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To: William O. Armitage II, Executive Director, Biddeford-Saco Area Economic Development Corporation
From: Elena Papoulias and Robert Tannenwald
Date: May 28, 2008
Re: Inter-local government merger and management arrangements

This memo highlights some of the key aspects of local government consolidation and inter-local government collaboration efforts. Themes addressed in this memo include the cost-effectiveness of merger practices, the potential to achieve economies of scale in production, and the challenges of consolidation.

Defining terms and the central debate

Studies analyzing the costs and benefits of local government consolidation focus on two types of government merger practices: city-county consolidations and inter-local government management arrangements. The Wisconsin Shared Services report neatly traces the spectrum of government merger options and the National League of Cities provides detailed information on how to successfully proceed with any of these management relationships¹.

Inter-local government management relationships can take on varying degrees of consolidation from cooperation to coordination, collaboration or full-fledged consolidation. Cooperative relations are often informal, ad hoc arrangements designed to promote information sharing or to ease the sharing of resources on a specific project. Coordinated relationships are more formal contract relations where public goods and services are produced jointly and costs are shared. Short of consolidation, collaborative efforts or joint-powers arrangements involve tighter, more well-defined relationships where planning, decision-making and the creation and management of key structures and districts is shared. The most commonly studied merger is the city-county consolidation which involves the absorbing or annexing of a small village, town or city by a larger county to create a unified government structure. Government councils, where present, facilitate inter-local government management relations. In New England, inter-local collaborations are more common than consolidations; in the past ten years only Maine and Massachusetts have each consolidated one township while Vermont has consolidated four municipalities.²

¹ A similar reference guide detailing best procedures for designing inter-local government management relationships for Maine. *Handbook for Interlocal Cooperation Agreements in Maine* was published by the Maine Municipal Association and was updated in 2001.

² Data from the U.S. Bureau of the Census on Government, 1997 and 2007.

The debate centering on the decision to consolidate lies on two planes; one focuses on the public choice and regionalist perspectives³ and the other on the production and provision of goods. Public choice theorists, also known as polycentrists, support fragmentation arguing that local governments are more closely tied to their constituencies therefore better representing their interests while remaining accountable to them. Regionalists, also referred to as neo-progressives, argue that consolidated governments promote civic participation by addressing regional issues that fragmented governments cannot tackle. Regionalists also argue that only through consolidation can governments achieve economies of scale. Public choice theorists point out that economies of scale are not necessarily achieved in all industries; moreover, most of the evidence reviewed for this memo finds marginal efficiency gains resulting from economies of scale, while some of these marginal gains are offset by consolidation costs. The gray area between inter-local cooperation and full consolidation allows for the most politically feasible options to be explored.

What motivates consolidation or collaborative relationships?

Both public choice theorists and regionalists explore the elements driving consolidation efforts. For regionalists, demographic changes demand the need to reposition boundaries to better represent a population. In contrast, public choice theorists support Tiebout's "voting with their feet" hypothesis where citizens choose to live in communities with governments that more closely respond to their needs and meet their expectations. This trend is indeed observed in all of these studies, prompting regionalists to argue that segregation of diverse populations is a negative consequence of fragmentation that can only be rectified through consolidation. The merging of diverse populations, however, will lead to greater dissonance among the population and a "voting with their feet" trend will likely resume, according to public choice theorists who presuppose that heterogeneous populations have similarly heterogeneous aggregate interests. Most case studies reviewed for this memo subscribe to this belief as they find that consolidation is much easier with homogeneous populations that share similar interests.

Arguments in favor of consolidation also find that towns in fiscal distress are often inclined to consolidate with others. Indeed, regionalists argue that consolidated governments are more efficient. Many studies question these perceived efficiency gains as personnel costs tend to rise when municipalities consolidate (wages and salaries are "averaged up" to the highest earning bracket). Efficiency gains, however, are more strictly measured in terms of achieving economies of scale.

Most studies on consolidation agree that economies of scale are best achieved in the production of public goods which are capital-intensive. For this reason, water, electricity, waste management, or highway departments are examples of public goods often handled by inter-local management arrangements. The production of public services, a labor-intensive process, is not compatible with economies of scale. However, this does not prevent towns from entering into joint agreements in the production of public services if some efficiency gains can be met. This is best seen with emergency dispatch services.

³ For a more comprehensive discussion of this debate see the (now defunct) U.S. Advisory Commission on Intergovernmental Relations 1974 report, "The Challenge of Local Governmental Reorganization."

Provision versus production of public goods and services

The provision (taxing and spending decisions) and production (creation of public goods and services) plane of inter-local government arrangements analyzes the options for removing government from the production of public goods and services.⁴ Inter-local government collaborations are characterized by governments that both provide and produce the good or service, governments that create special districts that produce the good or service, or governments that contract out with a private group to produce that good or service. Governments often create special districts, vehicles through which inter-local collaborative arrangements can occur, in order to facilitate collaboration (these districts often benefit from certain tax laws). One such district, the Penobscot Energy Recovery Corporation (PERC) in Orrington, Maine, generates energy from waste and serves 130 towns. The creation of PERC was also facilitated by government councils including the Bangor Area Comprehensive Transportation System and the Eastern Maine Development Corporation. Similarly, Connecticut's Region Council of Governments (CRCOG) facilitated the creation of the CRCOG Natural Gas Procurement Consortium which serves many jurisdictions throughout the state.

Contracting out and the process of privatization

Inter-local government collaboration agreements sometimes contract out the production of certain public goods (this process is also referred to as a regional purchasing agreement). For example, six towns in Eastern Maine contract out their road and highway maintenance needs. Some obstacles do exist with this option. First, the availability of competitive contracts is essential in generating a fair market price for whatever good or service the government plans to buy. Even if contracting is the cost-effective option, it still eliminates town or union jobs which often make it politically unfeasible.

The literature agrees that privatization or contracting out is most efficient in a competitive environment where many potential bids exist and when monitoring production is easy so that efficiency gains can be observed. On the other hand, inter-local collaboration is the more efficient option when increasing the scale will increase the possibility of realizing economies of scale in certain industries, but not others, and when there is a fear of losing local autonomy. Because of their flexible nature, inter-local government arrangements allow for many governments to maintain their autonomy while uniting on certain issues. Krueger and McGuire (2005), Warner and Hebdon (2001), and Deller (1998) discuss privatization in this context.

Summary of findings

In sum, the studies reviewed for this article highlight some key procedures that make inter-local government cooperation or collaboration successful. They include:

- Coordinate production in capital-intensive production of public goods where economies of scale can be realized.
- Government councils facilitate cooperative relations.
- Competitive contracting must exist to make privatization an efficient option.
- Consolidation does not necessarily lead to efficiency.

⁴ For a comprehensive discussion on the provision versus production debate see the (now defunct) U.S. Advisory Commission on Intergovernmental Relations 1987 report, "The Organization of Local public Economies."

- Allow local governments to maintain their autonomy by avoiding politically unfeasible consolidation attempts and instead entering into collaborative relationships. Consolidation might make sense in sparsely populated areas where production of goods and services is difficult and expensive; consolidation processes are long and require full support of communities.

The following studies analyze the debate on consolidation in the abstract. While they are not case studies, their conclusions draw on historical data and selected examples. These articles provide a clear base for any discussion on consolidation or any other type of inter-local government management arrangement.

- Bish, Robert L. "Local Government Amalgamations: Discredited Nineteenth-Century Ideals Alive in the Twenty-First." *C.D.Howe Institute*, March 2001.
- Bridges, Eric. "The Consolidation of Local Government: Assessing the Service and Financial Implications of the Village of Fillmore Dissolution." Municipal Partnership Demonstration Project, New York, 1997.
- Deller, Steven C. "Local Government Structure, Devolution, and Privatization." *Review of Agricultural Economics*, 20(1), 1998.
- Feiock, Richard C, et al.. "City County Consolidation Efforts: Selective Incentives and Institutional Choice." Prepared for the Korea Research Institute for Local Administration, April 2006.
- Rosenbaum, Walter A. and Thomas A. Henderson. "Explaining Comprehensive Governmental Consolidation: Toward a Preliminary Theory." *The Journal of Politics*, May 1972.
- Schneider, Mark. "Fragmentation and the Growth of Local Government." *Public Choice*, Volume 48, 1986.
- Staley, Sam. "Bigger Is Not Better: The Virtues of Decentralized Local Government." Cato Policy Analysis No.166, *Cato Institute*, 1992.
- Stephens, G. Ross. "State Centralization and the Erosion of Local Autonomy." *The Journal of Politics*, 36(1), 1974.
- Warner, Mildred and Robert Hebdon. "Local Government Restructuring: Privatization and Its Alternatives." *Journal of Public Policy Analysis and Management*, 20(2), 2001.

The following are studies modeling the effects of collaborative efforts in specific instances. Some trends can be teased out from these results.

- Deller, Steven C. and Edward Rudnicki. "Managerial Efficiency in Local Government: Implications on Jurisdictional Consolidation." *Public Choice* 74 (2), September 1992. (Attached)
- Deller, Steven C., Nelson, Carl H. and Walzer, Norman. "Measuring Managerial Efficiency in Rural Government." *Public Productivity and Management Review*, 15(3), Spring 1992.
- Krueger, Skip and Michael McGuire. "A Transaction Costs Explanation of Interlocal Government Collaboration." *Wayne State University*, 2005.

The following are comprehensive case studies of inter-local government collaboration efforts that emphasize the cost-effectiveness of various collaborative efforts.

- Boyd, Donald. "Layering of Local Governments and City-County Mergers." *Rockefeller Institute of Government*, March 21, 2008. (Attached).
- Campbell, Richard W. and Selden, Sally Coleman. "Does City-County Consolidation Save Money? The Unification of Athens-Clarke County Suggests It Might." *Carl Vinson Institute of Government*, University of Georgia, March 2000.

- Galambos, Eva. “Sandy Springs: A case study on centralization of local government.” *Georgia Public Policy Foundation*, 1999. (Attached)
- ICMA Program Award Nomination for CRCOG’s Natural Gas Procurement Consortium, *International City/County Management Association*. (Attached)
- “Penobscot Valley: Prudent Investments Linking Our Towns: A Report on Education, Housing, and Capital Planning Opportunities.” *Margaret Chase Smith Policy Center*, University of Maine. (Attached)
- “Wisconsin Shared Services Report”, Shared Services Committee. *International City/County Management Association*, 2005. (Attached)

The following articles are published by nongovernmental groups, associations or think-tanks.

- *National League of Cities* (2006). “A Guide to Successful Local Government Collaboration in America’s Regions.” (Attached)
- *The Brookings Institution* (July 2002). Gale, William G., Rothenberg Pack, Janet, and Samara R. Potter. “Problems and Prospects for Urban Areas”, Policy Brief, Conference Report #13.