

## Forced Consolidation: No Solution to State Problems



As Michigan state and local governments continue to struggle with the revenue implications of industrial globalization, net out-migration of the state's population, and intrastate shifting of tax base from older, urban areas to suburban and exurban communities, some policymakers and interest groups have suggested consolidation of local governments as a strategy to reduce the overall cost of government.

Specifically, the pundits are hoping consolidation will reduce the fiscal need for intergovernmental transfers from the state to local governments. Local government consolidation has also been suggested as a strategy to facilitate regional land use decisions, and to allow declining urban areas to "capture" tax bases and populations of surrounding communities.

The Michigan Townships Association welcomes the opportunity to discuss state and local partnerships for economic development, particularly the role of local governments collaborating to strengthen regional assets for economic growth. Certainly the issue of boundary adjustment is a component of any analysis as to whether Michigan's local governments are appropriately structured to promote economic development, operate efficiently and effectively, and to further important principles of government accountability and responsiveness to issues that are essentially local in character.

However, any discussion on potential legislative action that would *involuntarily* abolish or force consolidation of existing units of gov-

ernments—particularly townships—raises serious constitutional and public policy issues. In particular, the general assumption that combining smaller units of governments into larger entities will produce savings in the costs of government services is flawed.

MTA is further troubled that public statements regarding consolidation of local entities too frequently singles out townships. MTA believes that townships tend to be the subject of restructuring local governments because townships do not exist in all states; townships outnumber other entities; and township officials are required to address controversial land use issues that invariably result in some parties disagreeing with outcomes.

Nonetheless, the goal of reducing the number of local governments—if such a goal is truly worthy of serious consideration—should also address *all* types of local governments, particularly those communities facing chronic fiscal problems resulting from their small geographic size and declining tax bases, which are very common in southeast Michigan.

### **NOT THE CAUSE OF THE STATE'S FISCAL CRISIS**

Local governments—and townships in particular—did not cause Michigan state government's structural deficit. From a revenue standpoint, the budget deficit results from the erosion of Michigan's industrial tax base, due in great part to the flight of industrial capital overseas and to other states offering lower labor costs.

It is also due to deliberate reductions in the diversity of the state

tax base—particularly elimination of the Single Business Tax—and a series of reductions in tax rates. The current state budget revenue stream will not support projected increases in major portions of the state budget, including Medicaid, corrections, and health care costs of state and school district employees.

In fact, local governments have subsidized the state budget deficit over the past five years through the diversion of more than \$2 billion in local government revenue sharing to support other state programs. Townships, based on a percentage of the amount of statutory revenue sharing to which they are entitled, have absorbed a disproportionate share of this diversion.

It is MTA's fundamental position that the State of Michigan can facilitate local dialogues on the wisdom of community consolidation or reorganization, including offering financial incentives to underwrite the costs of professional, objective studies that will help local residents decide if consolidation, mergers—or abolishment—is appropriate. The impacts, both negative and positive, of consolidations are very local in nature, and should be decided only by those who will bear the consequences—the citizens of the communities involved.

### To a greater degree than is found in other entities, township residents have a strong sense of ownership of their local government.

However, such actions—if imposed by the state against the wishes of local citizens—are of questionable constitutional authority and are inconsistent with Michigan values of local control and home rule, and will be met with fierce political and legal opposition.

#### 'TOO MUCH' LOCAL GOVERNMENT?

According to U.S. Census figures, Michigan has 2,805 local units of government. This includes 1,242 townships, 533 cities and villages, 366 special districts, and 739 school districts, 159 of which are charter schools. In terms of the number of local governments per capita, Michigan ranks 32nd among the 50 states, ranking lower than the states often held as models of local government structure: Washington and Oregon. (See sidebar on page 18.)

In states that do not have the township form of government, a plethora of special districts emerge to provide fire protection, utilities, libraries and other local government services. Consequently, the abolishment of townships would likely result in a proliferation of such special districts that are generally unelected, unaccountable and do not provide the fiscal oversight currently performed by townships.

#### A HOST OF CONSTITUTIONAL ISSUES

While townships are “creatures of the state,” they are created pur-



There remains throughout Michigan a strong commitment to the principle of grassroots, citizen-led government.

suant to the Michigan Constitution, not by statute. Consequently, their abolishment as a form of government would require numerous amendments to the Michigan Constitution, adopted by the voters at a statewide general election.

Further, the electors of townships are statutory public corporations. The electors—not the State of Michigan—own the assets and liabilities of these public corporations. Consequently, the dissolution of these legal entities in any form, including consolidation with other entities, requires the consent of the “owners”—the electors.

#### NO WAY TO RESOLVE FISCAL PROBLEMS

In relation to the magnitude of the state's structural deficit, the amount of state money transferred to townships is extraordinarily small. Townships have seen their statutory revenue sharing reduced from \$90 million to \$20 million. They also receive approximately \$7.5 million in payments in lieu of taxes for providing services to state-owned land. Assuming that all state aid to townships was eliminated, the savings to the state would not even begin to resolve the state budget crisis.

In addition, whatever entities absorbed the governmental obligations previously performed by townships would expect to receive the state assistance formerly received by townships. ▶

## Does Michigan Have Too Many Governments?

It has become fairly commonplace lately for newspapers, and others, to proclaim that Michigan is not competitive with other states because the state has too many local units of government, and consequently, spends too much money on local government operations. Often, townships are singled out. The argument usually begins—and ends—by stating that Michigan has 1,242 townships, and other states don't.

While Michigan has townships, other states have a proliferation of special authorities that operate in the absence of a general-purpose government, such as a township. Other states may call it something different, but each state has come up with a way to deliver local services.

Take a look at the chart below. When it comes to a comparison of the number of local governmental units per capita—which includes counties, cities, villages, townships, authorities, school districts and charter schools—Michigan ranks 32nd in the nation, based on U.S. Census Bureau information.

That's a pretty competitive ranking.



### ILLUSION OF GREATER EFFICIENCY

A frequently cited justification for consolidating municipal governments is that larger units of government have lower costs. However, the actual evidence, as indicated by spending experience, indicates no such relationship. Generally, greater local democracy, resulting from smaller local jurisdictions, does not result in higher government costs per capita. Michigan is among the states with greater local democracy, ranking 29th in average local jurisdiction size as determined by average population of local governments. Michigan's local government spending per capita is also below the national average.

While some capital-intensive services, such as utilities and road maintenance, provide economies of scale, labor-intensive services, such as law enforcement and fire protection, actually cost *more* to produce as they increase in size and scope, due higher administrative costs resulting from expanded span of control and higher personnel costs.

**The abolishment of townships would likely result in a proliferation of ... special districts that are generally unelected, unaccountable, and do not provide the fiscal oversight currently performed by townships.**

In his paper *Merger Mania: The Assault on Local Government*, University of Western Ontario Professor Andrew Sancton generally finds that municipal consolidations in both the United States and Canada have not led to materially lower costs per capita.

Sancton's conclusions are echoed by an analysis of U.S. local government spending patterns—on functions in which more than 50 percent of spending is at the local level—by average jurisdiction size at the state level. Among expenditure categories that are principally made at the local level, per capita spending does not follow the predicted pattern that would associate higher spending with greater local democracy.



**Sharing services is far more prevalent than local governments are generally given credit for. Communities collaborate through mutual aid for emergency services, and commonly discuss and cooperatively resolve issues that are of a concern to multiple entities.**

According to U.S. Census figures, the quintile of states with the largest local governments (in average population) have the second *highest* spending per capita, approximately 5 percent above average. The lowest spending is in the third (middle) quintile of states, with spending approximately 15 percent below average. The highest spending is in the quintile of states with the second smallest average jurisdiction size. But this result is driven by the excessively high spending of Alaska, without which average spending is \$1,512—well below average. The second lowest spending level is in the states with the smallest average jurisdiction size.

With respect to debt per capita, the evidence is virtually the opposite of the expected result that greater local democracy is less efficient. The quintile of states with the least local democracy have the highest per capita debt. With each quintile of increasing local democracy (decreasing average jurisdiction size), per capita debt *declines*. The lowest per capita local government debt is in the states with the greatest local democracy.

This is also illustrated by the expenditures per capita of governments in the five Midwestern states that make up the former Northwest Territory (Illinois, Indiana, Michigan, Ohio and Wisconsin)—all of which have comparatively small units of government *and include township government*. Among the five Midwestern “township states,” per capita spending on principally local government functions was approximately 7 percent lower than in the other 45

states. Local government debt per capita was approximately 2 percent lower than in other states. If larger units of government were inherently less expensive, this relationship would be the reverse.

According to a Wayne State University study, local government tax burden per capita in Michigan is below the national average as well, ranking 40th among the states. (*See sidebar on page 20.*)

### EXISTING INCENTIVES FOR LOCAL GOVERNMENT EFFICIENCY

Michigan local governments must operate within state-imposed revenue limitations that local entities in other states do not have. Townships, in particular, are characteristically low-cost entities. Revenue limitations force townships to limit services and configure their operations with economy, often first and foremost. Township official compensation is lower than that of other local government entities. They typically operate with minimal administrative overhead, and rely on community volunteers for many functions often performed by employees in other entities.

Sharing services is far more prevalent than local governments are generally given credit for. Utilities are most commonly provided by intergovernmental contracts and through multi-unit authorities. Communities collaborate through mutual aid for emergency services, and commonly discuss and cooperatively resolve issues that are of a concern to multiple entities. ▶

# Do Townships Spend Too Much Money?

According to a report compiled by Wayne State University, Michigan residents spend a much smaller percentage of their income on municipal local government operations compared to the rest of the nation—3 percent of their income in Michigan, compared to 4 percent for the nation as a whole.

Wayne State University calculations place Michigan 40th among states in local government spending for municipal services. You can be assured that Michigan township operations help keep that total spending number so competitive.



Governing bodies of smaller entities are able to scrutinize expenditures to a degree that is impractical in larger entities. Budgets are more detailed, and the greater degree of legislative oversight results in more efficient use of government resources.

## REVITALIZING URBAN CORE AREAS

There does not appear to be a strong case that the urban consolidations of recent decades—in areas including Indianapolis, Jacksonville, Miami and Nashville—have induced unusually significant revitalization of core areas. The downtown areas of each of these urban areas have added significant new construction. Yet, at least as much construction has occurred in the cores of urban areas that have *not* implemented large urban consolidations.

While reliable indicators are not readily available, it appears that downtown development in, for example, Columbus, Kansas City and Milwaukee has been at least as great as in consolidating Indianapolis, Jacksonville and Nashville. Non-consolidating Atlanta's core development appears to be every bit as substantial as consolidating Miami's.

## DEMOCRATIC PRINCIPLES

Township residents have at least the same expectations of governmental self-determination as their counterparts in cities and villages. They want local issues resolved by elected officials whom they can access and hold accountable. To a greater degree than

is found in other entities, township residents have a strong sense of ownership of their local government.

If townships were to be abolished, the services they currently offer would be shifted to some other entity. It is doubtful that Michigan's counties would be receptive to developing the policy expertise to govern and administer local government services.

There remains throughout Michigan a strong commitment to the principle of grassroots, citizen-led government. MTA is confident that state-led attempts to treat those who live outside of cities and villages as citizens who are not entitled to their own strong, efficient and accountable local government will be met with strident grassroots opposition.

*Portions of information for this article were excerpted from an MTA-commissioned white paper by noted demographer Wendell Cox, entitled "The Higher Costs of Rationing Local Government: The Case Against State-Imposed Consolidations." A copy of the white paper can be found at [www.michigantownships.org](http://www.michigantownships.org).*

---

**Larry Merrill**, MTA Executive Director

