

Local Government Efficiency and Size in Illinois: *Counting Tax Revenues, Not Governments*

Prepared for the
Township Officials of Illinois
By Wendell Cox

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EXECUTIVE SUMMARY

1. The Illinois Financial Crisis

There is considerable concern about the fiscal situation in the state of Illinois. The Illinois financial crisis is, broadly speaking, the result of taxes, spending and debt that is too high. There is general agreement that strong steps need to be taken to improve financial performance.

The financial crisis has generated a number of policy proposals. One of these is to reduce the number of local governments through consolidation or abolishment. A fundamental assumption of proponents is that the high levels of taxation in Illinois are significantly driven by the states large number of local governments, the highest figure in the nation. This view assumes that larger governments tax and spend less per capita, a “bigger is better” perspective. Moreover, township governments have been a regular subject for proposed consolidations and abolishment.

This report examines the extent to which size of government is associated with lower taxation and spending (and borrowing) per capita. Illinois State Comptroller data is used to evaluate these factors by size of municipal government. Further, township financial performance is compared to that of other governments in the state. Finally, the Illinois situation is compared to that of other states.

The report provides a review of the potential for local government consolidations and abolishments to play a material role in solving the Illinois financial crisis.

2. Illinois Government Fiscal Performance by Size

The analysis indicates that, in 2014, there was a strong relationship between the size (population) of local governments and their fiscal performance. Overwhelmingly, greater financial resources were required as the size of local government increased. Larger governments required more overall total tax support per capita (including local taxation and state taxation used by local governments), taxed more per capita, and spent more per capita. Larger units of government also tended to borrow more per capita than smaller units of government. These relationships are the opposite of what is expected by the “bigger is better” perspective.

To provide value for taxpayers, it is necessary for governments to pay no more than necessary for the goods and services they purchase, including labor. Labor indicators were examined because labor generally represents the largest expenditure item of local government. It was found generally that smaller governments tend to rely on less expensive, part-time labor to a substantially greater degree than larger governments. Further, salaries tended to be substantially lower in smaller units of government, rather than larger units of government.

The results from all of the indicators reviewed are counter to the “bigger is better” assumption. This is further illustrated by an analysis showing that smaller municipal governments tend to collect local taxes that are considerably lower than their percentage of the population.

3. Township Financial Performance

Township financial performance cannot be directly compared to that of cities, villages and towns on a per capita basis because the two types of governments have substantially differing functions. Nonetheless, township performance can be compared at the overall level.

Townships have had a smaller increase in taxation than any other type of government in the state (state, county, municipality, school district and special district) over the past 20 years. Further, township wages and salaries were less than those of other types of Illinois governments. These are indications that township government may be less costly than other local governments.

4. Illinois Compared to Other States

While Illinois has more governments than the other states, when adjusted for population, Illinois ranks 15th. A review of population adjusted governments and taxation per capita among the 50 states in the case of virtually no relationship between the two variables. This may be best illustrated by Hawaii and Maryland, which have fewer population adjusted governments than any other states. Yet in these two states both rank in the top 10 in taxation per capita (and higher than Illinois).

5. Academic Research

Theoretical assertions and feasibility studies often suggest that consolidations and abolishments save money. However, the literature on consolidation and abolishment rarely shows, little or no savings after consolidations and abolishments have been implemented.

6. Underlying Factors

Perhaps the most important reason that consolidations and abolishment result in higher costs is that it is typical for labor costs to be leveled up to the rates of the more expensive government. For example, should functions be transferred from townships, with their generally lower cost structure, the costs of the transferred services could increase.

7. Counting Tax Revenues, Not Governments

Property taxes are assessed in dollars and have no relationship to the number of governments in an area. The preponderance of the evidence in Illinois shows that smaller municipal governments tend to tax less, spend less, and borrow less than larger municipal governments. Transferring services from the lower cost townships to other levels of government could increase costs. Forcing consolidations and abolitions of local governments could increase taxes and spending.

1. THE ILLINOIS FINANCIAL CRISIS

There is considerable concern about the fiscal situation in the state of Illinois. The Illinois financial crisis is, broadly speaking, the result of taxes, spending and debt that is too high. There is general agreement that strong steps need to be taken to improve financial performance.

As proposals are considered to address the Illinois financial crisis, one strategy is often cited --- consolidation or abolishment¹ of some local government units. This is often predicated on the fact that Illinois has the largest number of local governments in the United States, and an assumption that this leads to higher costs for taxpayers. It is, for example, not untypical for proponents of consolidation and abolishment to refer to the number of lines (taxing entities) on a listed on property tax bill, and to characterize that that as evidence of higher taxes and spending. Proponents of consolidation and abolition have also contended that there is duplication of services between governments, such as between cities, villages and towns and townships. Local governments have defined geographical areas of services and only one government provides the same service within a particular service area.

At the same time, townships have received an extraordinary amount of attention as candidates for abolishment. Consolidation and abolishment advocates assume that the public services performed by townships can be readily assumed by other units of government, with savings for taxpayers. This is not likely to be the case, principally because of the lower cost structure of townships.

These claims, based upon an assumption that larger units of government are less costly per capita than smaller units of government are often supported by anecdotal evidence, but rarely (if ever) by systematic or comprehensive analysis of actual financial performance. In the absence of such evidence, consolidations and abolishments have little or no potential for reducing and present virtually no potential for improving the financial situation of Illinois.

A few years ago, the Township Officials of Illinois retained Wendell Cox Consultancy to review these questions. The resulting policy report *Townships and Local Democracy in Illinois: A Report to the People* found that larger local government units in Illinois tended to be more costly per capita than smaller ones. The report further found that the available indicators of financial performance between townships and other local units of government were generally positive.²

This report, also commissioned by the Township Officials of Illinois provides an updated review of the potential for local government consolidations and abolishments to play a material role in solving the Illinois financial crisis.

This report examines taxing, expenditures and borrowing by Illinois cities, villages and towns to identify patterns with respect to size (size being defined as population). The analysis also includes measures of employment and labor costs. There is also a comparison, from available resources, of township financial performance and other types of government in Illinois.

These issues are analyzed using the latest data (2014) from the state of Illinois Comptroller's office, with additional data from the US Bureau of the Census and other sources.

¹ For the purposes of this report, consolidation and abolishment are considered to be the same. In either case, there is a reduction in the number of governments.

² Wendell Cox, *Local Democracy and the Townships of Illinois: A Report to the People*, Township Officials of Illinois, 2011. <http://www.demographia.com/IL-CoxReport2011.pdf>

2: ILLINOIS GOVERNMENT FISCAL PERFORMANCE BY SIZE

This section analyses financial and labor data by size (population) of cities, villages and towns (municipalities) in the state. The latest State Comptroller of Illinois government database was used, which includes reports from 1,281 reporting cities, villages and towns.

The analyses were divided into two further groups, the 6-county Chicago area (“Chicagoland”) and Downstate, comprising the rest of the state. The purpose of this division was to assess the extent to which any findings are a reflection of geographical location within the two great functional areas of the state.

Jurisdiction medians are used, which reflect the numeric value for the municipality in the middle of the distribution.

2.1 Overall Financial Performance

Annual comparisons are provided for state and local tax support, local taxation, expenditures and debt per person (per capita or per citizen), based on jurisdiction population categories.

State and Local Tax Support per Capita

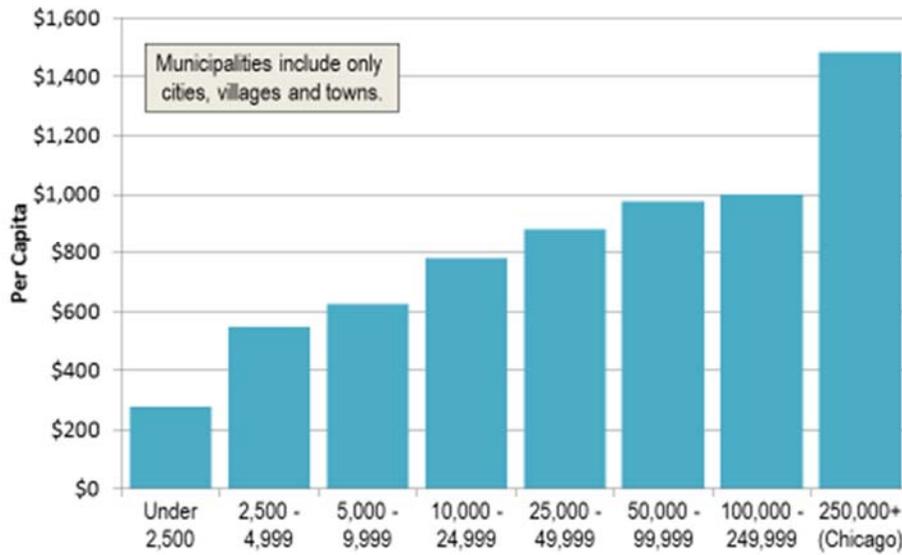
The data indicates that state and local tax support per capita tends to rise strongly as jurisdiction population increases, in a “stair step” relationship. This is contrary to the “bigger is better” perception.

State and local support includes both local tax revenues and state tax revenues used by cities, villages and towns (state income tax, state sales tax, state motor vehicle tax and state replacement tax). The lowest median jurisdictional state and local tax support is in the smallest population category (under 2,500 residents), at \$280. This rises to \$550 in the second smallest category (2,500 to 4,999 residents). Median state and local tax support rises in each higher population category, reaching \$1,000 in the second largest (100,000 to 249,999) and \$1,480 in the largest (250,000 and over). This largest population category includes only the city of Chicago (Figure 1).

Perhaps the best comparison for policy purposes is between the population categories that exclude the smallest population category and the largest (Chicago), which generally have substantially more positive and less positive financial results. Excluding these categories, median state and local tax support nearly twice as high in the second largest category (100,000 to 249,999) as in the second lowest category (2,500 to 4,999).

The same general relationship, indicating higher median state and local tax support in larger, rather than smaller cities, villages and towns is evident both in the 6-state Chicago area and Downstate (Figure 2).

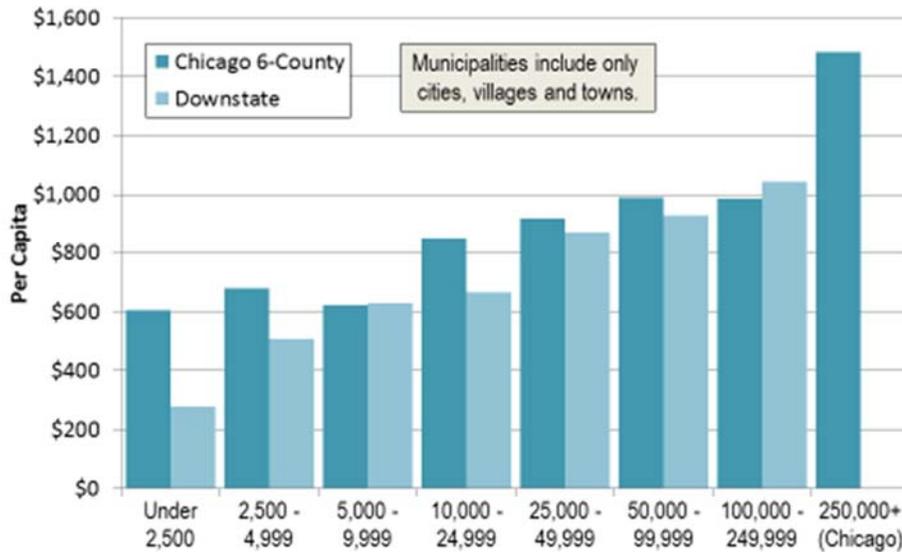
Median Local & State Tax Support per Capita ILLINOIS MUNICIPALITIES: 2014 BY POPULATION



From: Illinois Comptroller data.

Figure 1

Median Local & State Tax Support per Capita CHICAGO & DOWNSTATE MUNICIPALITIES BY POP.



From: Illinois Comptroller data.

Figure 2

Local Taxation per Capita

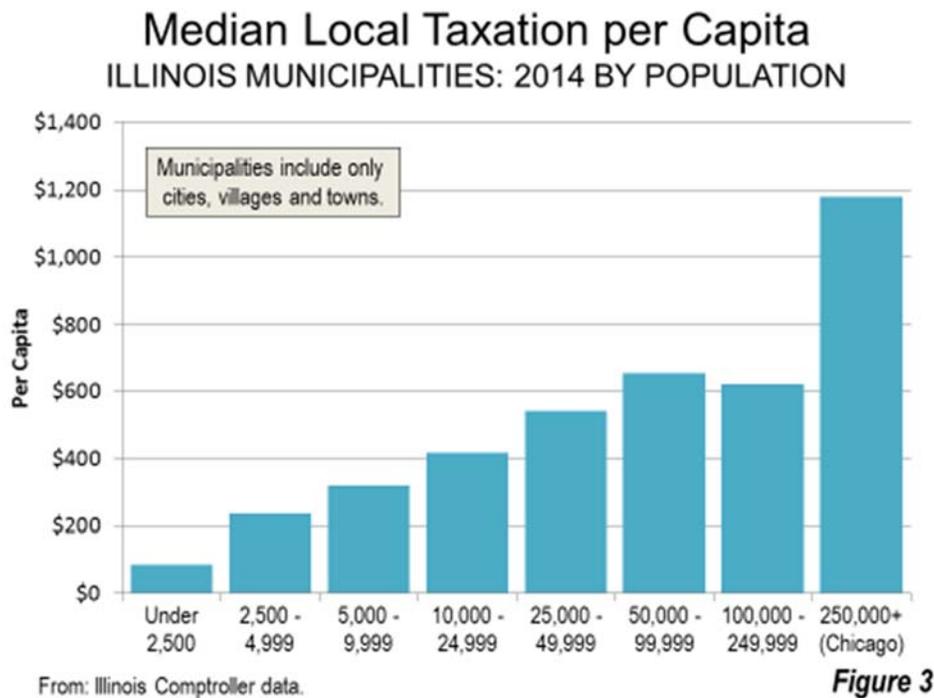
Much of the concern raised about the costs of multiple governments has been related to high local taxes.

The data indicates that median local taxation per capita tends to rise strongly in a “stair step” relationship, as jurisdiction population increases. This is contrary to the “bigger is better” local government perception.

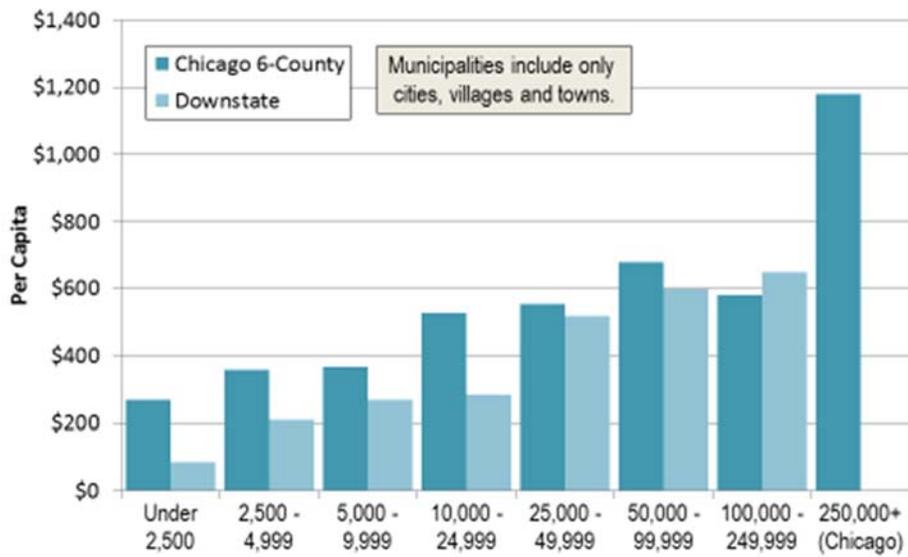
Statewide, the smallest municipal governments (under 2500 residents) had the lowest median local tax revenues per capita, at approximately \$90 annually. The next larger category (2500 to 4999 residents) had the second lowest median tax revenues per capita at approximately \$240 annually. Per capita local taxation generally rose through the population categories to approximately \$620 annually in the second-largest category (100,000 to 249,099 population). The largest category, with just the city of Chicago, had median per capita local tax revenues of approximately \$1180 annually (Figure 3).

Excluding the largest and smallest categories (cities, villages and towns under 2,500 population and Chicago) median state and local tax support was approximately 2.5 times as high in the second largest category (100,000 to 249,999) as in the second lowest category (2,500 to 4,999).

Similar trends, indicating an association between higher median local taxes per capita and larger units of government is indicated both in the 6-county Chicago area and Downstate (Figure 4).



Median Local Taxation per Capita CHICAGO & DOWNSTATE MUNICIPALITIES BY POP.



From: Illinois Comptroller data.

Figure 4

Expenditures

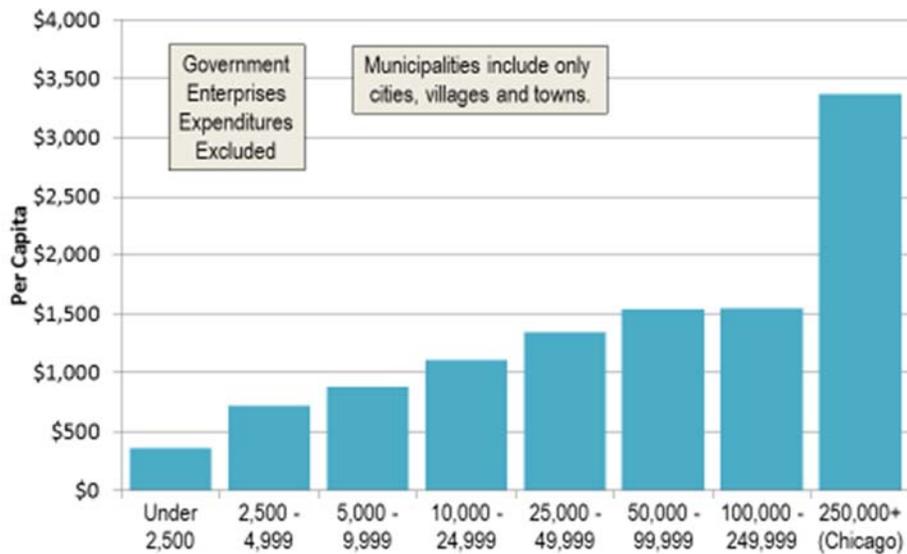
Expenditures per capita (excluding government enterprises such as municipally owned utilities) were reviewed for reporting cities, villages and towns. Expenditures per capita, like taxation, tend to be higher in larger jurisdictions, indicating “stair step” relationship. This is also contrary to the “bigger is better” conception of local government finance.

Median expenditures per capita were lowest in the smallest population category (under 2500 residents), at approximately \$360 annually. In the second smallest population category (2500 to 4999 residents), median expenditures per capita were \$720 annually. This generally rose through the larger population categories to \$1540 annually in the second largest category (100,000 to 249,999 residents). The largest population category, which includes only Chicago had median expenditures per capita of approximately \$3370 annually (Figure 5).

Excluding the largest and smallest categories (cities, villages and towns under 2,500 population and Chicago) expenditures per capita were more than twice as high in the second largest category (100,000 to 249,999) as in the second lowest category (2,500 to 4,999).

As with the measures of taxation, there was a strong association between higher median expenditures per capita and larger units of government in both the 6-county Chicago area and Downstate (Figure 6).

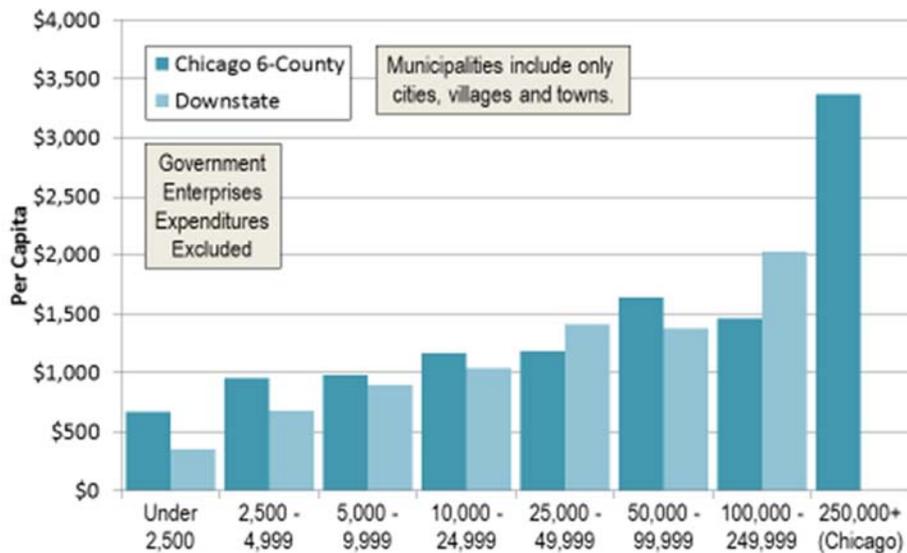
Median Expenditures per Capita ILLINOIS MUNICIPALITIES: 2014 BY POPULATION



From: Illinois Comptroller data.

Figure 5

Median Expenditures per Capita CHICAGO & DOWNSTATE MUNICIPALITIES: 2014 BY POP.



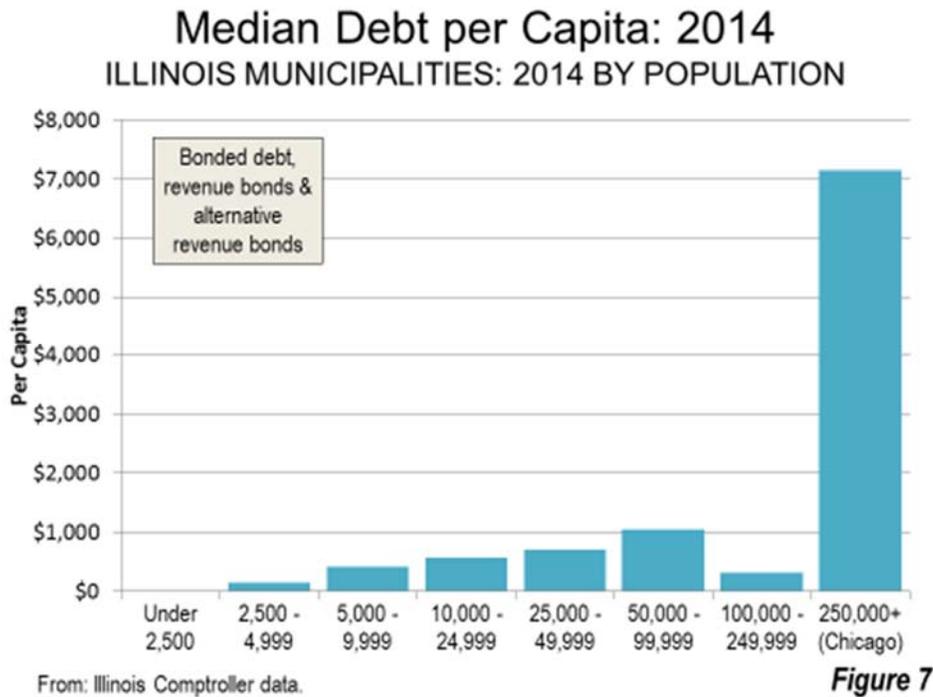
From: Illinois Comptroller data.

Figure 6

Debt

Compared to taxes and expenditures, there is less of a “stair step” relationship between per capita levels of debt³ and government size. However the overall relationship indicates that larger governments tend to have greater debt per capita. This does not, however, apply to all categories. For example, the second highest population category (100,000 to 249,999) has median debt per capita less than all categories except those with under 5000 population. With this exception, however, the “stair step” relationship remains apparent (Figure 7)

There was a strong association between higher median debt per capita and larger units of government in both the 6-county Chicago area and Downstate, with the exception of the 100,000 to 249,999 population category in the Chicago area (Figure 8).



³ The analysis uses debt at the beginning of fiscal year 2013-2014.

Median Debt per Capita: 2014 CHICAGO & DOWNSTATE MUNICIPALITIES BY POP.

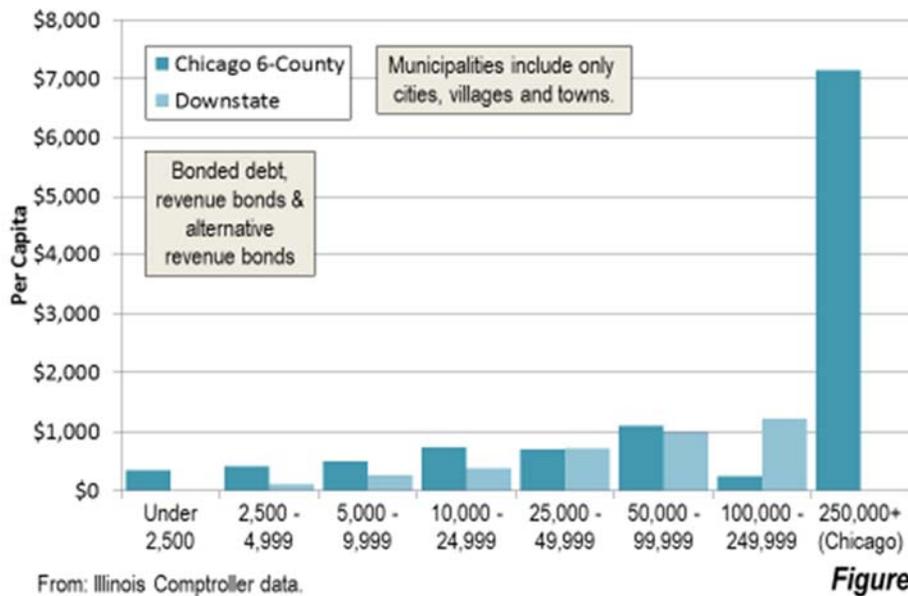


Figure 8

2.2 Labor Indicators

Minimizing taxes requires spending that reflects the purchase of goods and services, including labor, at costs that are no more than necessary (that is, consistent with “market” prices). Labor is generally the largest expenditure item in local governments.

Full-Time and Part-Time Employment

Some Illinois cities, villages and towns make extensive use of part-time labor.

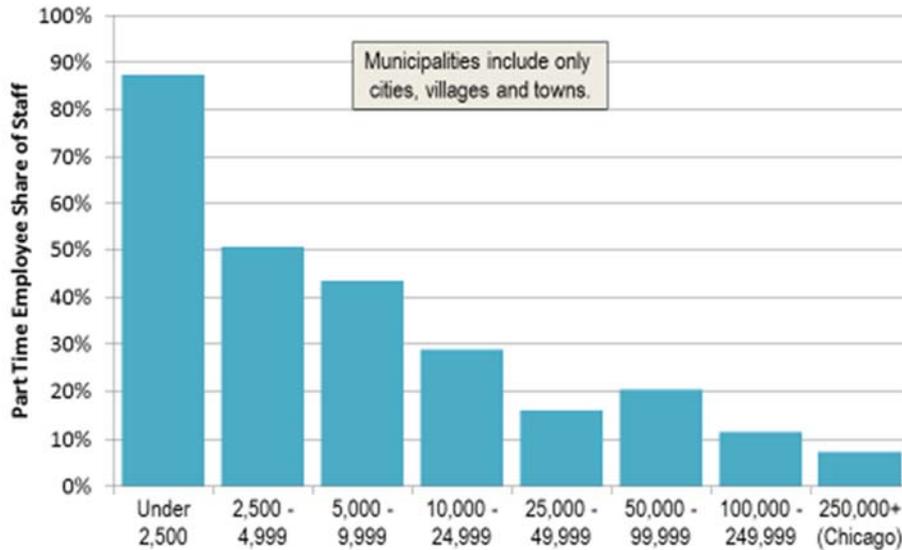
Generally, part-time labor is used to a greater degree in the smaller cities, villages and towns. Because part-time labor tends to be less expensive, this also undermines the “bigger is better” perception.

Among the smallest cities, villages and towns (under 2500 residents), 88 percent of employees are part-time. In the next higher population category, (2500 to 4999 residents), the part-time employment share is approximately 50 percent. The lowest part-time employment share is in the largest population category (250,000 and over), which is the city of Chicago, at 7 percent (Figure 9).

Excluding the largest and smallest categories (cities, villages and towns under 2,500 population and Chicago) part time employment was more that hour times as high in in the second smallest population category (2,500 to 4,999 residents) as in the second largest population category (100,000 to 249,999).

Higher part-employment shares are associated with smaller governments, both in the 6-county Chicago area and Downstate (Figure 10).

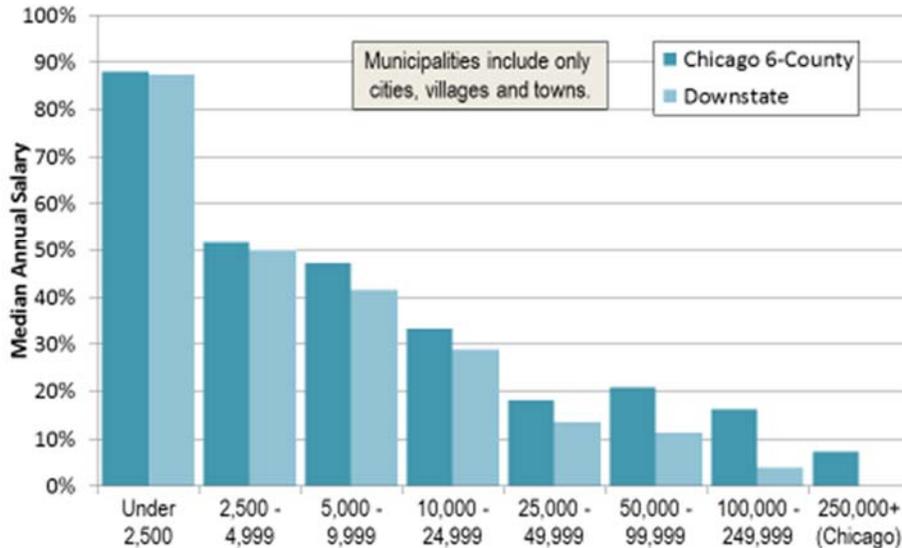
Part Time Employment ILLINOIS MUNICIPALITIES: 2014 BY POPULATION



From: Illinois Comptroller data.

Figure 9

Part Time Employment CHICAGO & DOWNSTATE MUNICIPALITIES BY POP.



From: Illinois Comptroller data.

Figure 10

Salaries

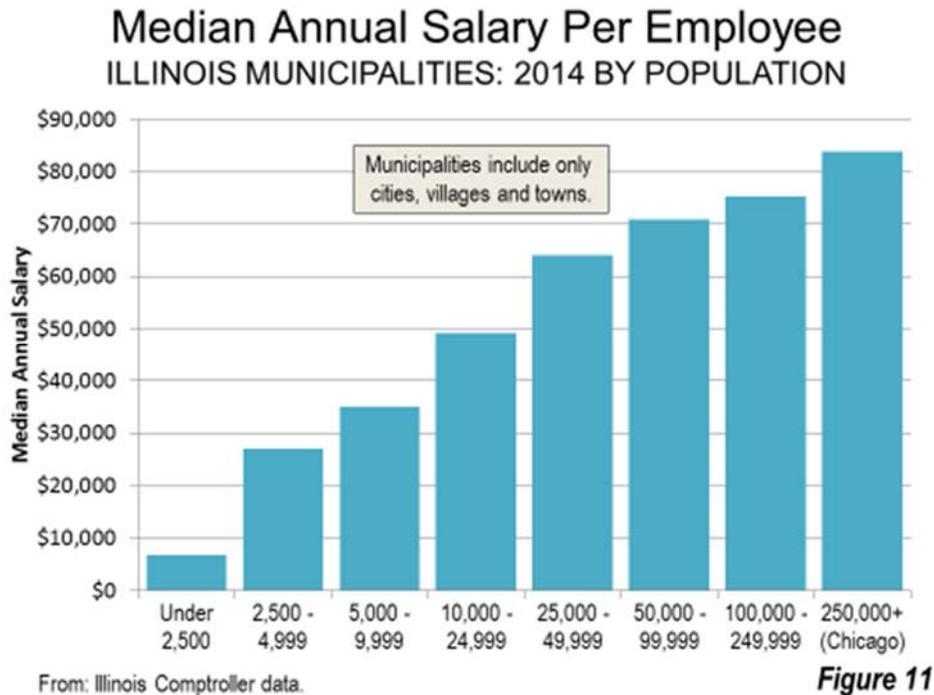
Median employee salaries also rise with population.

The lowest median salaries were in the smallest population category (under 2500 residents), at approximately \$7000 annually.⁴ In the second smallest category (2500 to 4999 residents), the annual median salary was \$27,000. In the second largest population category (100,000 to 249,999 residents) the median annual salary was \$75,000. In Chicago, the median annual salary was \$84,000 (Figure 11).

The median annual salary in the second largest population category (100,000 to 249,999 residents) was nearly 3 times as high as in the second smallest population category (2500 to 4999 residents).

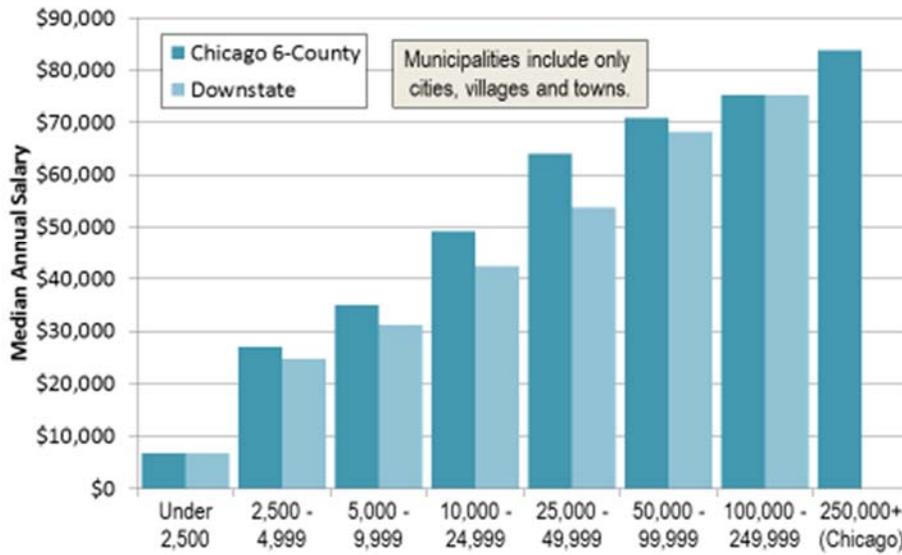
Both in the 6-county Chicago area and Downstate, median salaries tend to be higher in the larger cities, villages and towns (Figure 12).

This data, however is limited, because it does not indicate the extent of full-time and part-time employment (in hours worked). More complete data from the US Census Bureau is provided by type of government level in Section 3.2.



⁴ Rounded to the nearest \$1000.

Median Annual Salary Per Employee CHICAGO & DOWNSTATE MUNICIPALITIES BY POP.



From: Illinois Comptroller data.

Figure 12

2.3: Summary of Performance

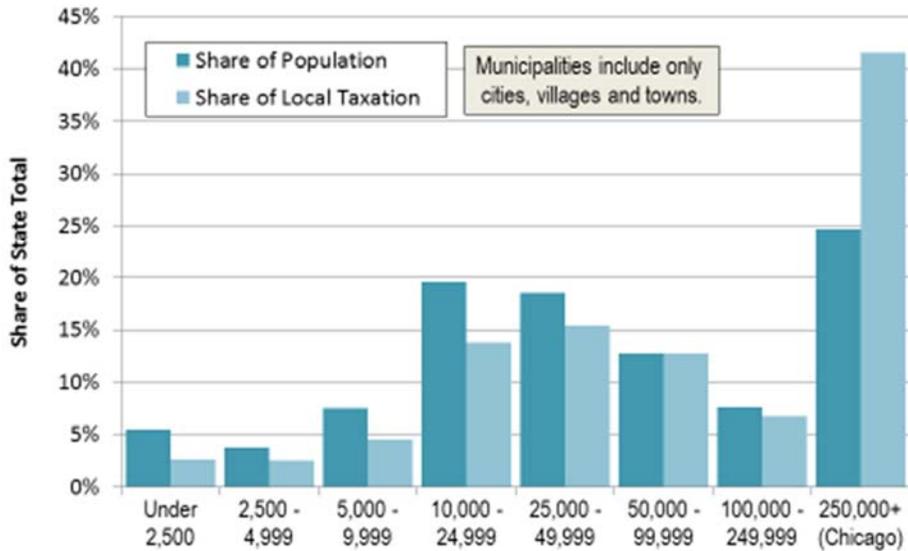
As is noted above, there is a strong relationship between the size of cities, villages and towns in Illinois and their financial performance. In all three general financial indicators reviewed, the data shows that smaller governments, rather than larger governments, tax less per capita, spend less per capita and borrow less per capita. This is the opposite of the “bigger is better” assumption. To some degree, these differences indicate variations in services provided and service levels and differing cost structures are also an important issue. However, in a state deeply concerned about the level of taxes and spending, choices about services, service levels and cost structures are an important contributor to the financial distress.

Another way to look at financial performance is to compare the share of taxing, spending and borrowing in the population categories to their population shares. Local Taxation is used as an example.

Generally, the share (percentage) of the local taxation statewide is less in the smaller population categories and rises in the larger categories (though the largest category is the only one in which the local taxation share exceeds the population share (Figure 13).

The relationship is clearer, if Chicago is excluded from the analysis. Even without Chicago, larger cities, villages and towns tend to tax at a rate more than proportionate to their population (Figure 14).

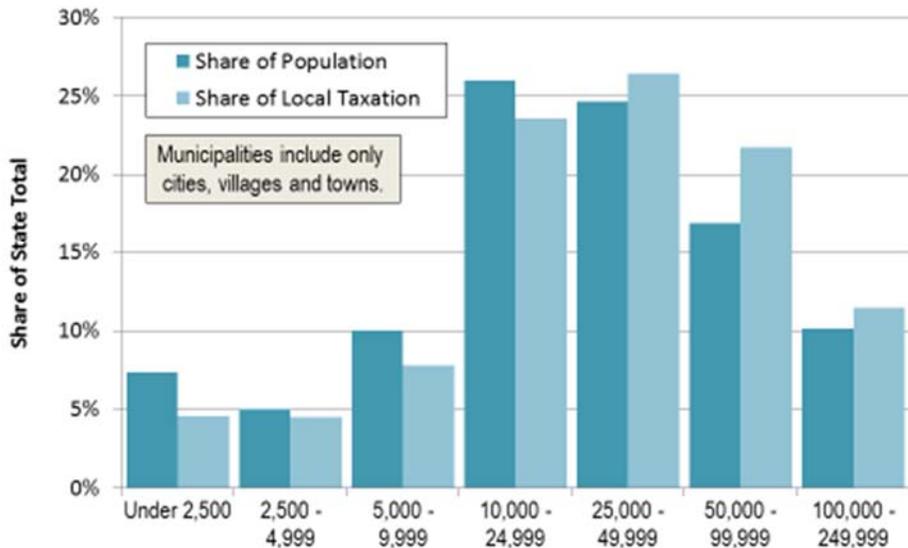
Share of Local Taxes Compared to Population ILLINOIS MUNICIPALITIES: 2014



From: Illinois Comptroller data.

Figure 13

Share of Local Taxes Compared to Population ILLINOIS MUNICIPALITIES (EXCLUDING CHICAGO): 2014



From: Illinois Comptroller data.

Figure 14

3. TOWNSHIP FINANCIAL PERFORMANCE

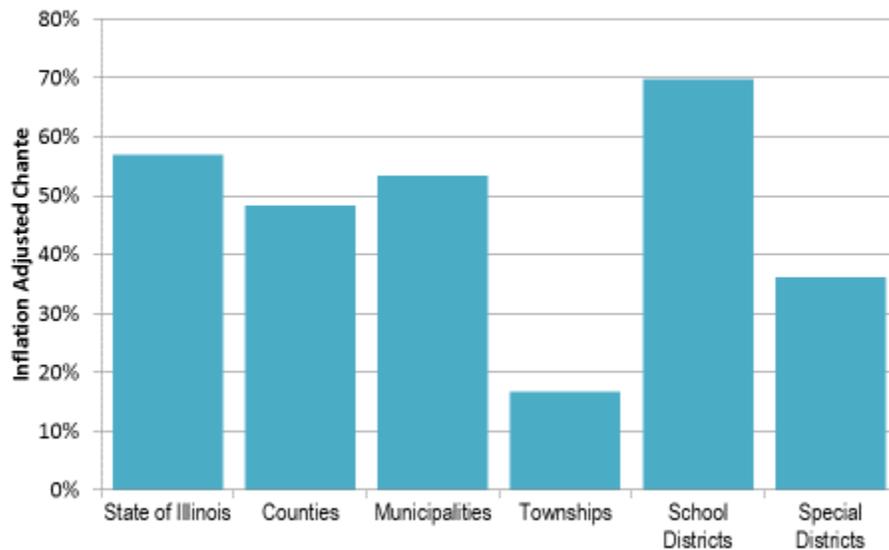
Township financial performance cannot be directly compared to that of cities, villages and towns on a per capita basis because the two types of governments have different functions. This refutes the claim that there is duplication of services between cities, villages and towns and townships. With respect to each public service, townships and cities, villages and towns have exclusive, non— overlapping service areas.⁵

Township services mandated by state law include general assistance, property tax assessment and roads and bridges.

Spending Trend

The favorable fiscal performance of townships is illustrated by their expenditure increase compared to other types of governments in the state. Township government expenditures have risen much less than those of the state and other locals government (counties, cities, villages and towns, school districts and special districts⁶). According to Census Bureau financial data, township expenditures rose 17 percent (adjusted for inflation) between 1992 and 2012 (Figure 15). By contrast, the expenditures of other local government types rose from more than double to more than quadruple that rate (36 percent to 70 percent). State government expenditures rose nearly four times the rate of township expenditures, at 64 percent.

Expenditure Increase by Type of Government
ILLINOIS: 1992 TO 2012: INFLATION ADJUSTED



From: Census Bureau Financial Data.

Figure 15

⁵ An apparent exception is where a jurisdiction contracts a function, such as roads, to another jurisdiction. However, the administration of the particular service remains under the control of the contracting government, which is likely to have entered into the arrangement to improve service. In such an arrangement, there is no duplication of service, since one governmental unit provides the service in any particular geographic area.

⁶ Special districts can be very large. In the Illinois Comptroller databased used in this report, four of the seven largest local governments were special districts, including the Chicago Transit Authority, the Regional Transit Authority, the Metropolitan Water Reclamation District of Greater Chicago and the Chicago Park District.

Wage and Salary Comparison

As noted above (Section 2.2) , the Illinois Comptroller government finance survey does not provide full-time equivalent data, which makes it difficult to compare employee salaries between types of governments.

However, the US Census Bureau surveys governments on an annual basis to obtain salary data, as well as full-time, part-time employee data and part-time hours worked.

An analysis was performed to estimate the average salary in 2013 for full-time employees by types of government in Illinois (the state, counties, cities, villages and towns, townships, school districts and special districts).⁷ The highest full-time average salaries were in the special districts, at \$76,600 annually and the cities, villages and towns, at \$76,300 annually. Both of these figures were more than 55 percent higher than the lowest average salary, which is in the townships (\$49,100). Average county salaries were approximately 20 percent higher than townships, at \$59,700. School district salaries were approximately 30 percent higher than those of townships, at \$63,400. States salaries were approximately 40 percent higher than townships salaries, at \$68,400 (Figure 16).

Townships also had the lowest average wage per hour for part time employees. Cities, villages and towns were at approximately the same rate, only 1 percent higher. Counties and special districts had average part-time wages that were 5 percent higher than townships, while the state and school districts had hourly wages 20 percent and 24 percent respectively higher than townships (Figure 17).

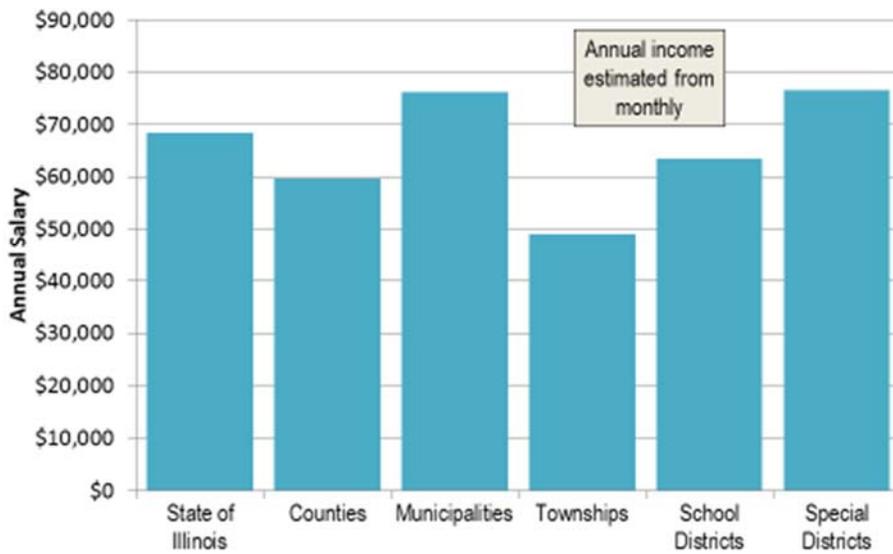
Further, township governments employ part time labor to a much larger extent than other types of Illinois government (Figure 18). This not only saves on wages and salaries. It also makes the cost of benefits lower.

Township Cost Structures

These data provide evidence of generally better financial performance by the townships of Illinois. Their increase in tax revenues has been less than that of any other government type over the past two decades. The high part time labor component and generally lower salaries and hourly wages suggest a lower cost labor structure, which is important because of the high labor share of expenditures.

⁷ Special districts can be very large. Among the governments in the State Comptroller's database, four of the seven largest in annual expenditures are special districts (Chicago Transit Authority, Regional Transit Authority, Metropolitan Water Reclamation District of Greater Chicago and the Chicago Park District. The three largest governments were the city of Chicago, Cook County and DuPage County. School districts are not included in the State Comptroller's database.

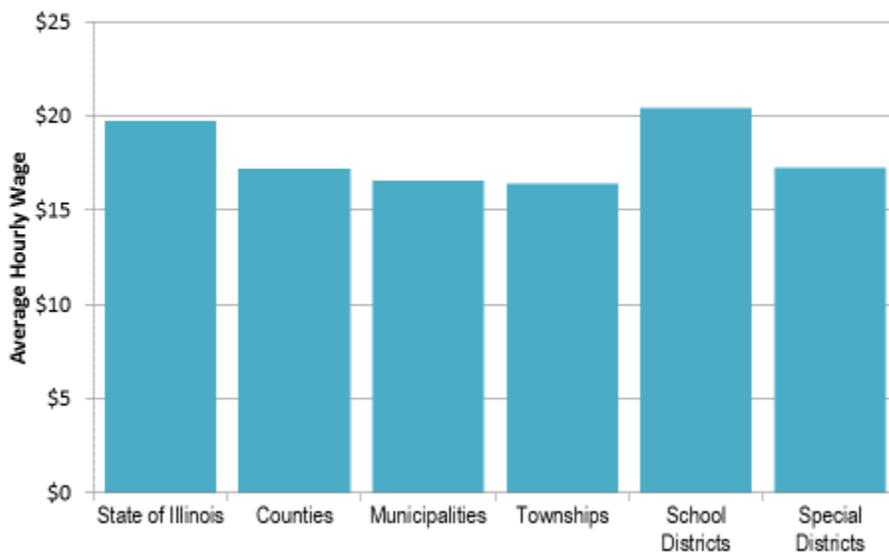
Average Salary by Type of Government ILLINOIS: FULL TIME EMPLOYEES: 2013



From: Census Bureau Financial Data.

Figure 16

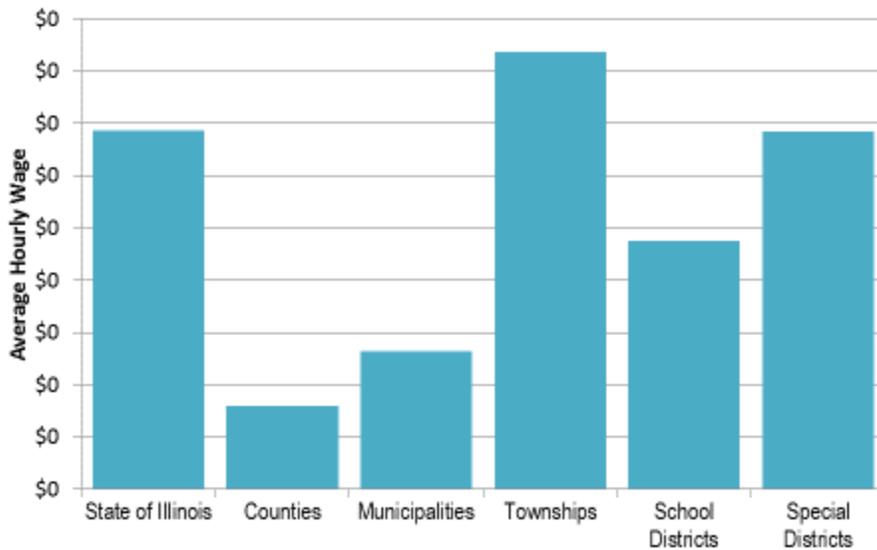
Average Wage by Type of Government ILLINOIS: PART TIME EMPLOYEES: 2013



From: Census Bureau Financial Data.

Figure 17

Part Time Employee % BY TYPE OF GOVERNMENT: MARCH 2013



From: Census Bureau Financial Data.

Figure 18

4. ILLINOIS COMPARED TO OTHER STATES

The assumption that a smaller number of governments will be less costly may seem temptingly obvious; however, as in Illinois, it is not borne out by data in other states.

The claim that Illinois has the most governments can be misleading. Illinois ranks at the 5th largest state in population and would be expected to have more governments than average, all things being equal. When adjusted for population, Illinois ranks 15th in the number of governments out of the 50 states. On a population adjusted basis, North Dakota has seven times as many local governments as Illinois.⁸

There is no general relationship between the amount of taxation in a state and the number of local governments (Box). This is indicated by an examination of the 10 states with the highest per capita taxation (Table). Three of the states are among the top 10 in their population adjusted number of local governments, North Dakota, Wyoming and Minnesota. As is indicated above, Illinois is not in this top 10. The average ranking of the 10 highest taxing states in population adjusted governments is 29, slightly higher than the midpoint (26) among the 50 states. Fewer governments does not translate into lower government expenditures or taxes.

The top ten in per capita ranking also includes the two states with the *least* number of population adjusted governments, Maryland and Hawaii, indicating that they have the least number of governments adjusted for population.

Hawaii has the most consolidated form of local governments in the nation. The state includes just three counties and one municipality (Honolulu). There are no school districts, since all schools are under the

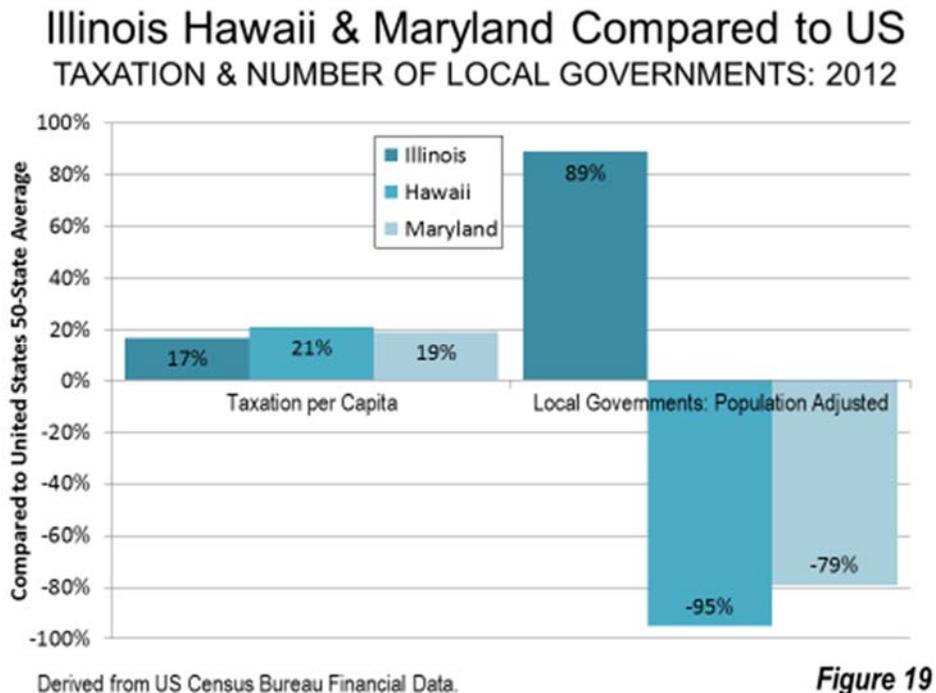
⁸ In 2012, Illinois had 541 local governments per million population. By comparison, North Dakota had by largest number of governments per million population, with approximately 3,800.

direct jurisdiction of the state. There are also 17 soil conservation districts. Hawaii has a total of only 21 local governments, or 15 local governments per million population.

Per capita taxation is lower in Illinois than in either Hawaii or Maryland, despite their far smaller population-adjusted number of governments (Figure 18).

Rank:	State	Taxation per Capita	Governments per Million Population	Rank
1	Alaska	\$ 11,871	242	31
2	New York	\$ 7,739	176	35
3	North Dakota	\$ 7,321	3,826	1
4	Connecticut	\$ 6,945	179	34
5	Wyoming	\$ 6,307	1,395	3
6	New Jersey	\$ 6,072	151	36
7	Massachusetts	\$ 5,569	129	40
8	Hawaii	\$ 5,346	15	50
9	Maryland	\$ 5,280	59	49
10	Minnesota	\$ 5,225	682	9

Calculated from US Census Governments Data



Data in other states indicates a similar relationship. In Pennsylvania, New York and Ohio it was found that government expenditures, taxation and debt per capita tend to be higher in larger municipal jurisdictions.⁹ This research also documented a similar relationship among US cities, villages and towns.¹⁰

In two of those states, Pennsylvania¹¹ and Ohio,¹² state programs have been established to identify and assist cities, villages and towns and other governments that become financially distressed. In both states, the incidence of financial distress (measured relative to the number of governments in population categories) is the lowest among smaller governments and rises to the highest among larger governments. In contrast, both of these states have seen their largest municipalities in financial distress, nearing or entering bankruptcy (Philadelphia, Cleveland and Pittsburgh).

Box

Comparing Local Taxes and Spending Between States: Caveats

Often, interstate fiscal analyses make comparisons between states of property taxes and local taxation. These comparisons often fail to note that there are great policy differences between the fiscal and governance policies of the states. For example:

Local Taxes: On average, 39 percent of state and local tax revenue is from local property taxes in the United States, while 61 percent is from state taxation. Local tax revenues range from only 14 percent of total state and local taxation in Vermont to 58 percent in New Hampshire. In Illinois, 45 percent of state and local tax revenue is from local taxes.

Local Property Taxes: On average, 29 percent of state and local tax revenue is from local property taxes in the United States, while 71 percent is from other taxes. Local property taxation ranges from only 9 percent of total state and local taxation in Arkansas to 58 percent in New Hampshire. In Illinois, 38 percent of state and local tax revenue is from local property taxes.

As a result, unadjusted local government or local taxation comparisons can be misleading. This report compares taxation at the state level, which is the most comparable level because of these policy differences.

5: ACADEMIC RESEARCH

There have been numerous studies finding that local government consolidations are likely to save money. However, from a public policy perspective, the issue is not “expectations,” rather it is results. The effects of local government consolidations and abolishments can only be known after the fact.

⁹ Wendell Cox, *Growth, Economic Development and Local Government Structure in Pennsylvania*, Pennsylvania Association of Township Supervisors, 2005. <http://demographia.com/localgovtPA.pdf>, Wendell Cox, *Government Efficiency: The Case for Local Control*, Association of Towns of the State of New York, <http://www.nyassessor.com/Portals/3/documents/caseforlocalgovernment.pdf>, 2008, Wendell Cox, *Local Democracy in Ohio: A Review of City, Village and Township Performance by Size*, Ohio Township Association, 2012.

¹⁰ Cox, 2011.

¹¹ Demographia, *Policy Analysis: The Pennsylvania Distressed Municipalities Program (Act 47)*, <http://www.demographia.com/db-distress.pdf>, 2011.

¹² Cox, 2012.

In a review of the academic literature for the Michigan Senate, economist Eric Scorsone noted the tendency for actual results to fall short of pre-consolidation and abolition expectations:

*... the implementation of a local government consolidation or intergovernmental cooperative effort is often very different than the proposed changes. Feasibility studies must be challenged to assess the likeliness that their actual proposals and plans will be carried out and maintained by administrators and elected officials over time.*¹³

The 1990s Toronto municipal consolidation (the largest in North American history except for the 1898 New York City consolidation) illustrates how projections of savings can turn into higher costs. According to the Toronto Business Alliance, a central city business association:¹⁴

*The amalgamation of the City of Toronto has not produced the overall cost savings that were projected. Although there have been savings from staff reductions, the harmonization of wages and service levels has resulted in higher costs for the new City. We will all continue to feel these higher costs in the future.*¹⁵

“After-the-Fact” Literature Reviews

“After the fact” evaluations have shown similar results.

A review of consolidation literature prepared by Mark Holzer at Rutgers University for the State of New Jersey Local Unit Alignment, Reorganization and Consolidation Commission indicates that "cost savings are not assured," and that "most consolidations fail."¹⁶

Scorsone (above) found that: *... there is no clear relationship between spending per person and total number of local governments or number of persons per local government* at the national level. He made a similar conclusion with respect to Midwestern states. Scorsone found that: *the evidence seems to point to the fact that a policy of local government consolidation may not be effective in reducing or slowing the growth rate of governmental costs.*¹⁷

A US National Research Council study indicated: *There is general agreement that consolidation has not reduced costs (as indicated by some reform advocates) and, in fact, may have even increased total local expenditures.*¹⁸

¹³ Eric Scorsone, "Local Government Consolidation: Assessing the Evidence for Cost Savings and Economic Improvement," *State Notes: Topics of Legislative Interest*, Michigan State Senate, Senate Fiscal Agency, <http://www.senate.michigan.gov/sfa/Publications/Notes/2010Notes/NotesSum10es>, 2010.

¹⁴ The Toronto local government consolidation was perhaps the largest in North America, after the 1898 merger that produce the present city New York by combining a number of municipalities into its present 5 borough structure.

¹⁵ Toronto City Summit Alliance, *Enough Talk: An Action Plan for the Toronto Region*, April 2003; http://www.torontoalliance.ca/docs/TCSA_report.pdf, accessed April 14, 2007.

¹⁶ Marc Holzer, *Literature Review and Analysis Related to Municipal Government Consolidation*, State of New Jersey, Local Unit Alignment, Reorganization, and Consolidation Commission, 2009. nj.gov/dca/affiliates/luarcc/pdf/final_consolidation_report.pdf.

¹⁷ Scorsone, 2010.

¹⁸ Alan Altshuler and William Morrill and the Committee on Improving the Future of U.S. Cities Through Improved Metropolitan Area Governance, *Governance and Opportunity in Metropolitan America*, National Research Council.

A review for the Marion County (Indianapolis) Consolidation Study Commission and the Indiana General Assembly found the academic literature on consolidation to be generally weak, noting that the available reports indicated that “significant gains in efficiency are unlikely.”¹⁹

George A. Boyne of Glamorgan University (United Kingdom) indicated in research on governance that "the empirical evidence from the USA suggests that fragmentation is associated with lower spending and concentration is associated with higher spending."²⁰

Local governance experts have offered similar “after-the-fact” observations.

Economist Elinor Ostrom criticized this focus in her lecture accepting the Nobel Prize in Economics for her work in economic governance (2009):²¹

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

She went on to indicate that researchers had developed "the concept of polycentric systems to analyze performance rather than criticize messy maps." Polycentric systems involve smaller, rather than larger government jurisdictions.

Governance expert Robert Bish, at the University of Victoria (Canada) noted:

*The ultimate measure of local government efficiency is not a count of jurisdictions or taxing districts, but rather their relative expenditures per capita for quality public services.*²²

He adds:

*Enumerations of local government units ... provide only census-type information about the number of units, population and area served. No data are provided about the costs of public services, the output of public services nor the relative efficiency with which public services are produced.*²³

¹⁹ Samuel R. Staley, Dagny Faulk, Suzanne M. Leland and D. Eric Shansberg, *The Effects of City-County Consolidation: A Review of the Recent Academic Literature*, 2005.

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

²⁰ George A. Boyne, "Local Government Structure and Performance: Lessons from America,"

http://www.drexel.edu/greatworks/Theme/Fall/~media/Files/greatworks/pdf_FL10/WK3_2_Boyne_1992.ashx

²¹ Elinor Ostrom, *Beyond Markets and States: Polycentric Governance of Complex Economic Systems*, Nobel Prize Lecture (slides), Stockholm, Sweden, December 8, 2009.

http://www.nobelprize.org/nobel_prizes/economics/laureates/2009/ostrom-lecture-slides.pdf.

²² Robert L Bish, "Local Government Amalgamations, Discredited Nineteenth-Century Ideals Alive in the Twenty-First", The Urban Paper, C.D. Howe Institute Commentary, No. 150, Toronto, March 2001.

<http://www.cdhowe.org/pdf/bish.pdf>

²³ Robert L. Bish and Vincent Ostrom, *Understanding Urban Government: Metropolitan Reform Reconsidered*, Washington: American Enterprise Institute, 1973, p. 74.

6. UNDERLYING FACTORS

There are at least two reasons that consolidations and abolitions tend not to reduce taxes and spending.²⁴

“Leveling Up” Labor Costs

As noted above, government consolidations tend to produce higher costs because of the necessary "leveling up" of labor costs to the cost structure of the most expensive consolidating government.

Labor compensation is the largest item of local government expenditure. Government consolidations are made more costly by merging payrolls and ensuring that employees with the same classifications and duties are paid the same. It will generally not be possible to compensate comparable employees at differing pay scales, even if their employment began in a lower cost jurisdiction. Fringe benefit and paid time off can also be expected to reflect the practices of the higher cost jurisdiction.

There are inevitably differences in such matters as compensation levels, benefit packages and paid time off. These differences must be reconciled, or "harmonized." Labor arrangements are routinely "leveled up" to the highest level, reflecting the most lucrative (expensive) pre-consolidation packages, both in wages and benefits.²⁵

In their Marion County (Indianapolis) Consolidation Study Commission and the Indiana General Assembly research, Staley, et al noted:²⁶

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

In Illinois, townships have a generally lower labor cost structure, with lower pay scales, but also greater use of part-time employees. These factors make it probable that the costs of township services transferred to other governments could rise.

Access for Residents

At the same time, smaller local governments tend to be more efficient because they are more under the control of their local electorate. Their greater accessibility to taxpayers necessarily dilutes their accessibility to special interests, which seek higher levels of spending. Officials in smaller local governments are able to more directly oversee financial performance and public service delivery and are less reliant on professional staff that is not directly accountable to the voters.

²⁴ This summary is partially adapted from our report entitled *Local Democracy and Townships in the Chicagoland Area* (<http://demographia.com/IL-CoxChicagolandReport.pdf>), prepared for the Township Officials of Illinois *Local Democracy in Ohio: Review of City, Village and Township Financial Performance by Size* (<http://www.ohiotownships.org/sites/default/files/Report.pdf> prepared for the Ohio Township Association), prepared for the Ohio Township Association.

²⁵ Holzer, 2009.

²⁶ Samuel R. Staley, Dagny Faulk, Suzanne M. Leland and D. Eric Shansberg, 2005. <http://www.state.in.us/legislative/interim/committee/2005/committees/prelim/MCCC02.pdf>

Potential for Savings

The practicalities of labor relations and governance, as described above, make it unlikely that mandated consolidation and abolishment of local government units would result in savings. Moreover, because of the comparatively low cost structures of townships, it is unlikely that transferring services to other local governments would result in savings.

7: COUNTING TAX REVENUES, NOT GOVERNMENTS

From the above analysis, it is concluded:

- (1) In Illinois larger governments tend to tax more, spend more, and borrow more. This is an indication that consolidation and abolishment, which would lead to larger local government units, is unlikely to lead to reduce costs and taxes and could lead to higher costs and taxes.
- (2) The available comparative indicators show that township governments have costs that are rising more slowly and labor cost structures that are less costly than other local governments. This is an indication that consolidation and abolishment of townships is unlikely to lead lower costs and taxes and could lead to higher costs and taxes.
- (3) A review of U.S. state data indicates that there is no material association between the number of local government units in a state and its level of taxation. This is an indication that reduction in the number of Illinois units of local government is unlikely to result in lower taxes and spending.
- (4) Leveling up of labor costs and less direct oversight by elected officials in larger jurisdictions make it unlikely that consolidation and abolition would lead to lower local government costs. Similarly, transferring services from the generally lower cost townships could result in higher costs.

The level of property taxation cannot be determined by the “number of lines” on the a property tax bill. Taxes are assessed in dollars, not in counts of governments. In Illinois (and other states) smaller local governments are associated with lower taxes, lower expenditures and lower debt levels.

The evidence indicates that local government consolidation and abolishments have virtually no potential to materially contribute to solving the Illinois financial crisis. This is because such strategies are generally associated with *higher* taxes per capita, *higher* spending per capital and greater *debt* per capita.

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