolidation, 2011

<table>
<thead>
<tr>
<th>Issue</th>
<th>County</th>
<th>City</th>
<th>Township</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of control and authority over services</td>
<td>70%</td>
<td>55%</td>
<td>65%</td>
<td>62%</td>
</tr>
<tr>
<td>Loss of identity with current jurisdiction</td>
<td>65</td>
<td>56</td>
<td>60</td>
<td>59</td>
</tr>
<tr>
<td>Resistance by citizens</td>
<td>64</td>
<td>52</td>
<td>56</td>
<td>55</td>
</tr>
<tr>
<td>Resistance or lack of interest by elected officials</td>
<td>62</td>
<td>47</td>
<td>45</td>
<td>46</td>
</tr>
<tr>
<td>Differences among potential partners in how services are financed</td>
<td>59</td>
<td>41</td>
<td>42</td>
<td>43</td>
</tr>
<tr>
<td>Inability to agree with potential partners on purpose and goals of consolidation</td>
<td>53</td>
<td>40</td>
<td>40</td>
<td>43</td>
</tr>
<tr>
<td>Unwanted changes in services</td>
<td>46</td>
<td>43</td>
<td>50</td>
<td>48</td>
</tr>
<tr>
<td>Lack of funding for the upfront costs of consolidating</td>
<td>45</td>
<td>47</td>
<td>37</td>
<td>40</td>
</tr>
<tr>
<td>Lack of funding to evaluate the feasibility of consolidation</td>
<td>43</td>
<td>46</td>
<td>34</td>
<td>38</td>
</tr>
<tr>
<td>Possible increased ongoing costs</td>
<td>42</td>
<td>40</td>
<td>48</td>
<td>45</td>
</tr>
<tr>
<td>Statutory constraints</td>
<td>35</td>
<td>17</td>
<td>24</td>
<td>22</td>
</tr>
</tbody>
</table>


As we discussed in Chapter 3, there are many factors that may affect whether consolidation would improve the efficiencies of local governments. In addition, some jurisdictions may be too large—either in population or geographic size—to benefit from consolidation. Many survey respondents and other individuals we spoke with, even those that supported consolidation, suggested that the resources required to overcome geographic distances for services that require in-person interaction would largely offset any potential cost savings from a merger of larger entities with sparse populations. A 1997 study of the feasibility of merging Minnesota counties supported these assertions and found that consolidation could increase per-capita costs for some counties.

Table 5.3 shows several other factors that survey respondents viewed as significant obstacles to the consolidation of local governments in their region. In particular, respondents identified two factors pertaining to the governance of LGUs—loss of control and authority over services and resistance or lack of interest by elected officials—more often than most other factors. Two other obstacles cited most often pertain to residents’ reactions to mergers in their

---

14 Sixty-two percent of county respondents, 49 percent of city respondents, and 49 percent of township respondents said that some LGUs were too large—by either population or geographic size—to consolidate.

15 Minnesota Board of Government Innovation and Cooperation, The Feasibility of Adjusting County Boundaries in Minnesota (St. Paul, 1997), 42.
Very few local governments reported that they surveyed citizens about their interest in consolidation.

Without significant financial assistance, few cities will consider consolidation—it is costly and a sensitive subject with residents of any community and requires a lengthy process to reach consensus and a community-wide comfort level that allows forward movement.

At the local level, each of these factors varies depending on the potential partners in a merger. There is no one-size-fits-all approach for jurisdictions to overcome perceived obstacles in their community, and reconciling these issues should be considered on a case-by-case basis.

Regarding local officials’ concerns about resistance by citizens, we note that in response to our survey, only a handful of local government representatives reported surveying citizens in the last five years about their interest in consolidation. Local officials’ perceptions that citizens—as voters—may resist a consolidation effort may be based in part on the relatively low success rate of past consolidation referenda in Minnesota.

**RECOMMENDATION**

*Minnesota local governments looking for service delivery options should survey citizens to determine their interest in consolidation.*

It may be useful for local governments seeking to reconfigure their services and improve their fiscal situation to determine whether there is sufficient citizen support to pursue either functional or structural consolidation. Further, assessing the level of citizen support is important because, in many cases, voters have the final say about a consolidation proposal through referenda. Surveys or focus groups of residents could help guide jurisdictions’ efforts to reform how they deliver services.

**State Processes**

From our review of case studies we learned that some local stakeholders involved in consolidation efforts in Minnesota preferred the locally directed process—under *Minnesota Statutes*, 465.81-465.86—over the process administered through the state’s Municipal Boundary Adjustment Unit under *Minnesota Statutes*, 414.041. They cited several benefits of the process under *Minnesota Statutes*, 465.81, including greater buy-in by local officials and residents—because it is locally directed—and more flexibility in determining the time frame, path, and resources necessary to carry out the initiative.

---

16 These and other issues were identified in national research and by representatives from other states as reasons more local government mergers have not occurred. For example, nearly half of the representatives from other states said that an uninformed or misinformed public was a major obstacle to local government consolidation; some said that deliberate efforts to spread misinformation had successfully stopped some consolidation attempts.
With regard to the state process through MBAU, local officials and other stakeholders viewed two requirements as too restrictive. First, they suggested that the schedule for selecting and appointing candidates for a consolidation commission to study the consolidation proposal, hold hearings, and report back to the chief administrative law judge was too rigid. Second, ensuring the correct composition of the commission—a minimum of five individuals from each jurisdiction and one from outside the jurisdictions—for the duration of the process was viewed as challenging to comply with, particularly for smaller jurisdictions. Current law does not permit local units of government to deviate from either of these provisions.

**RECOMMENDATION**

_The Legislature should amend Minnesota Statutes 2011, 414.041, subds. 2-3, to allow for process-related waivers by the state’s chief administrative law judge._

The process administered by the Office of Administrative Hearings Municipal Boundary Adjustment Unit under _Minnesota Statutes, 414.041_, provides an important resource for local jurisdictions and citizens interested in pursuing consolidation. The statutes governing this process also outline important factors that help local officials assess whether consolidation among two jurisdictions is a worthy pursuit. However, the aforementioned process-related requirements may be too difficult for some jurisdictions to comply with. We think that allowing jurisdictions more flexibility in their initiatives, upon showing of good cause to the chief administrative law judge, may be helpful for jurisdictions demonstrating an interest in consolidation.

**County Consolidations**

In Minnesota, there have been no significant changes in county jurisdictions for many decades. In Chapter 2, we observed that county mergers are governed by several different statutes that provide minimal guidance for counties to consolidate, particularly when compared with their statutory responsibilities and their range of services.

There may be many explanations for the lack of mergers among Minnesota counties. Among the possible reasons, some counties may have determined that consolidation is not appropriate for their residents, and officials have sought other ways to streamline services and reduce costs. As we described earlier, all of our county respondents reported that they participated in cooperative agreements and other shared service arrangements, and counties reported having a median of twenty such agreements.

---

17 Members must serve on the commission until it issues its report to the chief administrative law judge; the report must be submitted within two years of the initial appointment of the commission.
Another possible reason could be that a county-county merger in Minnesota could be quite complicated. For instance, counties’ extensive use of cooperative service arrangements would likely require time and resources to renegotiate and reconcile services among their local partners. Minnesota counties also act as agents of the state and administer many services as part of state and federal programs. Regarding these responsibilities, local officials specified several factors they would need to address as part of a merger, including funding formulas for state-supervised services and state-county coordination of some services, such as corrections programs. County representatives also were more likely than representatives from cities and townships to point to statutory constraints—such as requirements pertaining to county attorneys and sheriffs, and high voter threshold requirements—as significant obstacles to consolidation.

We compared two of Minnesota’s requirements for county mergers to those in our nine comparison states. In doing so, we found that only six states have laws or constitutional provisions that explicitly allow counties to consolidate, and only four of these states provide some guidance about the process. In the three other states, neither state statutes nor the state constitution address how or whether county mergers may occur. In examining these states’ processes, we found that:

- **Minnesota imposes a higher voter threshold to initiate and approve consolidations among counties than most comparison states.**

In Minnesota, residents can petition their governing body to initiate consolidation proceedings by compiling the signatures of a requisite number of voters. Some Minnesota officials said that Minnesota’s threshold is too high for county mergers. Among our nine comparison states, only three states—Indiana, Pennsylvania, and South Dakota—explicitly allow voters to initiate a county consolidation, as shown in Table 5.4. However, Table 5.4 also shows that compared with these three other states Minnesota had the highest threshold—25 percent of the votes cast in the last general election—while the thresholds for the other three states ranged from 5 percent to 15 percent. In comparison, Minnesota was at the lower end of the spectrum for city consolidations, requiring signatures of at least 5 percent of the votes cast for governor in the last general election.

---

18 Georgia, Michigan, Indiana, Pennsylvania, South Dakota, and Wisconsin explicitly allow county-county mergers. The latter four provide some statutory guidance for county mergers.

19 The three states are New York, Ohio, and Washington. Representatives from these three states said that new legislation would be required to allow and address the processes for consolidating counties.

20 In Minnesota, requirements for initiating a consolidation involving a county or city differ from those for townships. Generally, mergers among townships may only be initiated by a petition of voters. Under certain conditions, a county board may dissolve a township and merge the area with another township.
## Table 5.4: Petition and Referendum Requirements in Minnesota and Comparison States, 2011

<table>
<thead>
<tr>
<th>State</th>
<th>Threshold Required to Initiate Consolidation by Voter Petition</th>
<th>Referendum to Approve Requires Majority Vote in Each Entity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>County-County Consolidation</td>
<td>City-City Consolidation</td>
</tr>
<tr>
<td>Minnesota</td>
<td>25% of county residents voting in the last general election&lt;sup&gt;a&lt;/sup&gt;</td>
<td>5% of votes cast for governor in last general election</td>
</tr>
<tr>
<td>Georgia</td>
<td>County consolidations allowed but voters cannot initiate</td>
<td>City consolidations allowed but voters cannot initiate</td>
</tr>
<tr>
<td>Indiana</td>
<td>5% of votes cast in the last election for Secretary of State</td>
<td>5% of votes cast in the last election for Secretary of State</td>
</tr>
<tr>
<td>Michigan</td>
<td>County consolidations allowed but voters cannot initiate</td>
<td>5% of total population of each entity</td>
</tr>
<tr>
<td>New York</td>
<td>County consolidations not explicitly allowed</td>
<td>City consolidations not explicitly allowed</td>
</tr>
<tr>
<td>Ohio</td>
<td>County consolidations not explicitly allowed</td>
<td>10% of votes cast in last gubernatorial election</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>5% of votes cast in last gubernatorial election</td>
<td>5% of votes cast in last gubernatorial election</td>
</tr>
<tr>
<td>South Dakota</td>
<td>15% of registered voters in each entity</td>
<td>15% of registered voters</td>
</tr>
<tr>
<td>Washington</td>
<td>County consolidations not explicitly allowed</td>
<td>10% of votes cast in last municipal election</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>County consolidations allowed but voters cannot initiate</td>
<td>City consolidations allowed but voters cannot initiate</td>
</tr>
</tbody>
</table>

**NOTES:** Thresholds may differ for consolidation of townships or other combinations of entities. Among all states, state laws require that jurisdictions be contiguous, adjacent, and/or overlapping for most types of mergers.

<sup>a</sup> Consolidation of two or more counties in Minnesota can also be initiated by filing a resolution unanimously adopted by the board of each affected county under *Minnesota Statutes* 2011, 373.51, with the Secretary of State.

<sup>b</sup> In Minnesota, consolidation of counties requires approval from 60 percent of voters in each county—the highest threshold among our comparison states. However, consolidations pursued through *Minnesota Statutes* 2011, 465.81-465.86, may involve a different threshold as determined by the reorganization plan.

<sup>c</sup> In Michigan, voters must petition for a final referendum for city consolidations; if they do not, the consolidation is final if approved by the state boundary commission.

<sup>d</sup> In Wisconsin, a final referendum is not required for consolidations attempted through cooperative boundary agreements among cities under *Wisconsin Statutes* 2011, 66.0307. Residents may petition for a referendum, but it is advisory only.

**SOURCE:** Office of the Legislative Auditor, summary of state statutes, constitutions, and interviews with other state representatives.

Among the six other states that explicitly allow county-county mergers, most of them require that residents have the final say on a consolidation proposal through a referendum and vote, as shown in Table 5.4. In most of these states, including Minnesota, a majority of voters in each entity must approve the consolidation.<sup>21</sup> Compared with six other states that require voters to approve county-county mergers, Minnesota’s 60-percent voter approval threshold was the highest.

<sup>21</sup> Some states allow for a different voter threshold, where approval is based on an affirmative vote by a majority of voters from the entire area under consideration, rather than a majority from each entity.
These higher voter thresholds pose additional challenges for county officials seeking to initiate and develop consolidation proposals that are satisfactory to residents.

**RECOMMENDATION**

*The Legislature should provide funding for a county-administered pilot project to (1) develop a more comprehensive process and guidelines for consolidating counties in Minnesota, and (2) facilitate consolidation among two or more counties demonstrating significant interest in combining their jurisdictions.*

We think that proposing a consolidation would be a large undertaking for any Minnesota county, in part due to a lack of experience and statutory guidance. The counties’ role as administrative agents of the state and providers of many state-mandated services also would require the involvement of various state agencies and, thus, likely complicate any merger attempt. Further, the financial investment required to carry out an initiative and present the question to voters is of concern to county representatives, particularly when voters may reject the proposal.

More work by state and local officials is necessary to address stakeholders concerns about state requirements and to further develop the process and guidelines for consolidation initiatives by counties or their residents.22 This work could be completed separately or as part of a pilot project involving two counties interested in consolidating. For such a project, the Legislature should provide financial support to help facilitate the merger. Finally, as we have noted elsewhere in this report, consolidation proposals should be evaluated on a case-by-case basis to determine the potential for improved services and outcomes.

---

22 County officials and community leaders have previously suggested that, if the state wished to encourage boundary adjustments or consolidations among counties, the state should work with local officials to remove legal and fiscal barriers to their implementation. See Minnesota Board of Government Innovation and Cooperation, *Summary Report: The Feasibility of Adjusting County Boundaries in Minnesota* (St. Paul, 1996), ii.
List of Recommendations

- The Legislature should consider ways to encourage more collaboration and consolidation among local governments when funding local government capital projects and capital grant programs. (p. 59)

- Consolidation efforts in Minnesota should continue to be led by local government representatives and citizens. Further, local government officials should consider and pursue such opportunities. (p. 68)

- The Legislature should provide grant funding—to be administered by counties—for cities and townships to evaluate consolidation proposals. (p. 70)

- The Municipal Boundary Adjustment Unit and counties should make available more information and technical materials about consolidating local governments in Minnesota. (p. 70)

- Minnesota local governments looking for service delivery options should survey citizens to determine their interest in consolidation. (p. 73)

- The Legislature should amend *Minnesota Statutes* 2011, 414.041, subds. 2-3, to allow for process-related waivers by the state’s chief administrative law judge. (p. 74)

- The Legislature should provide funding for a county-administered pilot project to (1) develop a more comprehensive process and guidelines for consolidating counties in Minnesota, and (2) facilitate consolidation among two or more counties demonstrating significant interest in combining their jurisdictions. (p. 77)
Minnesota law lays out several different processes to consolidate local governments. The following tables outline key requirements for some of these processes. Table 1 shows the analyses and procedures that local officials must address for consolidations pursued under *Minnesota Statutes* 2011, 465.81-465.86, the locally directed process. Table 2 shows the analysis that local officials must address when merging under the processes in *Minnesota Statutes* 2011, chapter 414.

**Table 1: Contents of Cooperation and Combination Plan, 2011**

The plan for cooperation and consolidation must address:

- The specific cooperative activities the units will engage in during the first two years;
- The steps to be taken to effect the merger, with completion no later than four years after the process begins;
- The steps by which a single governing body will be created or, when the entire territory of a unit will be apportioned between or among two or more units, the steps to be taken to provide for the representation of the residents of the apportioned unit;
- Changes in services provided, facilities used, and administrative operations and staffing required to effect the preliminary cooperative activities and the final merger, and a two-, five-, and ten-year projection of expenditures for each unit if it combined and if it remained separate;
- Treatment of employees of the merging governments, with specific provisions for reassigning employees, dealing with exclusive representatives, and providing financial incentives to encourage early retirements;
- Financial arrangements for the merger, specifically including responsibility for debt service on outstanding obligations of the merging units;
- One- and two-year impact analyses, prepared by the granting state agency at the request of the local government unit, of major state aid revenues received for each unit if it combined and if it remained separate, including an impact analysis, prepared by the Department of Revenue, of any property tax revenue implications associated with tax increment financing districts and fiscal disparities;
- Procedures for a referendum to be held before the proposed combination to approve combining the local government units, and specifying the voter approval threshold requirements for the referenda; and
- A time schedule for implementation.

SOURCE: *Minnesota Statutes* 2011, 465.82, subd. 2.
### Table 2: Factors for Considering Consolidation, 2011

Factors for Consideration of Consolidation:

- Number of households; past, present, and projected populations.
- Quantity of land within the area; the natural terrain including physical features, general topography, major watersheds, soil conditions and such natural features as rivers, lakes and major bluffs;
- Present pattern of physical development, planning, and intended land uses in the area, and the impact of the proposed action on those uses;
- Present transportation network and potential transportation issues, including proposed highway development;
- Land use controls and planning presently being used in the subject area, including comprehensive plans, select plans and policies of the Metropolitan Council, and any inconsistencies between proposed development and existing land use controls;
- Existing levels of governmental services being provided to the subject area, including water and sewer service, fire rating and protection, law enforcement, street improvements and maintenance, administrative services, and recreational facilities; and the impact of the proposed action on the delivery of the services;
- Existing or potential environmental problems and whether the proposed action is likely to improve or resolve these problems;
- Fiscal impact on the subject area and adjacent units of local government, including present bonded indebtedness; local tax rates of the county, school district, and other governmental units, including, where applicable, the net tax capacity of platted and unplatted lands and the division of homestead and nonhomestead property; and other tax and governmental aid issues;
- Relationship and effect of the proposed action on affected and adjacent school districts and communities;
- Whether delivery of services to the subject area can be adequately and economically delivered by the existing government;
- Analysis of whether necessary governmental services can best be provided through the proposed action or another type of boundary adjustment;
- Degree of continuity of the boundaries of the subject area and adjacent units of local government; and
- Analysis of the applicability of the State Building Code.

**NOTES:** *Minnesota Statutes* 2011, 414.0325, reference the requirements listed in *Minnesota Statutes* 2011, 414.031, subd. 4. *Minnesota Statutes* 2011, 414.041, reference the requirements listed in *Minnesota Statutes* 2011, 414.02, subd. 3. Among the various processes, some factors differ slightly.

**SOURCES:** *Minnesota Statutes* 2011, 414.02, subd. 3; 414.031, subd. 4; 414.0325; and 414.041.
Further Reading


Feiock, Richard C., Hyung Jun Park, and In-Sung Kang. “City County Consolidation Efforts: Selective Incentives and Institutional Choice.” Presentation at the Korea Research Institute for Local Administration, April 2006.


April 10, 2012

Mr. James R. Nobles
Office of the Legislative Auditor
140 Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155-4708

Dear Mr. Nobles:

Thank you for the opportunity to respond to your report on Consolidation of Local Governments. Our office was glad to be of assistance in assembling some of the materials used to produce the report. As the most centralized source of information on consolidations, annexations and detachments, the Office of Administrative Hearings Municipal Boundary Adjustment Unit (MBAU) has a keen interest in this subject.

Having reviewed the report, we appreciate the thorough study and analysis that shed some light on a subject that suffers from many misconceptions. Notably, your report highlights the complexity involved in the consolidation process and the non-economic factors that play a large role in whether communities decide to consolidate. Another important finding of your report is the roles that the state government might effectively play in the consolidation process.

We agree that municipalities could use more information regarding the consolidation process. As the report notes, however, the MBAU is not staffed to provide in-depth support services and its role is limited to the more infrequent consolidations governed by Minnesota Statutes Chapter 414. Should the legislature decide that more state government supplied information or support be provided, the MBAU would be happy to assist in that process.

We would also like to comment on your recommendation to amend Minn. Stat. § 414.041, subds. 2-3, to allow for process-related waivers by the Chief Administrative Law Judge. The OAH does not take positions on policy initiatives and therefore has no position on this recommendation. Nevertheless, we believe that this would be workable and does not pose any significant costs or legal issues for the OAH.

Finally, our staff appreciates the positive working relationship developed during the data search process. We look forward to responding to any additional questions you or the legislature may have on this important topic.

Sincerely,

RAYMOND R. KRAUSE
CHIEF ADMINISTRATIVE LAW JUDGE
April 9, 2012

Mr. James R. Nobles
Office of the Legislative Auditor
Room 140, Centennial Building
658 Cedar St.
St. Paul, MN 55155

Dear Mr. Nobles,

Thank you for the opportunity to review and comment on your report on local government consolidation. We appreciate the thoughtfulness of the report, and believe you and your staff produced a well-written, insightful examination of the challenges involved in the process of government consolidation, as well as the opportunities that exist for increased collaboration among local governments. Most importantly, we are pleased that your report supports AMC’s position that consolidation efforts should continue to be led by local government representatives and citizens.

Too often, consolidation is viewed as a panacea for the rising cost of providing government services. But, as your report notes, consolidation of local governments does not guarantee cost savings or more efficient operations, and can have a major impact on service delivery, government responsiveness and citizen representation. AMC believes that local elected officials, citizens and property owners are best equipped to weigh the potential costs and benefits of consolidation, as compared to the savings and efficiencies that can be achieved through improved collaboration, cooperation and other redesign initiatives.

We are also proud of the reform and redesign efforts counties have undertaken in recent years, and appreciate the fact that your report highlights the fact that every single county that took part in your survey is using cooperative service agreements and other collaborative agreements to improve efficiencies, enhance the quality of services and reduce costs. Since 2003, AMC has been working with our member counties to cultivate a culture of innovation and to explore and embrace innovative proposals. Our efforts have been fueled by the belief that while our political boundaries may help identify us, they certainly do not define us, nor should they serve as an impediment to collaboration and reform.

Lastly, we agree with your report’s finding that the Legislature should provide enhanced direction and support to local government units that may be considering consolidation. If, as your report suggests, the Legislature believes counties should play an active role in administering state grants and providing education for locally-led consolidation efforts, AMC will gladly partner with the Legislature and the state in this effort.

Thank you again for the opportunity to comment on your report. Our organization appreciates the work of you and your staff in this important evaluation.

Sincerely,

[Signature]

Jeff Spartz
Executive Director
Forthcoming Evaluations

Preventive Maintenance for University of Minnesota Buildings, June 2012
Conservation Easements, Early 2013
Department of Human Services: State-Operated Services, Early 2013
Law Enforcement Databases, Early 2013
Medical Assistance Payment Rates for Dental Services, Early 2013
School Trust Lands, Early 2013
Special Education, Early 2013

Recent Evaluations

Agriculture
“Green Acres” and Agricultural Land Preservation Programs, February 2008
Pesticide Regulation, March 2006

Criminal Justice
Public Defender System, February 2010
MINNCOR Industries, February 2009
Substance Abuse Treatment, February 2006
Community Supervision of Sex Offenders, January 2005
CriMNet, March 2004

Education, K-12, and Preschool
K-12 Online Learning, September 2011
Alternative Education Programs, February 2010
Q Comp: Quality Compensation for Teachers, February 2009
Charter Schools, June 2008
School District Student Transportation, January 2008

Education, Postsecondary
MnSCU System Office, February 2010
MnSCU Occupational Programs, March 2009
Compensation at the University of Minnesota, February 2004

Energy
Renewable Energy Development Fund, October 2010
Biofuel Policies and Programs, April 2009
Energy Conservation Improvement Program, January 2005

Environment and Natural Resources
Environmental Review and Permitting, March 2011
Natural Resource Land, March 2010
Watershed Management, January 2007

Financial Institutions, Insurance, and Regulated Industries
Liquor Regulation, March 2006
Directory of Regulated Occupations in Minnesota, February 1999
Occupational Regulation, February 1999

Government Operations
Helping Communities Recover from Natural Disasters, March 2012

Government Operations (continued)
Fiscal Notes, February 2012
Capitol Complex Security, May 2009
County Veterans Service Offices, January 2008
Pensions for Volunteer Firefighters, January 2007
Postemployment Benefits for Public Employees, January 2007

Health
Financial Management of Health Care Programs, February 2008
Nursing Home Inspections, February 2005
MinnesotaCare, January 2003

Human Services
Child Protection Screening, February 2012
Civil Commitment of Sex Offenders, March 2011
Medical Nonemergency Transportation, February 2011
Personal Care Assistance, January 2009
Human Services Administration, January 2007
Public Health Care Eligibility Determination for Noncitizens, April 2006
Substance Abuse Treatment, February 2006
Child Support Enforcement, February 2006

Housing and Local Government
Consolidation of Local Governments, April 2012
Preserving Housing: A Best Practices Review, April 2003
Local E-Government: A Best Practices Review, April 2002
Affordable Housing, January 2001

Jobs, Training, and Labor
Workforce Programs, February 2010
E-Verify, June 2009
Oversight of Workers’ Compensation, February 2009
JOBZ Program, February 2008
Misclassification of Employees as Independent Contractors, November 2007
Prevailing Wages, February 2007

Miscellaneous
The Legacy Amendment, November 2011
Public Libraries, March 2010
Economic Impact of Immigrants, May 2006
Gambling Regulation and Oversight, January 2005
Minnesota State Lottery, February 2004

Transportation
Governance of Transit in the Twin Cities Region, January 2011
State Highways and Bridges, February 2008
Metropolitan Airports Commission, January 2003

Evaluation reports can be obtained free of charge from the Legislative Auditor’s Office, Program Evaluation Division, Room 140 Centennial Building, 658 Cedar Street, Saint Paul, Minnesota 55155, 651-296-4708. Full text versions of recent reports are also available at the OLA Web site: http://www.auditor.leg.state.mn.us