DEMOGRAPHIA

Government Consolidation in Indiana: Separating Rhetoric from Reality

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Demographia

Local Government Consolidation in Indiana: Separating Rhetoric from Reality

Table of Contents

EXECUTIVE SUMMARY

1. Introduction

Governor Daniels established a Commission on Local Government Reform to:

> *Develop recommendations to reform and restructure local government in Indiana in order to increase the efficiency and effectiveness of its operations and reduce its costs to Hoosier taxpayers.*

The Governor's charge contends that Indiana has too many governments is based upon an assumption that that consolidating or eliminating government units would make government more efficient.

2. The Situation

The Commission's focus was on the *means* of consolidating government and not on the *objective* of improving government efficiency.

However, any genuine initiative to improve government efficiency, would appropriately begin with an examination of the means for improving efficiency, not presumed solutions, such as government consolidation. Government efficiency is measured by relative spending. All things being equal, a government service is more efficient if it requires less money to perform its functions per unit of service.

Not dealing with efficiency, the Commission simply recommended consolidation of township governments into counties (under proposed new county executives).

3. Government Consolidation and Government Efficiency

There is a popular "bigger-is-better" theory of government efficiency. It is not generally supported by the data.

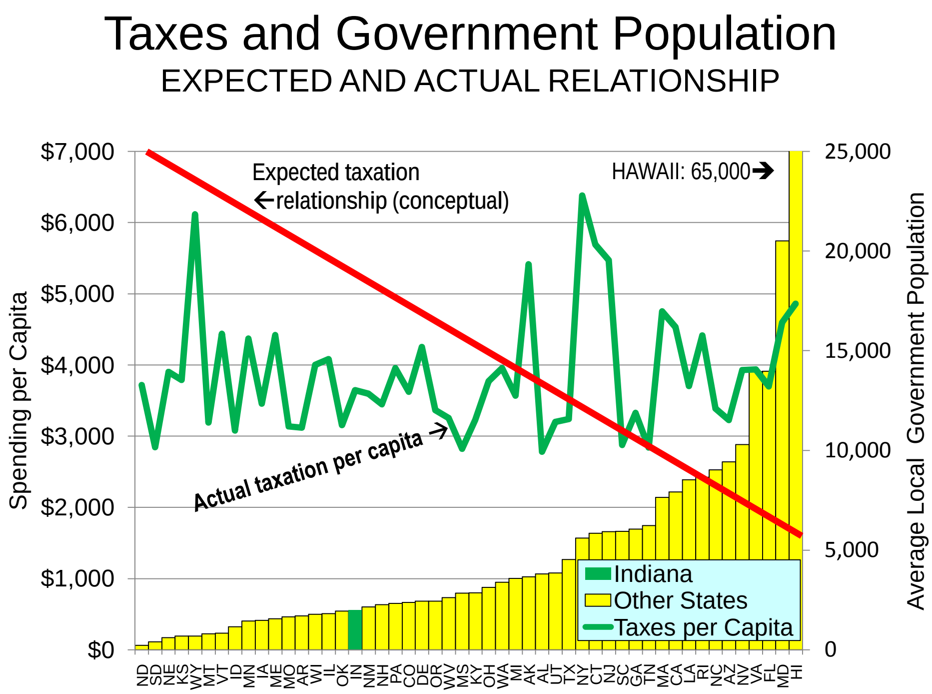
Overall, the international and national evidence does not indicate a relationship between local government consolidation and greater efficiency. Indeed, there are a number of examples demonstrating that consolidations intended to save money actually increases spending.

There are a number of reasons why local government consolidations fail to save money. Some barriers are operational, such as the necessity to harmonize labor costs and service levels, which typically rise to that of the highest consolidating jurisdiction, throughout the entire new jurisdiction. One of the most important barriers is the *reduced accountability* that occurs as governments become more remote from voters and more accessible to spending interests, which naturally tends to increase expenditures in the longer run.

4. Government Size and Government Efficiency

Contrary to popular understanding, Indiana does not have substantially higher number of governments than other states. Indiana has approximately 10 percent more governments per 10,000 population than average. Indiana ranks 17th in the number of governments per 10,000 population, which under the "bigger-is-better" theory of local government efficiency would suggest that Indiana should have approximately the 17th highest per capita taxation in the nation. In fact, Indiana ranks far better than that, with the 27th highest taxation per capita. Indiana ranks considerably better, at 38th in debt per capita. Despite what some consider an excessive number of governments, Indiana is a comparatively efficient state.

A review indicates that there is no relationship between the number of governments and per capita state and local taxation at the state level (Figure). Moreover, there is no relationship between the number of governments and debt per capita in the states. Generally, however, the states with larger average local government populations have higher spending and debt per capita than Indiana.



Proponents of the "bigger-is-better" theory of local government efficiency also claim that Indiana has too many elected officials. In fact, Indiana has fewer elected officials per 10,000 population than average, according to the latest data (which is from 1992). As with the number of local governments, there, there is no relationship between the number of local elected officials and capita taxation in the states.

Hawaii has the most consolidated local governance structure in the nation. The lowest level of local government is counties --- there are no cities or townships. The average local government population in Hawaii is more than 30 times that of Indiana. Yet this far higher degree of government consolidation does not produce greater efficiency. Hawaii's taxes per capita are one-third above Indiana's and one-quarter higher than the average of the states.

Our own research indicates that generally, smaller units of local government are associated with greater efficiency in Pennsylvania and New York. All units of local government were included in each study. In the Pennsylvania study, the most efficient local governments had an average population of under 1,000, while in New York the most efficient local governments had a population between 1,000 and 2,500. A similar relationship was found within the metropolitan areas of both states.

5. Townships and Government Efficiency in Indiana

It is likely that the Commission's recommendation to consolidate township governments into county governments will cost taxpayers *more* and make local government in Indiana *less* efficient.

Township fire services in Indiana are more efficient than city fire services. A major reason for this is the volunteer nature of many township fire protection services. The Ball State University findings on fire savings are deemed irrelevant to townships, because their assumption is that Indiana fire services are less efficient than those of other states because of higher staffing levels. Township fire services employ 75 percent fewer government full time equivalent employees per capita than city fire services and could not therefore be the source of any savings. Further, consolidation under counties is likely to lead to pressure for conversion of volunteer fire services to career fire services. This could eventually result in additional taxpayer costs of from $400 million to $1 billion annually.

Further, some township fire departments are staffed with career personnel, especially in Marion County. Consolidation of these fire departments into county or city organizations would likely require upward harmonization of labor costs, *increasing* costs to taxpayers and *reducing* efficiency.

Indiana University research indicates that the costs per employee in township assistance are less than in county welfare departments. Further, the research notes that townships provide a level of personal service that is not likely to be sustained by counties. Moreover, many township trustees directly provide township assistance. Under consolidation, this work would need to be provided by more expensive full-time county employees, with full benefits. Currently, township assistance is available throughout the counties, in township facilities. In the longer run, it is likely that there will be budgetary and other pressures to consolidate these services at central locations, making client access more difficult. It is thus likely that transfer of township assistance to county governments would both increase costs to taxpayers and make it more difficult for deserving households to receive assistance.

The Commission expressed concern about a duplication of services that results from having "too many" local governments. Township services are not duplicative. In geographical areas where townships arrange for fire services, *no other* local government provides fire services. Townships provide *all* township assistance, a public service not provided by any other level of government.

6. Indiana: A Competitive State

Often proponents claim that a state will be made more competitive by local government consolidation. State competitiveness is a function of other factors. Moreover, Indiana is one of the top "Frost Belt" states (Northeast and Midwest) in net domestic migration and Indianapolis is the top metropolitan area of more than 1,000,000 in net domestic migration in the "Frost Belt."

Further, Indiana is very competitive because of its housing affordability. For example, even after house prices have dropped 40 percent, a household moving from San Diego to Indianapolis and buying the median priced house could save $450,000. Housing affordability appears to be a principal reason why Indianapolis is gaining domestic migrants (while San Francisco, San Jose, Los Angeles, San Diego, Boston, Miami, New York and Washington are losing domestic migrants).

7. Conclusion

The Commission did not address the stated goal of government efficiency, but instead began with a solution, government consolidation. The Commission relied on nothing more than assumptions and rhetoric, and provided no evidence to support its proposition that local government consolidation would improve government efficiency.

Based upon the analysis, it is generally concluded that there is no necessary relationship between government size and government efficiency. Specifically, it is concluded that township consolidation into counties could eventually cost the taxpayers of Indiana more than $1 billion annually.

1. INTRODUCTION

For some time there have been efforts to consolidate local governments in Indiana. For example, in the late 1990s, the state Chamber of Commerce issued a report recommending government consolidation and issued an update in 2004. More recently, Governor Mitch Daniels initiated an examination of efficiency, effectiveness and government consolidation. He established a Commission on Local Government Reform and appointed former Governor Joseph Kernan and Indiana Chief Justice Randall Shepard as chairs. The Governor charged the Commission to:

> *Develop recommendations to reform and restructure local government in Indiana in order to increase the efficiency and effectiveness of its operations and reduce its costs to Hoosier taxpayers.*

The Governor's charge contends that Indiana has too many governments and is based upon an assumption that that consolidating or eliminating government units would make government more efficient. As a result, the charge asks the Commission to look at how government consolidations and other actions might improve the efficiency of government in the state.

In its work, however, the Commission simply proposed government consolidations and provided no financial analysis to demonstrate that more efficient government would result from the consolidations. There is considerable available data that calls into question the presumption that larger local governments are more efficient.

The Commission on Local Government Reform appears to have principally relied on opinions, which are by their very nature subjective without examining the readily available data. As a result, the Commission failed to consider the experience with government consolidation or the association between government size and efficiency.

Moreover, the Commission's focus was on the *means* of consolidating government and not on the *objective* of improving government efficiency. Any genuine initiative to improve government efficiency, would appropriately begin with an examination of the means for improvement rather than a set of presumed solutions.

This report analyzes issues of government consolidation and government size as they relate to local government efficiency. The focus is on the recommendations related to township government ***Based upon an examination of the experience in government consolidation, the efficiency of local governments by size and issues within Indiana, it is concluded that the proposed consolidation of townships into counties could lead to substantial tax increases, while making local government more accessible to spending interests and more remote from voters.***

2. THE SITUATION

For some time there have been efforts to consolidate local governments in Indiana. For example, in the late 1990s, the state Chamber of Commerce issued a report recommending government consolidation and issued an update in 2004 More recently, Governor Daniels initiated an examination of government consolidation

The Local Government Reform Commission

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> *Develop recommendations to reform and restructure local government in Indiana in order to increase the efficiency and effectiveness of its operations and reduce its costs to Hoosier taxpayers.*

The Commission on Local Government Reform issued its final report, entitled *Streamlining Local Government*, in December of 2007 The Commission expressed concern with the number of local governments in the state, which was characterized as being too high. The Commission indicated that "few other states have as much local government" as Indiana.[1] Moreover, the Commission indicated that Indiana had too many elected officials:[2]

> *Indiana is a place where the taxpayers support lots and lots of governments. We maintain literally thousands of local governments, and we pay for more than 10,000 officeholders.*

The Commission on Local Government Reform suggested that this large number of governments resulted in "duplication" and suggested that fewer local governments would reduce "bureaucracy and overhead."[3] The Commission further indicated that a smaller number of local governments would improve accountability in the state. Consistent with these views, the Commission adopted the following principle to guide its work:

> *Local government reform should drive real cost savings for Indiana citizens through the reduction of local government layers and the adoption of other cost-saving measures. Reduced government and greater accountability can lead to better services and reduced cost. Improved operations and streamlined administrative functions result in more efficient use of funds. And the result of all of that is a more efficient, higher-functioning system of local government.*[4]

The Commission indicated that larger units of local government would be able to achieve "economies of scale," which it claims would reduce costs for taxpayers. The Commission provides no quantitative support for its "economies of scale" presumption.

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[1] Commission on Local Government Reform, *Streamlining Government*, p. 8.
[2] *Streamlining Government*, p. 8.
[3] *Streamlining Government*, p. 11.
[4] *Streamlining Government*, p. 10.

Government Efficiency

The Governor's charge to the Commission and the Commission report rightly connect government efficiency with levels of government spending and taxation. All things being equal, governments that spend more are less efficient and governments that spend less are more efficient.

Yet the Commission exhibits a pre-occupation with issues not necessarily associated with spending or taxation levels, such as the number of governments or the number of elected officials. These are not measures of efficiency. As government consolidation expert Robert Bish of the University of Victoria (Canada) points out:

> *Enumerations of local government units in any particular metropolitan area 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.*[5]

The Measure of Efficiency: Spending: Government efficiency is measured by relative spending. All things being equal, a government service is more efficient if it requires less money to perform its functions per unit of service. Thus, the only reliable standard of efficiency is spending.

As the data cited in this report indicates, there are cases where spending per capita is less with more layers of government. In such cases, there is *greater* government efficiency. At the same time, there are cases in which spending per capita is more with more layers of government. In such cases, government is *less* efficient. Any analysis of government efficiency in Indiana or anywhere else must begin with and principally rely on government spending,

The Commission and Local Government Efficiency

Despite its frequent references to efficiency, the Commission on Local Government Reform lacks any substantive analysis of government efficiency. The Commission provides no estimate of the spending implications of its recommendations. The Commission provides no more than a belief that that Indiana's system of smaller report is less efficient, largely because of what it considers to be the large number of local governments in the state. The Commission provides no evidence, beyond this conviction, to justify its assumption that fewer governments would result in greater efficiency.

A just-published report by the Center for Business and Economic Research at Ball State University[6] predicts that Commission recommendations would lead to savings, however that report's conclusions are not relevant to the case of townships, and cannot legitimately be used to

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

[6] http://cms.bsu.edu/Academics/CentersandInstitutes/BBR/CurrentStudiesandPublications.aspx.

predict savings from township consolidation into counties (see: 5. Township Services and Government Efficiency, below).

The analysis below examines the evidence on efficiency with respect to both local government consolidation and the number of local governments.

3. LOCAL GOVERNMENT CONSOLIDATION AND GOVERNMENT EFFICIENCY

The Governor's executive order and the report of the Commission on Local Government Reform rely upon an assumption that local government consolidation would improve the efficiency of local government in Indiana.

There are few public policy issues on which opinion seems more in agreement than that larger governmental units are more efficient than smaller government units. It generally assumed costs are reduced as the scale of government operations increases. This bigger-is-better theory of government efficiency has led to proposals to consolidate local governments, with the avowed intention of reducing burdens on taxpayers. This section examines the national and international evidence on government consolidation and efficiency.

If the bigger-is-better theory of government efficiency is correct, then the evidence will routinely and compellingly show that government consolidation has resulted in spending reductions and lower overall tax burdens.

The Evidence

Often, detailed accounting reports are prepared outlining the source and extent of expected savings in proposed local government consolidation programs. However, as was noted above, the Indiana Commission on Local Government Reform is largely devoid of such detail.

However, the national and international data is, at best, mixed. At the worst the evidence generally shows that bigger local governments tend to be *less* efficient than smaller local governments.

While cost analyses prepared to accompany local government consolidation programs routinely project cost savings, the results, after implementation rarely, if ever demonstrate the expected savings. Indeed, there are few reports that comprehensively compare the financial performance of governments *after* consolidation.

> One examination found the academic literature to be generally weak, noting that the available reports indicated that "significant gains in efficiency are unlikely."[7]
>
> Even researchers indicating a preference for local government consolidation have noted that consolidations have generally failed to demonstrate cost efficiencies from their proposals.[8]

After-the-fact evaluations of local government consolidations fall into two basic categories:

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[7] Dagney Faulk, Suzanne M. Leland and D. Eric Shansberg, *The Effects of City-County Consolidation: A Review of the Recent Academic Literature*, http://www.state.in.us/legislative/interim/committee/2005/committees/prelim/MCCC02.pdf,

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

Evaluations that show spending to have increased

Evaluations that do not review before and after spending levels.

As a result, the after-the-fact evaluations of consolidations generally indicated no compelling evidence of improved government efficiency.

A study on the consolidation of Jacksonville and Duval County, Florida found that initial savings were quickly erased by an increase in longer term spending. Moreover the study showed that costs rose more quickly than in a comparable metropolitan area in the region that had not consolidated.[9]

Research indicates that the 1960's consolidation of Nashville and Davidson County, Tennessee led to an overall increase in spending.[10]

A municipal-regional[11] consolidation was forced upon Halifax, Nova Scotia by the provincial government in 1996, with claims that the new government would save taxpayers money. By 2000, there was no indication of any savings, while user fees and taxes had increased. Taxes rose from 10 percent in the former central city to 30 percent outside, as the tax burden was spread to suburban voters who had not been involved in electing the city leaders who had imposed the higher cost structure of the city.[12] Moreover, the expenditures have risen, rather than fallen since that time. Between 2000 and 2007, operating expenditures rose 14 percent per capita, inflation adjusted.[13] Finally, the transition costs of the merger were four times what had been projected.[14]

The Toronto municipal consolidation was promoted to provide substantial spending reductions, however expenditures have risen strongly under consolidation. Despite the strong business support for consolidation, a 2003 report by the prestigious Toronto City Summit Alliance noted that *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] A more recent report indicates that Toronto city government employment levels have risen by more than 4,000 since the consolidation.[16]

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[9] J. Edward Benton and Darwin Gamble, "City/County Consolidation and Economies of Scale: Evidence from a Time Series Analysis in Jacksonville, Florida, *Social Science Quarterly 65*, March 1984.
[10] Stephens and Wickstrom, *Metropolitan Government and Governance: Theoretical Perspectives, Empirical Analyses, and the Future*, p. 75.
[11] Equivalent of a city-county consolidation.
[12] 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
[13] Calculated from data in Halifax Regional Municipality annual reports and budgets.
[14] Bish, 2001.
[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] Barry Herz, "Amalgamation: 10 years later," *The National Post*, 28 December 2007.

Indiana provides another example. One of the nation's largest consolidated governments, the city of Indianapolis, faces significant financial difficulties.[17] Last year, the state assumed $1 billion of its pension liabilities and provided other special assistance. If consolidated government were more efficient, then these actions would not have been necessary.

Another Indianapolis example indicates that the claimed savings can even disappear before the consolidation is enacted. When former Indianapolis Mayor Bart Peterson sought to consolidate township fire departments into the city department, a report was produced claiming that $21 million in annual savings would occur. A later report by the Marion County Consolidation Study Commission found the savings to be greatly overstated, suggesting that a more realistic number to be $1.3 million.[18] This did not deter the city, which stood by its inflated estimate and proceeded to sign a labor contract with fire fighters that, by itself, would consume $20 million more over the next three years, according to a press report.[19]

As is noted below, payroll is typically by far the largest expense in local government. Yet, there is virtually no indication in any of the post-consolidation studies that material reductions in personnel costs have occurred. That, of course, would be most difficult, given the political influence of public employees and their resistance to the wages, benefits and staffing reductions that would be required for material efficiencies to be gained.

Why Consolidation Does Not Necessarily Lead to Efficiency

Various factors interfere with the ability of local government consolidation to produce lower materially costs for taxpayers.

Operational Barriers: There are significant operational barriers to improved efficiency.

Harmonization of Labor Arrangements: There are costs to harmonizing the service levels and employee compensation packages. Employees and their unions can be expected to receive remuneration packages that reflect the most expensive pre-consolidation packages, in both wages and benefits. Similarly, the most liberal time-off allowances (holidays, vacations and personal allowances sick time allowances) are likely to become the norm in the consolidated municipality. This makes local government less efficient by increasing the labor costs per hour worked.

Labor compensation is generally the largest item of local government expenditure. This loss of efficiency might be thought of as a tendency toward the "highest and worst," the highest costs and the worst (least efficiency) labor practices. As a Toronto city council member put it, "Organized labor demanded, and usually won, the highest wages and choicest benefits packages of the six municipalities."[20] Consolidating labor arrangements raises personnel costs.

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[17] See: http://www.indygov.org/NR/rdonlyres/7BECF0FD-749C-4C90-B4DE-E773584EFF99/0/100DayReport.pdf.
[18] *Final Report of the Marion County Consolidation Commission*, http://www.in.gov/legislative/interim/committee/2005/committees/reports/MCCC8B1.pdf.
[19] "Firefighters Union Contract Approved --- But with Conditions," *Indianapolis Star*, March 13, 2007.
[20] Barry Herz, "Amalgamation: 10 years later," *The National Post*, 28 December 2007.

Harmonization of Services: Merging municipalities will inevitably have different service levels. Public service packages may also differ, with some public services provided in one consolidating jurisdiction, but not in the other. It can be expected that service levels will be harmonized at the highest level, essentially forcing residents of a jurisdiction with lower service levels to finance and receive higher service levels, which they had not previously required of their municipal board. In some cases, this will mean that higher levels of services are provided where they are needed. All of this raises costs, as the Toronto Business Alliance reported in Toronto.

Personnel Costs: Resistance to Reduction: The largest share of local government operational expenditures is in payroll. As a result, any material savings from consolidations would have to come from personnel savings, both in terms of reduced staff sizes and lower wages and benefits. There is often considerable political resistance to personnel savings.

Transition Costs: Other transitional costs can be considerable. In the case of Toronto, transition costs were estimated to have been as much as $275 million. The Halifax transition costs projections were far above projections (above). All of these costs were *before* labor contract and service level harmonization costs.

Reduced Accountability and Incentives to Spend More: Government consolidation tends to create incentives for greater spending.[21] This is because as governments become larger, they become are less accessible to the electorate, which is dispersed and more accessible to well funded spending interests, which are concentrated, rather than dispersed. Well funded interests tend to favor higher levels of spending.

For example, Robert Bish notes that special interests have greater power in larger local governments under government consolidation.[22]

> *Councillors faced with a decision about service provision in a small municipality are strongly influenced by financing considerations because even low-cost items can make a difference in tax rates or user charges for their constituents. But as governments get bigger, councillors tend to spend less time on the financing of individual programs or projects that represent a diminishing proportion of their growing budget; large governments are also more responsive to special interest programs and projects than are small governments*.[23]

Diseconomies of Scale for Voters: Thus, as local governments become larger, the effective "voice" of voters becomes diminished. Democracy is diluted and governments become more remote from their electorates. As governments become larger, more remote government creates disincentives for participation. This leads to smaller voter turnouts.[24] In smaller municipalities, elected officials are likely to be known personally by a larger number of voters. Where governments are smaller, voters are likely to be able to gain direct access to their elected

[21] This is consistent with the spending incentives analysis of the "public choice" school of analysis, which concerns the incentives of political activity. The public choice school generally finds special interests have a large role in driving public policy. James Buchanan was awarded the Nobel Prize in economics for his work in this regard.
[22] Bish, 2001.
[23] Bish, 2001.
[24] Bish, 2001.

officials. For example, individual voters are likely to have more influence over elected officials where there is one elected official for every 500 people (as in Indiana) than where there are 12,500 citizens for every elected official (such as in Hawaii). On the most basic, level, a citizen is much less likely to be able to reach an elected official by telephone.

Larger governments routinely require citizens to use frustrating automated telephone answering systems and concerns are often dealt with by employees in departments that are remote from the elected official, or by subordinates. These government employees, at whatever level of dedication, are likely to have less incentive to empathetically deal with the citizen's concern than the elected official, whose re-election prospects are associated with satisfying voters.

Economies of Scale for Spending Interests: Governments are under continual pressure by spending interests to increase their spending. Moreover, it is more efficient for spending interests to deal with a smaller number of governments and elected officials than a larger number. This increases their likelihood of success in driving spending higher, and tends to work against greater local government efficiency. Thus, larger governments attract higher levels of lobbying activity because of the inherent economies of scale for spending interests, both in terms of lobbying budgets and potential financial returns. Thus, more powerful interests, of whatever political inclination, are far more likely to have direct access to elected officials in larger jurisdictions than citizens. ***While creating diseconomies of scale for voters, larger governments tend to create economies of scale for more powerful spending interests.***

Government Further from the People: Thus, it is more efficient for interests to deal with fewer governments than more. By definition, this erodes accountability, because voters have less relative access to elected officials and become less influential in the political process. Spending interests, which do not have a vote in elections, emerge as more powerful where governments are larger and voter access to elected officials is more limited. Thus, more governments and more elected officials make government more accessible and accountable to the people.

This sense of greater accountability is indicated in a recent poll commissioned by the Michigan Townships Association. Paul King, Director of Research for the polling organization (Michigan Resource Group) characterized the findings as follows:

> *Michigan residents believe local government does a better job than county, state or federal government when it comes to improving their quality of life, keeping their families safe and quickly responding to their needs … Especially among those who live in townships, respondents have a better relationship with their local officials than they do with administrators and staff at other levels of government*.[25]

Political Barriers: Municipal consolidations that were promoted on the basis of government efficiency have sometimes been driven by political agendas having nothing to do with reducing the costs of government. The Toronto consolidation has been characterized as a means to rid a right-wing provincial government of a left-wing administration in the former (smaller) city of

[25] http://news.prnewswire.com/DisplayReleaseContent.aspx?ACCT=ind_focus.story&STORY=/www/story/01-13-2009/0004953906&EDATE=

Toronto.[26] The Indianapolis city-county merger has been characterized as an attempt to establish long term Republican domination over a central city that would otherwise be dominated by Democrats.[27] A research report on Jacksonville concluded that consolidation proponents were actually more interested in adding public services than in reducing taxes or expenditures.[28]

Moreover, the consolidated governments that are created may not seek to fulfill the efficiency goals of those who proposed the consolidation. As a result, the consolidated government may seek to spend more, violating the promises made to justify the consolidation.

Bigger-is-Not-Necessarily-Better

Thus, while government consolidation is often portrayed in theoretical, before the fact reports as more efficient, the reality is that there is little evidence that material efficiencies occur. Indeed, the weight of the evidence is that, where government consolidation has an impact on government spending, it is to make it *higher* and thus to make local government less efficient. This result is likely to be the direct opposite of the purposes cited in the Governor Daniels' charge.

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[26] Andrew Sancton, "Why Municipal Amalgamations: Halifax, Toronto, Montreal," p 13. http://www.iigr.ca/conferences/archive/pdfs4/Sancton.pdf.

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

[28] Stephens and Wickstrom, p. 80.

4. LOCAL GOVERNMENT SIZE AND GOVERNMENT EFFICIENCY

Inherent in any assumption that local government consolidation is more efficient is a belief that larger governments are more efficient than smaller governments. This section examines the data on local government size and efficiency throughout the United States, both at the state and local level. The data generally indicates no material association exists between government sizes and efficiency, though there is indication in other township states that spending tends to decline as the average size of local governments becomes *smaller*.

If the bigger-is-better theory of government efficiency is correct, then the evidence will routinely and compellingly show that larger governments are less costly per capita than smaller governments.

State Level Analysis

To test the bigger-is-better theory, an analysis of data was s performed using the latest United States Bureau of the Census Government Finance data (2006) and the 2002 United States Census of Governments. The number of local governments, taxation per capita and debt per capita are examined.[29] Taxation, (rather than spending) is used in this analysis, to exclude the impact of spending financed federal funding, which is not under the direct control of state or local government in Indiana.

Number of Governments: The Commission on Local Government Reform notes that Indiana has more governments than the overall state average. Indiana has 5.0 governments per 10,000 population. This is less than 10 percent below the state average of 5.5. North Dakota has the highest number of governments per 10,000 people, at 43.0, while Hawaii has the least number of governments at 0.2 per 10,000 people (Figure 1). ***Thus, Indiana has only slightly more local governments than average relative to its population.*** Moreover, the number of governments is not a measure of efficiency, since efficiency is measured by spending or taxation per capita.

Measuring Average Local Government Size: Just as Indiana has more local governments per 10,000 population than average, Indiana's average local government size (measured by population) is somewhat less than the average of other states (Figure 2). Indiana has an average local government population of approximately 2,000. This is well above North Dakota, with the smallest, at 230 and well below Hawaii, the largest, at 65,000. The analysis that follows contrasts the average local government population in Indiana and other states with respect to taxation and levels of debt on a per capita basis.

[29] State and local taxation are considered, because the functional distribution of taxation between states and local governments varies among the states (as it does with respect to spending as well).

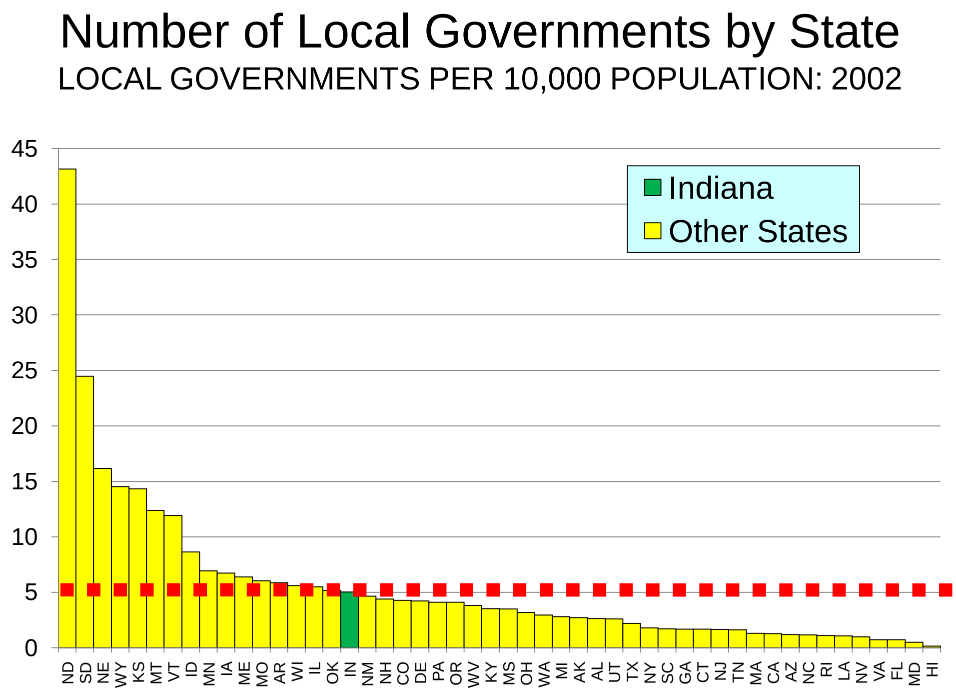

Figure 1

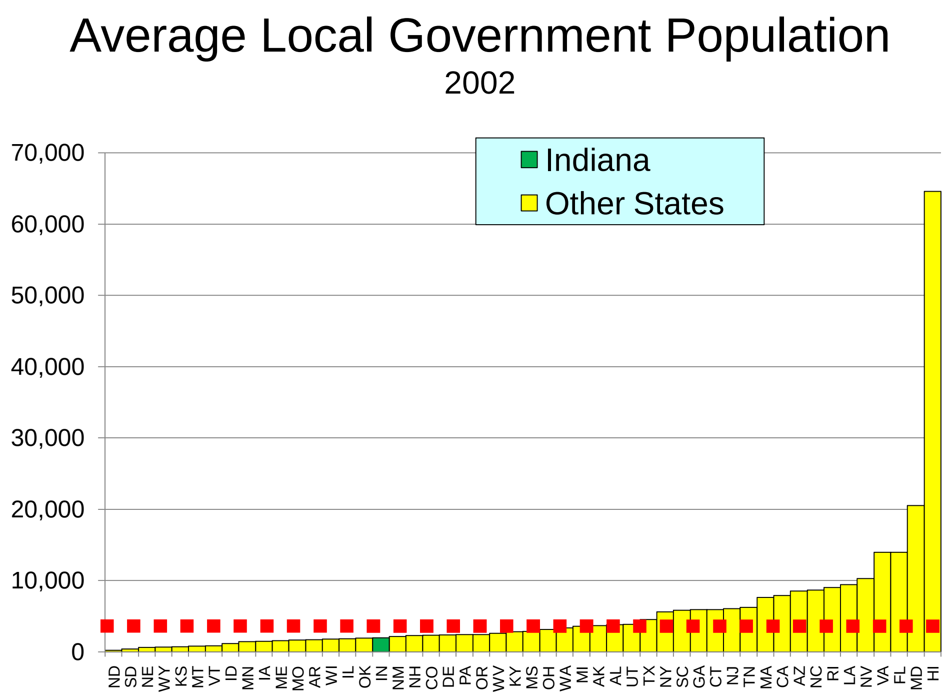

Figure 2

Taxation by Average Government Size: The assumption of the Commission on Local Government Reform is that government efficiency is associated with a smaller number of governments (a larger average local government population). To test this assumption, the average government size by state is compared to the latest available state and local government taxation data from the United States Bureau of the Census.

Figure 3[30] shows the expected conceptual relationship between average local government population and taxation per capita, ranked by state from the smallest to the largest average government jurisdiction populations.

In contrast to the theoretical expectation that states with larger local units of government are more efficient, the data shows no such relationship. Figure 4 indicates the actual relationship between local government population and expenditures per capita. Some states with smaller local government units have higher taxes per capita, while some states with smaller local government units have lower taxes per capita. ***Higher levels of taxation are not associated with smaller average government sizes.***

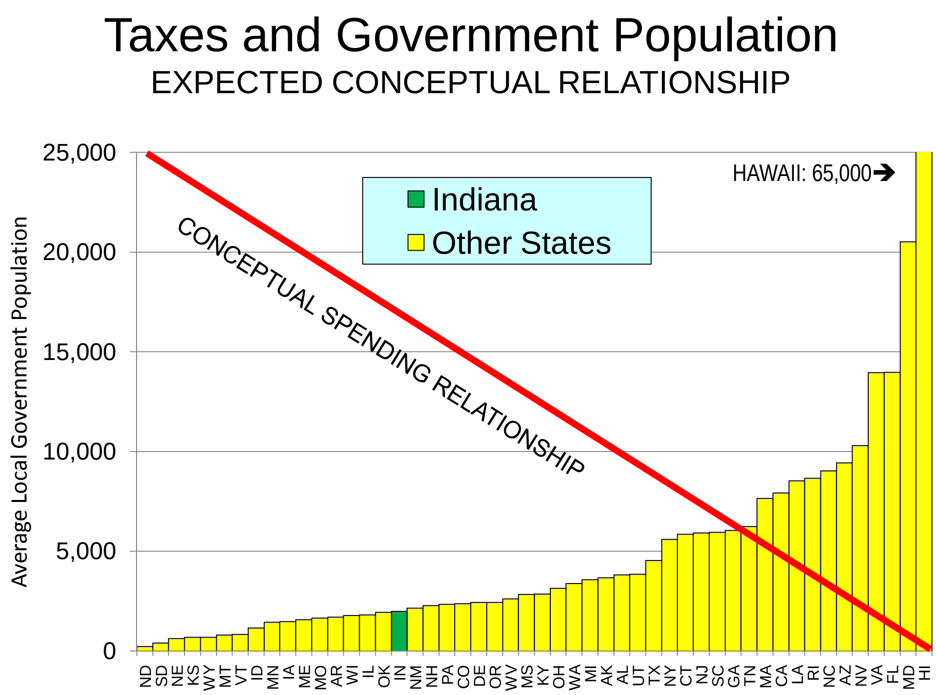

Figure 3

[30] This figure and others have a maximum value of 25,000, which simplifies analysis. Hawaii, at an average local government population of 65,000 is the only state above 25,000.

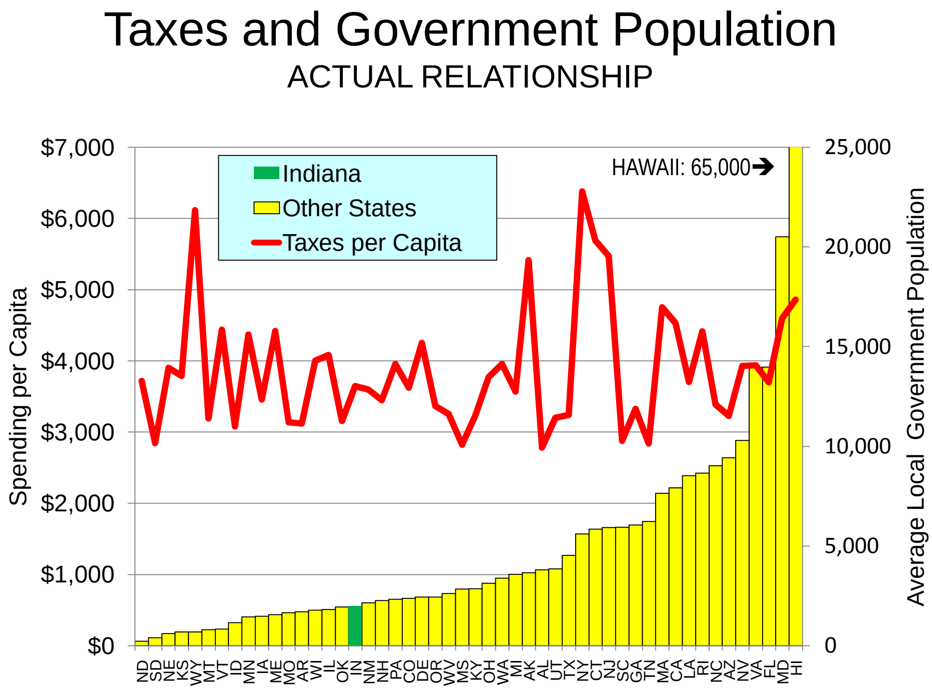

Figure 4

The lack of association between government size and government efficiency is also indicated specifically by Indiana. Indiana's per capita taxation is 6 percent below the average of the other states. Moreover, Indiana has the 17th smallest average local government population in the nation. Thus, it would be expected that Indiana would rank approximately 17th highest in the nation in taxation per capita. In fact, however, Indiana ranks considerably better, at 27th in taxation per capita. Despite what has been characterized as an excessive number of governments, Indiana is a comparatively efficient state.

Finally, 10 of the 11 states with the highest taxation per capita have *larger* average local government populations than Indiana. Figure 5 indicates that Indiana has an average taxation per capita below that of *both* states with larger governments and states with smaller governments. Moreover, states with *smaller* government populations have *lower* taxation per capita, further indicating that "bigger-is-not-necessarily-better."

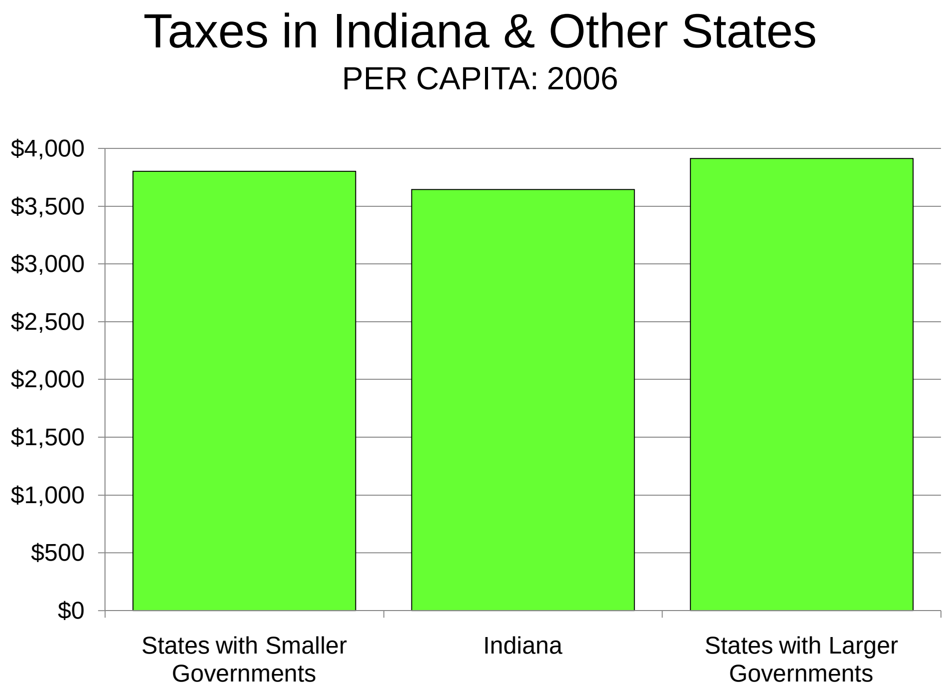

Figure 5

Debt per Capita by State

Government debt, in and of itself, is not a measure of government efficiency. However, the issuance of higher levels of debt can lead to significant losses in government efficiency, as higher than average debt service payments lead to higher taxation. This has been a typical contributor to the near municipal bankruptcies that have occurred in larger municipal governments over the past few decades, such as in the cities (municipalities) of New York, Cleveland and Pittsburgh. The financial difficulties of Indianapolis are referred to above.

Thus, debt per capita might be considered a “leading indicator” of government efficiency. Where debt per capita is higher, it necessarily contributes to higher taxation levels and less government efficiency and could, as noted above, lead to financial distress.

Thus, if the “bigger-is-better” theory of government efficiency is correct, larger units of government should exhibit generally *lower* levels of debt per capita. To examine this hypothesis, the average government size by state is compared to the latest available state and local government debt data from the United States Bureau of the Census.

Figure 6 shows the expected conceptual relationship between average local government population and state and local government debt per capita, ranked by state from the smallest to the largest average populations.

As in the case of taxation, the expected relationship is not indicated --- states with larger average local government sizes do not have less debt per capita. Figure 7 indicates the actual relationship between local government population and debt per capita. Some states with smaller local government units have higher debt per capita, while some states with smaller local government have lower debt per capita. The data shows that ***higher debt levels are not associated with smaller average government sizes.***

The lack of association between government size and government debt is also indicated specifically by Indiana. Indiana's per capita government debt is 20 percent below the average of the other states (Figure 8). Indiana has the 17th smallest average local government population in the nation. Thus, it would be expected that Indiana would rank approximately 17th highest in the nation in expenditures per capita. In fact, however, Indiana ranks considerably better, at 38th in debt per capita.

Further, 17 of the 18 states with the highest debt per capita have *larger* average local government populations than Indiana. Figure 8 indicates that Indiana has an average debt per capita below that of *both* states with larger governments and states with smaller governments. Moreover, states with *smaller* government populations have *lower* debt per capita, also indicating that "bigger-is-not-necessarily-better."

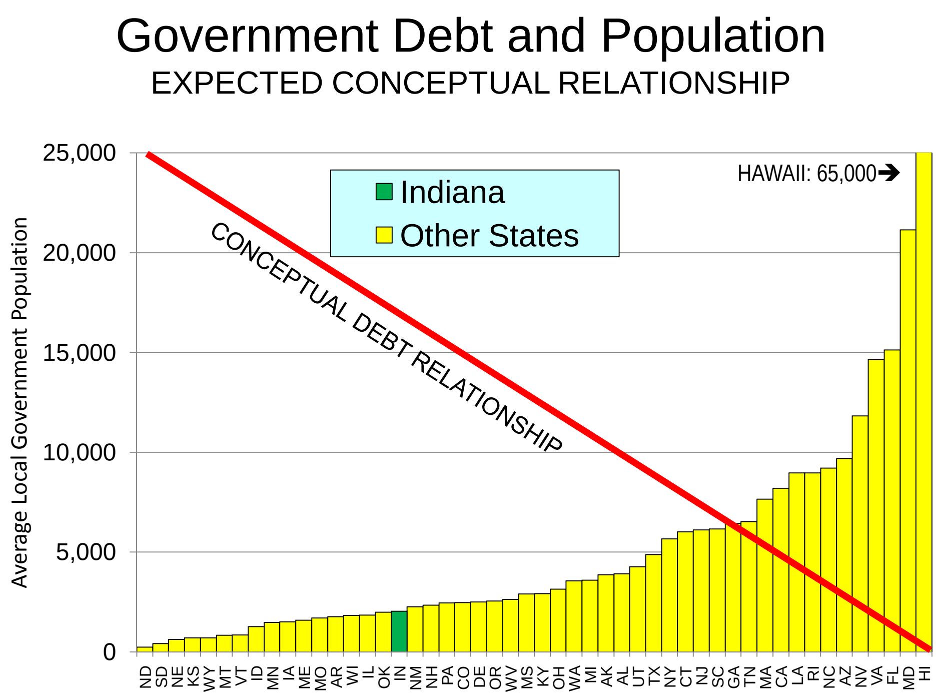

Figure 6

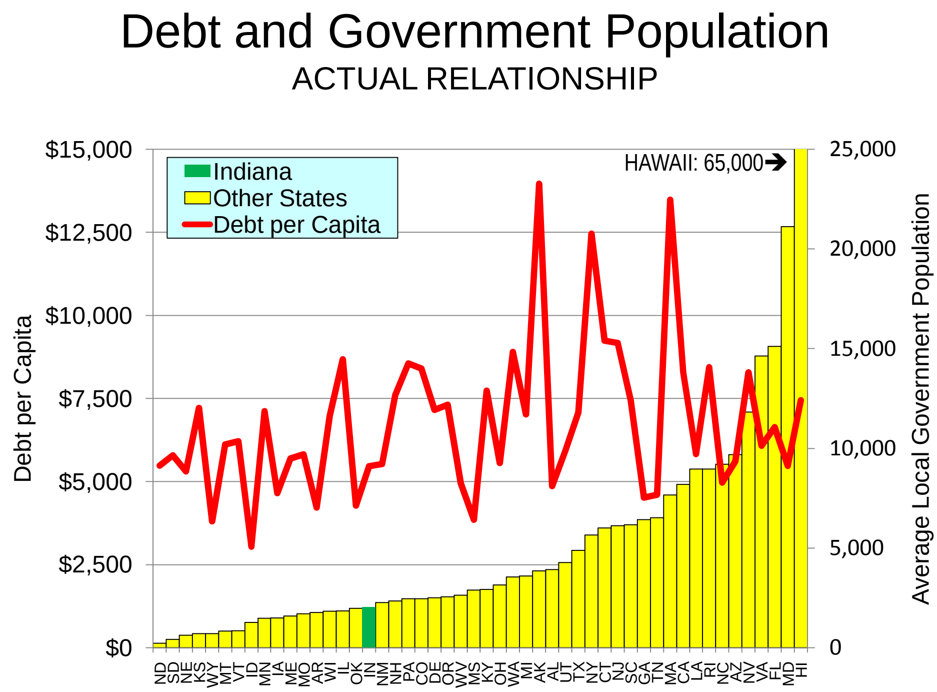

Figure 7

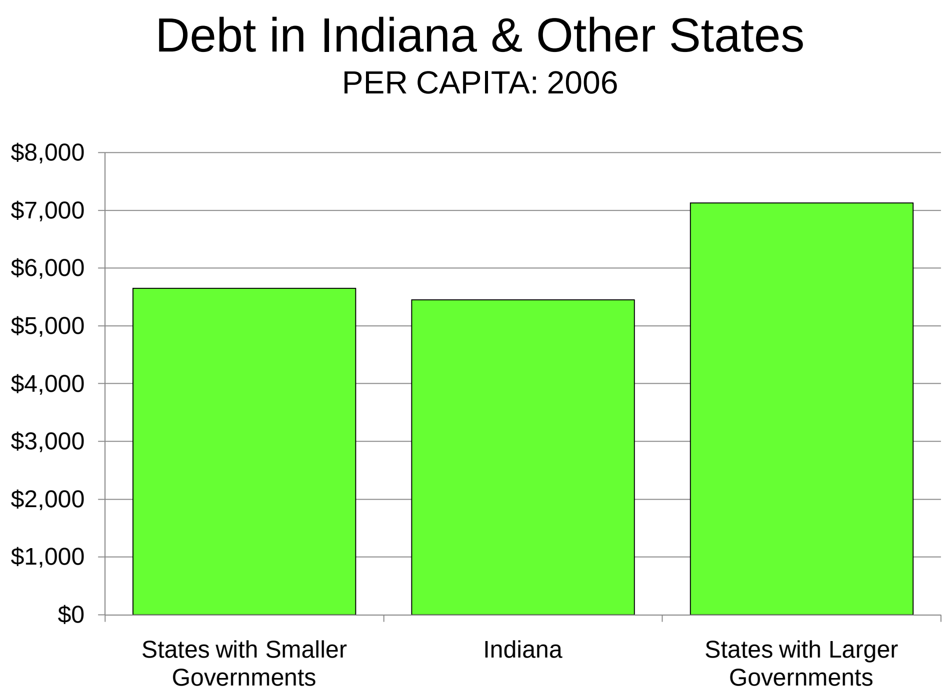

Figure 8

Elected Officials

The Commission on Local Government Reform also implies that a larger number of elected officials results in greater costs for taxpayers. This view is examined using US Census of Governments data. The latest count of elected officials by state was in the 1992 Census of Governments. While this data is dated, it is unlikely that the 1992 data is generally reflective of the current situation.

In 1992, Indiana had 19.6 local governments per 10,000 population, compared to the "other states" average of 33.7 (Figure 9). ***Thus, Indiana had fewer elected officials per capita than average relative to its population.***

Box
"Red Herring:" The Cost of Elected Officials:

Proponents of consolidation sometimes suggest that money will be saved by reducing the number of elected officials. This can be classified as a "red herring," because it focuses attention on a function of government that consumes little in resources and therefore represents little potential for reducing government expenditures. This is illustrated by a comparison of the costs of elected officials in the Victoria (Canada) metropolitan area, which has a number of local governments the similar sized Halifax metropolitan area, which has a single consolidated government. The consolidated Halifax government had similar governance costs to multi-jurisdictional Victoria, as salaries rose and additional support personnel were added. The additional administrative costs more than offset the savings from employing fewer elected officials.[31] More importantly, by reducing the number of local officials, local democracy is diluted by making government more remote from taxpayers.

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[31] Robert L. Bish, *The Cost of Municipal Officials in the Capital Region of British Columbia* http://web.uvic.ca/padm/cpss/lgi/pdfs/bbish/cost_municipal_elected_officials.pdf.

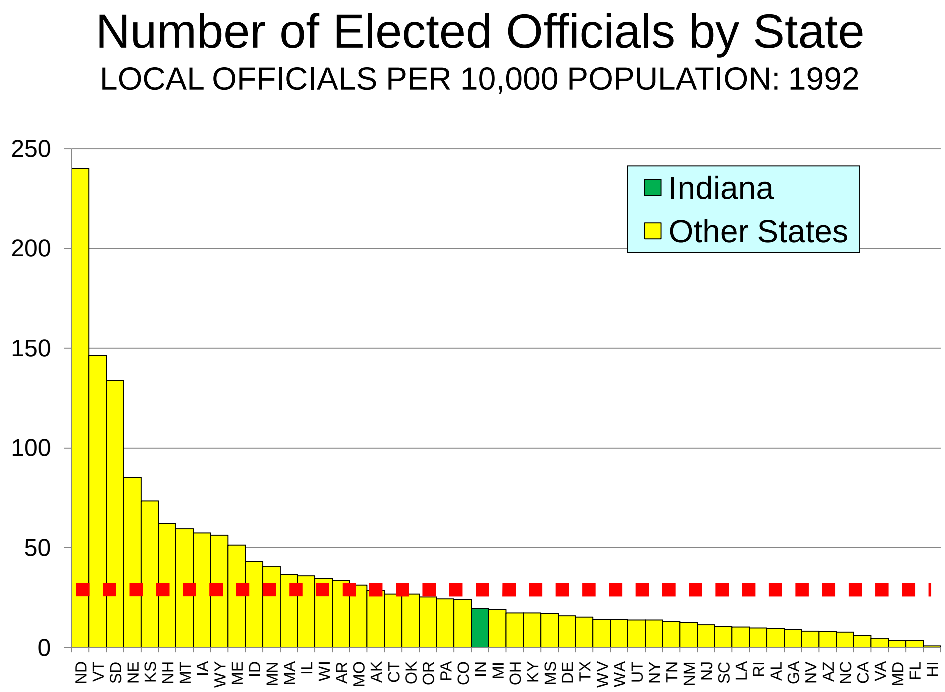

Figure 9

Figure 10 shows the expected conceptual relationship between average elected official constituency population and state and local expenditures per capita in 1992, ranked by state from the smallest to the largest average populations.

The data does not show the expected relationship. There is no association between having fewer elected officials and lower taxation per capita. Figure 11 indicates the actual relationship between average elected official constituency population and per capita taxation. Some states with smaller average sized elected official constituency populations had lower taxation per capita, while some states with smaller average sized elected official constituency populations had higher taxation per capita. ***Higher taxation is not associated with a larger number of elected officials.***

Population per Elected Official
EXPECTED CONCEPTUAL RELATIONSHIP: 1992

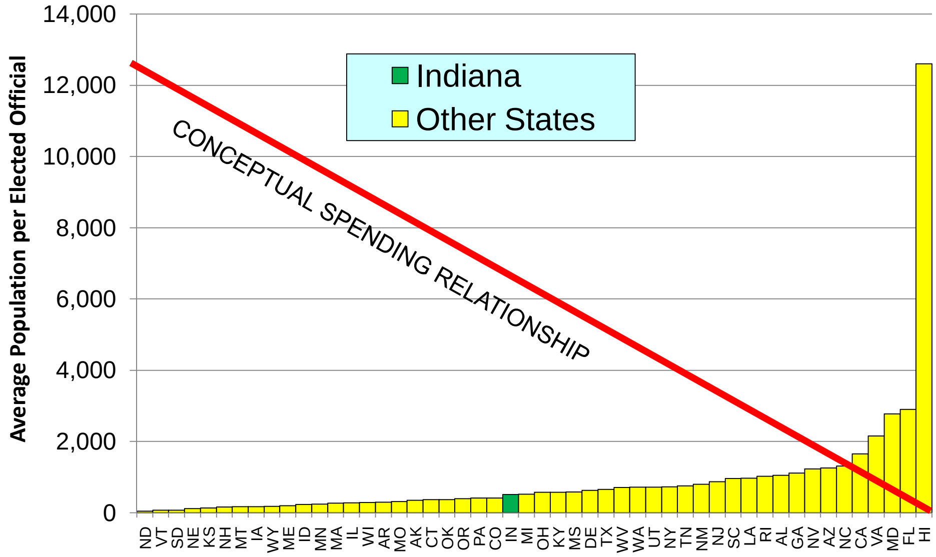

Figure 10

Population per Elected Official &Taxes
INDIANA AND OTHER STATES: 1992

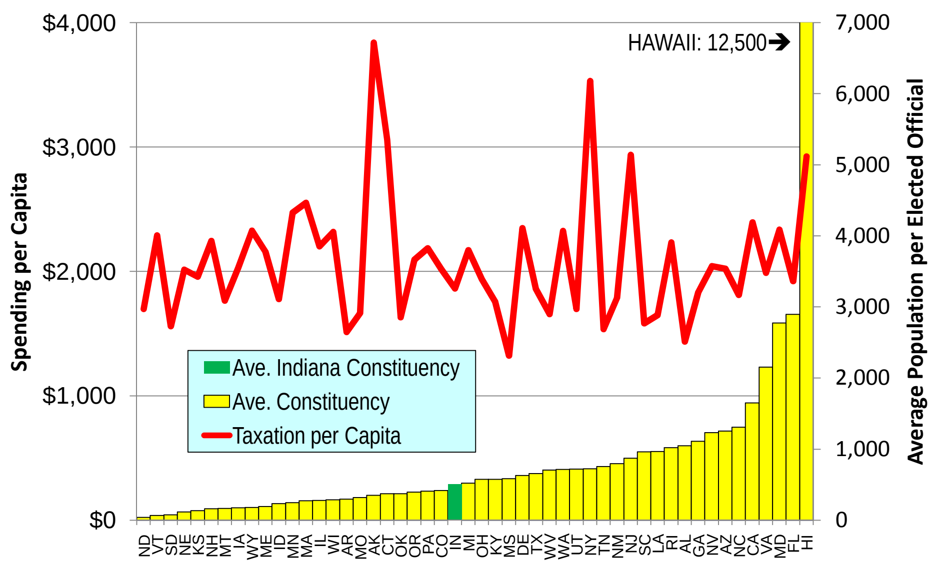

Figure 11

Case Study: Hawaii: The Ultimate in Consolidated Local Government

Hawaii provides evidence that government consolidation does not necessarily result in lower costs for taxpayers. Hawaii has only two types of general purpose government --- the state and counties. There are no cities, towns or townships and there are no school districts. This is the only state in which such a level of government consolidation exists.

State and Local Taxes: If lower taxes were associated with government consolidation, it would be expected that Hawaii's taxes would be the lowest in the nation. Yet, overall, state and local taxes per capita in Hawaii are sixth highest in the nation and 25 percent above average.[32]

Schools: Hawaii is also unique in having a single school district, administered by the state. This level of consolidation would be expected to produce lower costs for taxpayers. In fact, however, Hawaii primary and secondary education expenditures per pupil are slightly above (2 percent) the national average. Moreover, primary and secondary education costs have faster than the national average since 2000.[33]

Elected Officials: Further, Hawaii has the smallest number of elected officials in the nation in relation to its population. Each elected official represents an average of 25 times as many residents in Hawaii as in Indiana. Again, it would be expected that this would mean Hawaii should rank among the most efficient states, with the lowest state and local taxation per capita. Yet, Hawaii ranks sixth *highest* and well above average, as is noted above. ***This indicates that Indiana's greater democracy is not only more accessible and more accountable to the people, but also more efficient.***

Comparison to Indiana: If Indiana were to consolidate its government to the same extent as exists in Hawaii, there would be approximately 95 governments. This is a figure not significantly different than the number of counties in the state. Indiana would have government consolidation similar to that of Hawaii if all cities, townships, school districts and special districts were abolished, leaving only counties and the state.

Case Study Conclusion: Based upon "bigger-is-better" convictions of the Commission on Local Government Reform, it would be expected that Hawaii would have lower spending per capita than Indiana because of its higher number of local governments and elected officials. The opposite is true. Hawaii spends one third more per capita than Indiana and has a debt level per capita that is more than one third higher than in Indiana (Figures 12 & 13).

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[32] Based upon 2006 analysis, above.

[33] Calculated from United States Department of Education, *Digest of Education Statistics: 2007.*

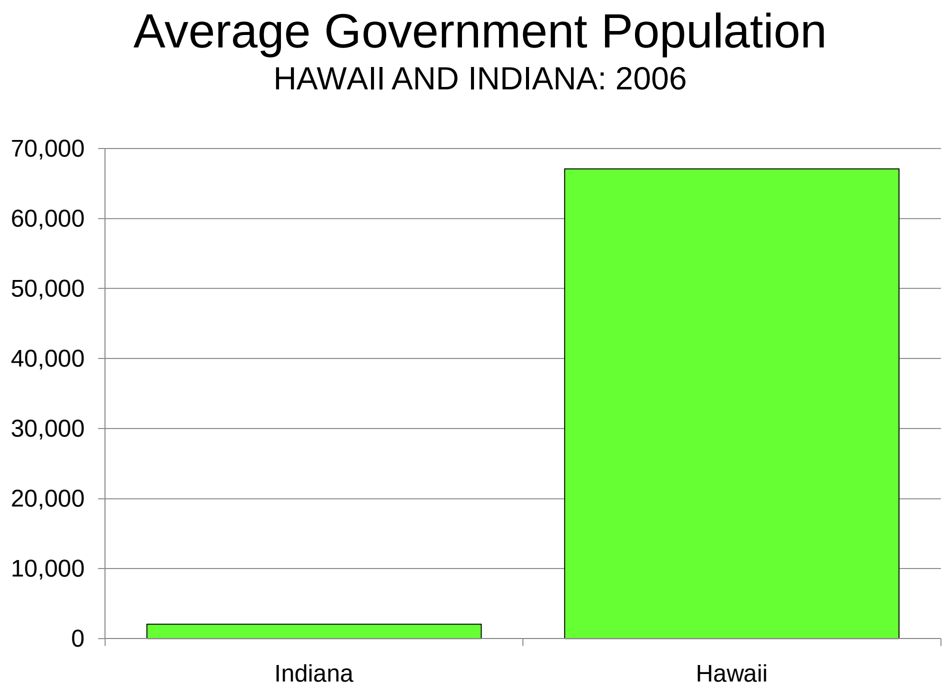
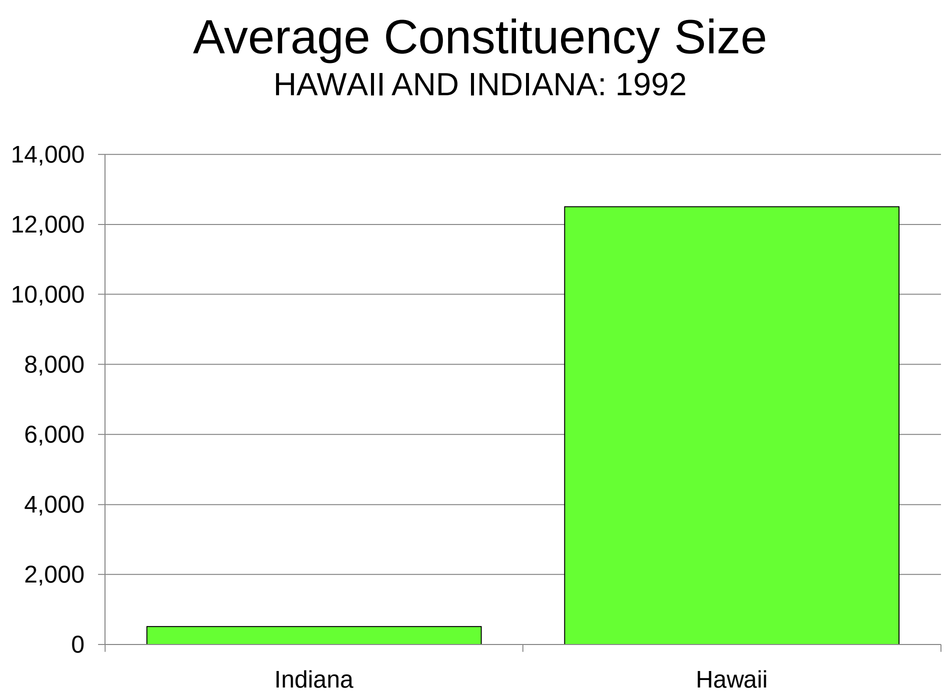

Average Government Population
HAWAII AND INDIANA: 2006
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
Indiana
Hawaii

Figure 12


Average Constituency Size
HAWAII AND INDIANA: 1992
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
Indiana
Hawaii

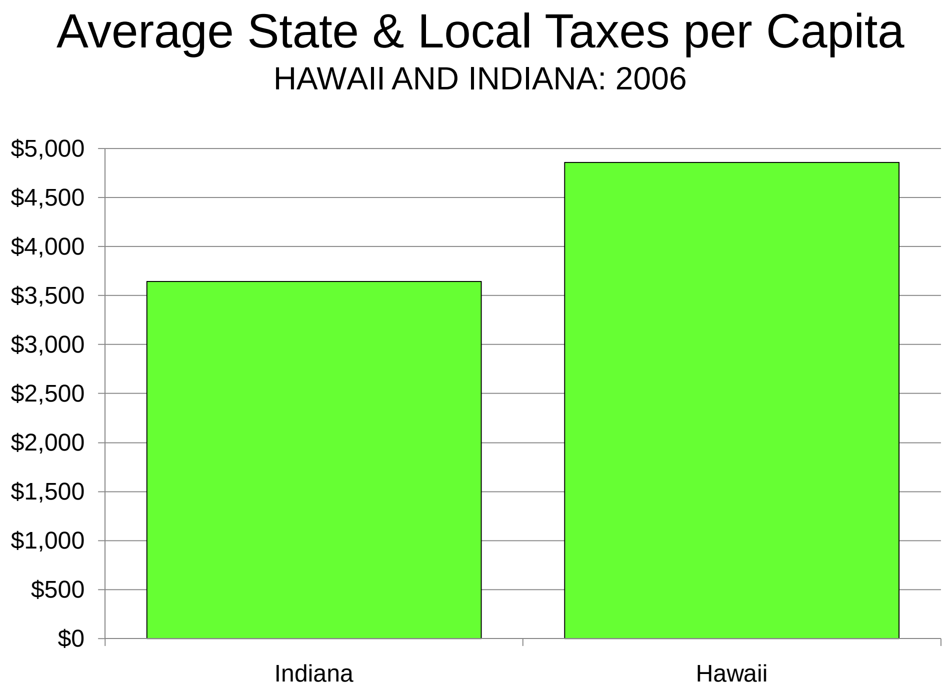


Figure 13

Local Government Analyses

Our local government studies on states with townships indicates generally lower spending and debt levels per capita where average jurisdiction populations are smaller. In both cases, Pennsylvania and New York, there is a high degree of local democracy with a reliance on smaller units of local government.

Pennsylvania: The Pennsylvania analysis covered all[34] of the general government units (approximately 2,500), which included a consolidated city-county government, cities, boroughs, townships of the first class and townships of the second class. The analysis, produced for the Pennsylvania Association of Township Supervisors, indicated a strong relationship between *smaller* units of local government and *greater* government efficiency[35] (Figures 14 and 15). The relationships were similar across the state, both within and outside major metropolitan areas.

Local government efficiency in Pennsylvania is associated with *smaller* units of government and is the opposite of what would be predicted by the bigger-is-better theory of government efficiency. Pennsylvania's greater local democracy is associated with more efficient local government.

[34] Except a small number for which there was not complete data.
[35] Wendell Cox, *Growth, Economic Development, and Local Government Structure in Pennsylvania,* Pennsylvania Association of Township Supervisors, 2005 **(**http://www.psats.org/local_gov_growth_report.pdf**).**

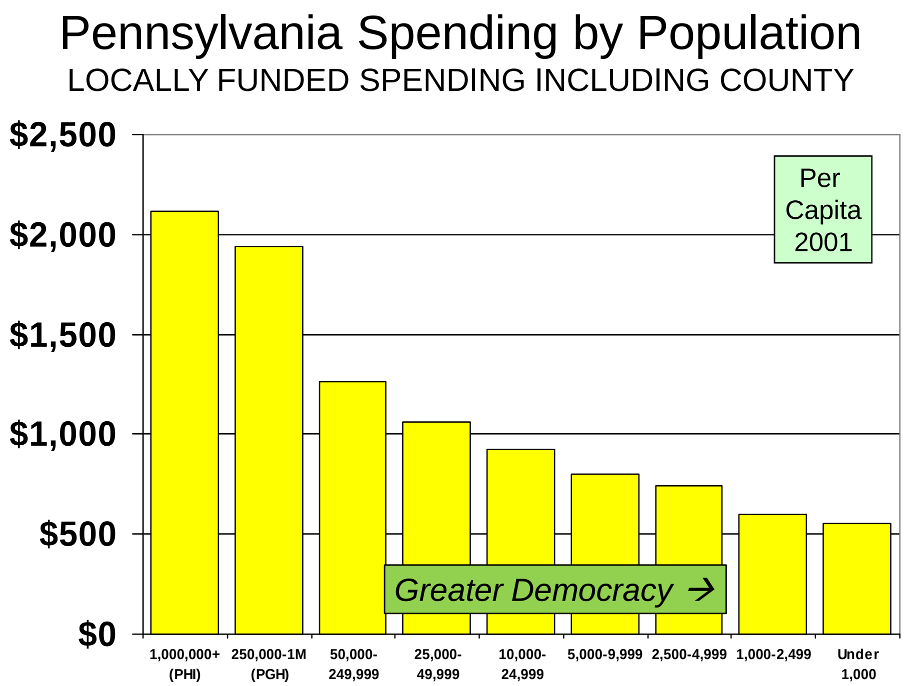


Figure 14

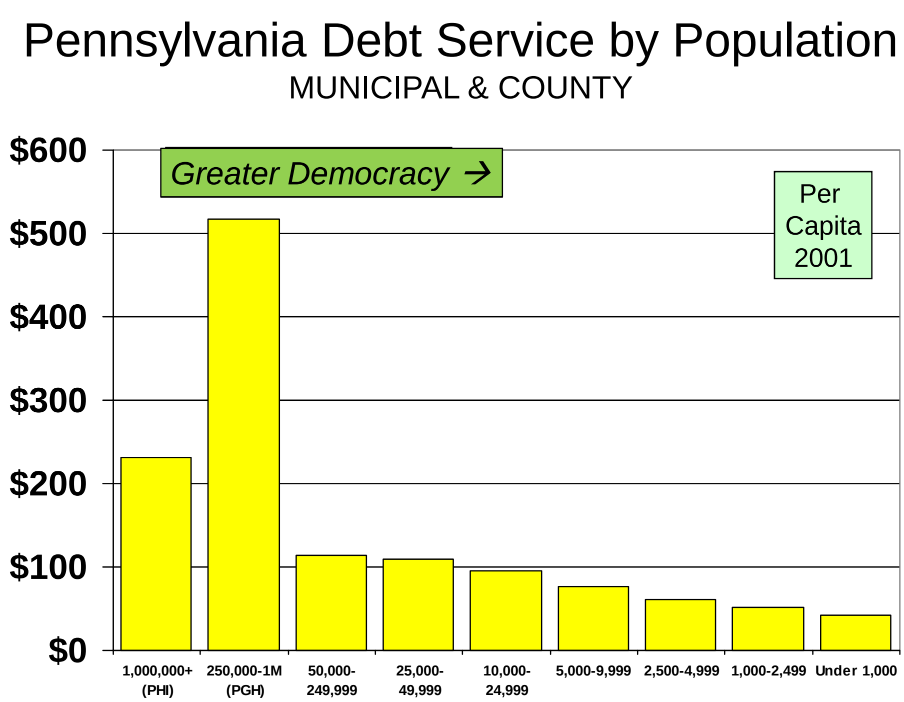


Figure 15

New York: The New York analysis covered all[36] of the general purpose local government units in New York (approximately 1,500), including a city-county consolidated government, cities, villages and towns (the functional equivalent of townships). The analysis, prepared for the State Association of Towns of New York, indicated a strong relationship between *smaller* units[37] of local government and *greater* government efficiency.[38] As in Pennsylvania, this association is indicated both by overall spending per capita and debt per capita (Figures 16 and 17). The relationships similar were across the state, both within and outside major metropolitan areas.

Local government efficiency in New York is associated with *smaller* units of government and is the opposite of what would be predicted by the bigger-is-better theory of government efficiency. New York's greater local democracy is associated with more efficient local government.

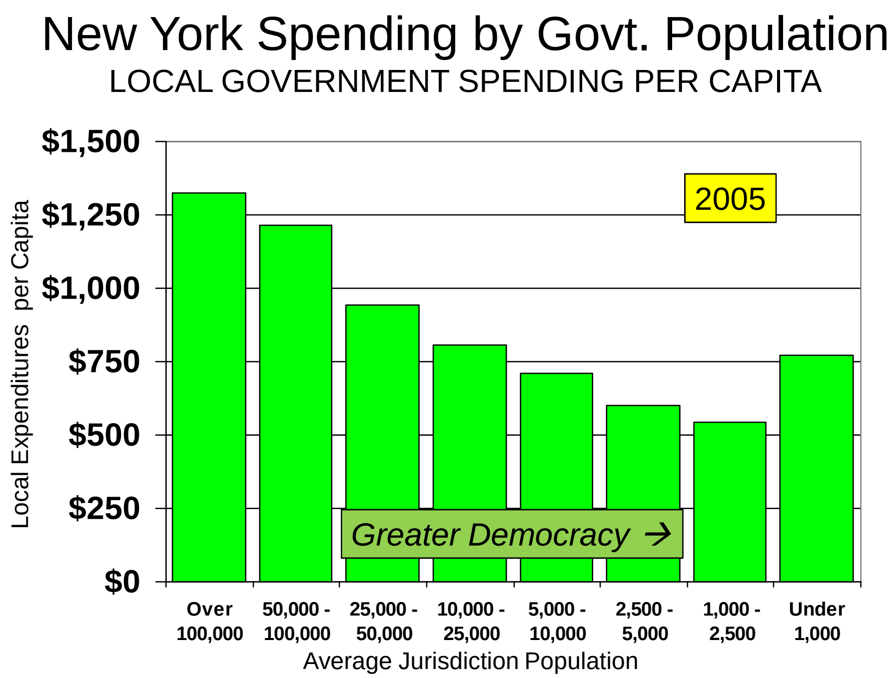


Figure 16

[36] All except a small number for which there was not complete data.
[37] Spending per capita in the smallest jurisdictions is skewed higher because of resort communities that have higher peak vacation period residents.
[38] http://www.natat.org/documents/government_efficiency.pdf .

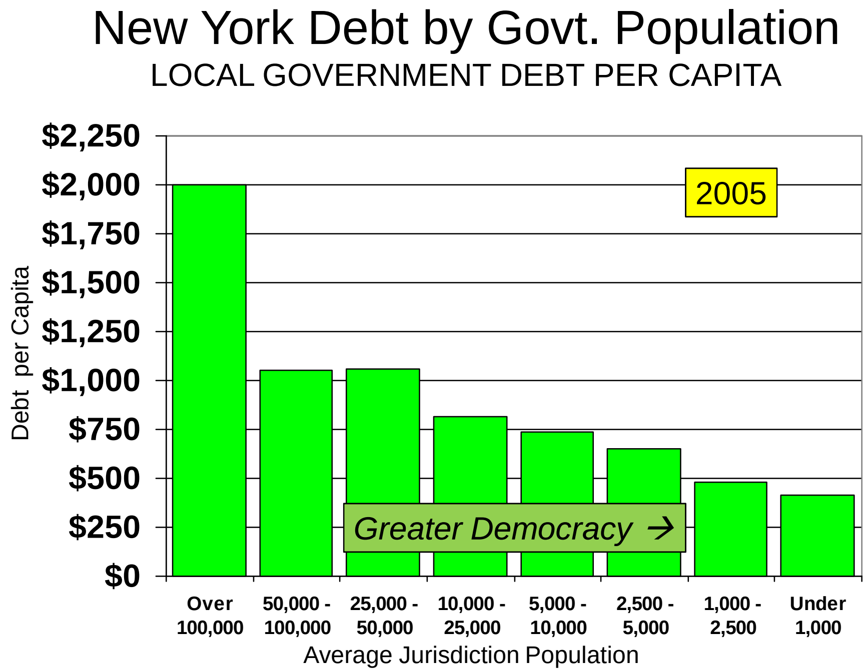


Figure 17

Conclusion: Based upon the state level analysis, it is concluded that there is no clear pattern that would associate larger units of local government with greater efficiency (lower spending levels per capita). In the case of Hawaii, with by far the largest local government units in the nation, spending per capita and debt per capita is well above the national average and well above Indiana's spending level. Moreover, there is evidence, in the "local government democracy" states of Pennsylvania and New York, that smaller units of local government are associated with *greater* efficiency, as indicated by lower spending per capita and lower debt levels per capita.

5. TOWNSHIP SERVICES AND GOVERNMENT EFFICIENCY IN INDIANA

The Commission on Local Government Reform has recommended that all township services be combined within counties, in the office of the county executives, which are proposed for all counties. The Commission anticipates that this would reduce spending, but, as noted above, provides no substantive financial analysis.

Fire Protection

The Commission on Local Government Reform recommends combining all fire protection services currently administered or arranged by townships into county government, under the control of proposed county executives. The Commission provides no analysis of how this recommendation would improve efficiency (lower costs)

The Ball State University report projects statewide savings in fire protection from consolidation, but *fails* to examine the fire services as they are provided in Indiana townships. The Ball State University conclusion is based upon a comparison of staffing levels for fire protection in *cities of more than 25,000 population* in Indiana and other states. The report *does not* include a review of Indiana township fire service staffing levels. In fact, fire service staffing levels are far lower in Indiana's townships than in its municipal governments of all sizes, not just cities of more than 25,000 population.

Full time equivalent (FTE) government employment per 1,000 residents in fire services at the township level is approximately 75 percent per capita below that of cities in Indiana (Figure 18).[39]

[39] Calculated from United States Bureau of the Census, Census of Governments, 2002 data.

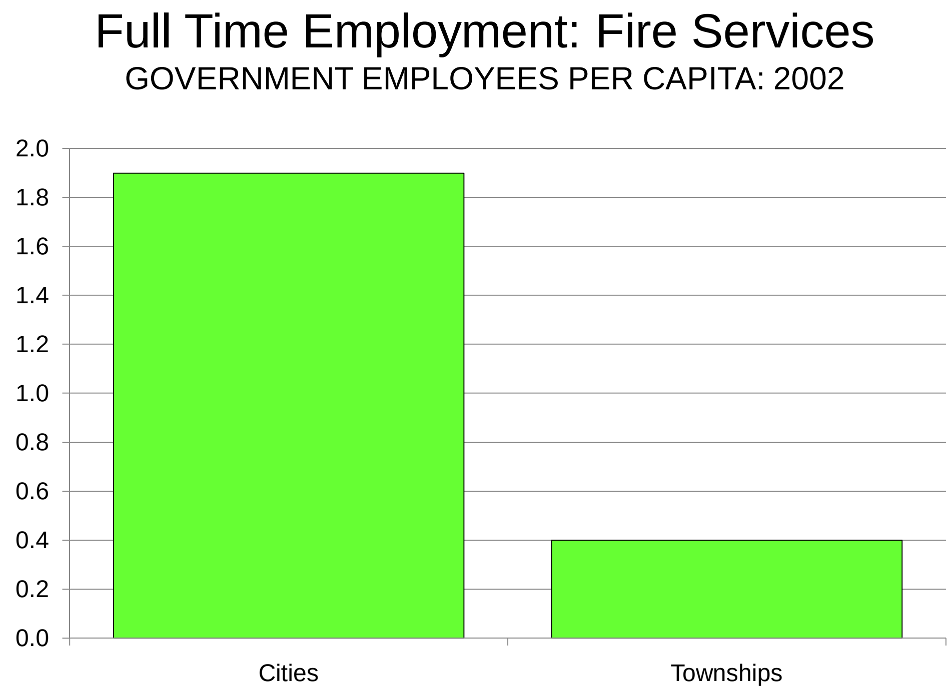


Figure 18

The principal reason for this superior FTE ratio is that most Indiana townships rely on volunteer fire departments. Further, many of the volunteer fire departments also provide emergency medical service. Volunteer fire departments have few full time employees. This is despite the fact that the largest township fire departments, in Marion County, are career fire departments. Volunteer fire departments are common not only in Indiana, but also across the United States.

Obviously, volunteer fire departments tend to be less costly that "career" fire departments because they do not principally rely on full-time employees. Further, there is comparatively little government administrative overhead expense associated with volunteer fire departments.[40] As a result, Indiana taxpayers pay considerably less for fire protection that they would without the large number of volunteer fire departments.

An illustration of the differences in costs was provided by Dr. Orville Power in an Indiana University report prepared for the Indiana Township Association.[41] The report provides data on the cost of fire protection in Howard County. In the city of Kokomo, with its career based fire department, taxpayers paid $296 per capita for fire protection in 2003. In the parts of the Howard County served by volunteer fire departments (principally townships), the taxpayer cost per capita was $12. Thus, in one county the cost of a career fire department was nearly 25 times per capita the cost of volunteer coverage (Figure 19).

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[40] Katharine V. Byers, John Mickesell, Orville Power, *Indiana Township Government: A Report to the Indiana Township Association*, Institute for Family and Social Responsibility, Indiana University, September 2005, p. 26.
[41] *Indiana Township Government: A Report to the Indiana Township Association*, p. 26.

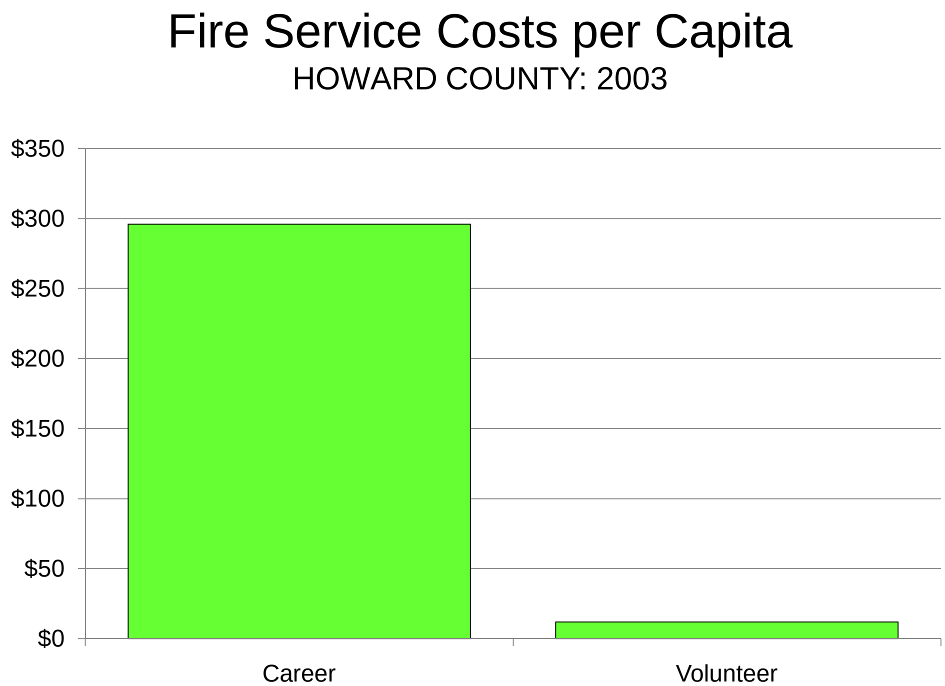

Figure 19

Dr. Power estimated that if all volunteer fire departments were to become career departments, the annual additional cost to Indiana taxpayers would be $430 million annually (more than $510 million in 2008$).

Even that estimate may be small. Based upon data in a report by St. Joseph's University for the National Volunteer Fire Council Foundation,[42] volunteer fire departments in Indiana may be saving the taxpayers approximately $1 billion annually, compared to the costs of career fire departments.[43]

This range, from $500 million to $1 billion in 2008 dollars represents the potential long term cost of consolidating township fire protection services under county governments. Of course, this would not necessarily happen immediately. However, it is likely that there would be a trend toward less reliance on volunteer fire departments and that they could substantially disappear.

There are a number of reasons for this threat to volunteer fire departments and the pocketbooks of Indiana taxpayers.

> Placement of all fire services under a county single authority would necessarily lead to bureaucratization of procedures. Training provides an example. Currently, volunteer firefighters earn their livings from other professions. This means that they must generally have their training conducted outside of normal government business hours. With

[42] http://www.nvfc.org/page/806/Download_the_Study.htm

[43] Assumes the modeled cost national average savings of $45,700 per firefighter from the report, multiplied by the number of volunteer firefighters (20,000, according to information provided by the Indiana Volunteer Firefighters Association) in the state and inflation adjusted to 2008$.

centralization at county courthouses, there is less likely to be the flexibility to complete training at times that are compatible with the schedule of firefighters who work at other jobs.

County governments are likely to impose "one-size-fits-all" requirements on volunteer fire departments, which currently have operating practices that have been developed based upon the differing requirements of their communities. New requirements could discourage current volunteer fire departments and their firefighters, leading to replacement by more costly career fire departments.

There is the potential of active efforts by career firefighter labor unions to diminish or eliminate the extent of volunteer fire departments. It is to be expected that career firefighter unions would prefer to be larger and for there to be more career firefighters, since organizations of all varieties routinely seek to expand. The problem is that such expansion would generally work against the efficiency objective established by Governor Daniels, and the interests of Indiana taxpayers by increasing costs per capita. Already, volunteer fire departments are disadvantaged by efforts by the International Association of Fire Fighters to prohibit its members from also serving in volunteer fire departments. A US General Accounting Office study indicated that more than 700 Indiana volunteer fire fighters are also employees of career fire departments. This kind of initiative makes recruitment more difficult for volunteer fire departments and could, by itself, lead to higher taxpayer costs if it diminishes the number of volunteer fire fighters.

It is thus reasonable to anticipate that consolidation into county governments would signal a process of reducing the role of volunteer fire departments and, by definition, increasing costs to taxpayers. The ultimate range of potential cost increases ($500 million to $1 billion) is many times the savings projected by the Indiana Chamber of Commerce from all of its 2004 recommendations (between $80 million to $150 million, adjusted to 2008$).[44]

Suffice it to say that consolidation of fire services under county executives can have only one implication with respect to efficiency and that is less efficiency (due to higher costs). Moreover, no evidence is presented by proponents to suggest that consolidation would improve the effectiveness of fire services.

Higher costs seem likely with respect to township career fire service consolidation in Marion County. As noted above, wage, benefit and work rule harmonization usually results in the expansion most expensive labor contracts in the combining jurisdictions being expanded to cover the entire new consolidated service. It would thus seem likely that costs in Marion County would rise to reflect the most expensive labor cost per hour worked and that higher costs would be the result. Thus, consolidation is likely to reduce fire service efficiency, even where the combining jurisdictions all have career fire departments.

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[44] An Indiana University Center for Urban Policy and the Environment report criticized the Chamber of Commerce cost savings estimates as being too high as a result of excluding some costs. See: https://www.policyarchive.org/bitstream/handle/10207/53/87_04C16GovRfm.pdf?sequence=1.

Thus, as regards fire protection, it is inconceivable that the recommendation to consolidate township fire protection services into county executive offices would save money. Implementation of the recommendation would lead to *less* efficient government, the opposite of what was intended.

Township Assistance

Township Assistance (formerly called “poor relief”) is provided throughout all of the jurisdictions of the state (including incorporated cities and towns) by townships. Township assistance includes emergency assistance to low income households, referrals to community agencies and longer term guidance to help households re-establish self-sufficiency. To be successful, this type of individualized service needs to be provided in a decentralized manner. Indiana’s average of 11 townships per county makes township assistance geographically close to virtually all of the households requiring it.

The Commission on Local Government Reform recommended that that township assistance be assumed by counties, under the proposed new office of county executive. The Commission provides no analysis indicating any potential cost savings.

It is not clear how much is paid in salaries and benefits for township assistance and the Commission report includes no such data. However, there are indications that township labor costs are relatively low. Some township trustees, whose average salary was reported to be less than $10,000 in the Indiana University study, directly provide township assistance. It seems likely that these services would have to be replaced by full time employees, which, with higher costs per hour worked (including fringe benefits) could well lead to higher costs.

The same analysis indicates that employees assigned to township assistance are likely to be paid less than comparable employees in county government. Moreover, there is a higher utilization of part-time employees, which likely means that fringe benefits costs are lower as well. These factors would also suggest that higher, rather than lower costs could result from consolidation.[45]

Moreover, township assistance is a very personalized, labor intensive public service. The Commission on Local Government Reform cites expectations that county executives would establish up decentralized offices to serve people on a local level, this is by no means guaranteed. Township assistance is often available outside normal business hours, which makes the service far more effective for households with immediate emergency needs. There is an average of 11 townships per county in the state and, as a result, an average of at least 11 township assistance offices per county.

> ***“Who is going to be there to answer the phone at 8 p.m. or on a Saturday? Certainly there will be no-one at the county.”***
>
> ***-A township trustee***

It seems unlikely that implementation of the proposed consolidation be accompanied by a sustainable level of decentralization equal to the service that now exists, close to clients, in every township. Indeed, with the recurring budget crises that are faced by governments, the small, geographically dispersed personalized service offices

[45] The Ball State University report projected no consolidation savings in public welfare.

administering township assistance would be obvious candidate line items for reduction or elimination. Moreover, with less local control, it is not unlikely that less administrative staff could be assigned to township assistance or that more bureaucratic procedures could diminish the personalized service that is currently provided to clients. With township assistance under the control of township governments, these consequences are unlikely.

It thus seems clear that transfer of township assistance to county executives is likely to lead to less efficiency --- higher costs. At the same time, there is substantial potential for degradation of service to Indiana households who need help the most. That would materially reduce the effectiveness of township assistance at the very time the nation is enduring the worst economic downturn since the Great Depression, with some of the most devastating impacts occurring in parts of Indiana.

Other Functions

Townships perform other functions, such as parks and recreation services and administration of cemeteries. As in the case of township assistance, it is difficult to compare today's costs to the future costs that might be incurred under administration by the proposed county executive. Yet, consolidation of these services under the county executives seems likely to lead to higher costs (*less* efficiency) because of the greater reliance of county government on full-time employees and the generally higher salary structures.

"Duplication" of Services

As is so often repeated, almost as a cliché by proponents, government consolidation is necessary to eliminate or reduce duplication of services. This is not the case with respect to township responsibilities in Indiana.

> Townships arrange or provide fire protection and emergency services *only* where the same services are not provided by other local jurisdictions.
>
> Townships administer *all* township assistance in *all* jurisdictions. No other level of government administers township assistance.

Higher Costs Are Likely

There seems virtually no potential for effecting cost reductions by consolidating township services under county executives. To the contrary, the proposed consolidation of township services is likely to considerably increase taxes and spending in Indiana. A longer term estimate could well exceed $1 billion more in spending at the local government level from fire service consolidation alone. Township assistance consolidation would increase this figure further, while likely leading to less effective service for households. Finally, eliminating townships would not reduce duplication of services because township services are not duplicated at any other level of government.

6. INDIANA: A COMPETITIVE STATE

Proponents of fewer governments have often suggested that states will become more competitive as a result of local government consolidation. In fact, however, our Pennsylvania report finds that there is no relationship between state competitiveness and the number of local governments.[46] Principal determinants of state competitiveness appear to be location (Frost Belt[47] v. Sun Belt), business climate and labor costs.[48]

Further Indiana is performing well competitively. Between 2000 and 2008, the state ranked 6th out of the 21 Frost Belt states in population growth. The Frost Belt has been losing residents to the Sun Belt for decades. Since 2000, the Midwest and Northeast have lost 2.4 percent of their residents to the Sun Belt. Yet, Indiana has done comparatively well. During the same period, Indiana experienced a modest 0.3 percent domestic migration loss,[49] ranking 6th best in net domestic migration percentage among the 21 states.[50] Only Wisconsin, Missouri, South Dakota, Maine and New Hampshire performed better than Indiana.

Indianapolis was the fastest growing metropolitan area of more than 1,000,000 population in the Frost Belt between 2000 and 2007. Indianapolis also attracted the largest net domestic migration percentage gain. The 10-county Indianapolis metropolitan area[51] gained more than 55,000 domestic migrants during the period, a figure more than double that of any other major metropolitan area in the Frost Belt (Table 1 and Figure 20).[52] Further metropolitan Indianapolis ranked 17th in domestic migration among all major metropolitan areas, above Houston and just behind Dallas-Fort Worth.

At the same time, Indiana continues to have an attractive cost of living and lifestyle. Housing, the most important element of the cost of living, has remained affordable throughout the housing bubble. Indianapolis has the most affordable housing of any metropolitan area with more than 1,000,000 population in the nation, with a Median Multiple (median house price divided by median household income) of 2.2 (Figure 21).[53] Even after the huge housing cost declines that have occurred in California, a median income household in metropolitan San Diego could still save more than $450,000 in purchase price and interest by purchasing the median priced house in metropolitan Indianapolis.[54] Home ownership is an important element of a high-quality lifestyle and Indiana's superior housing affordability contributes to its competitive lifestyle.

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[46] A similar conclusion is reached in the Ball State University report.
[47] US Bureau of the Census Midwest and Northeast regions.
[48] http://psats.org/local_gov_growth_report.pdf , pp 47-52.
[49] Domestic migration is residents moving from one area (in this case, state) to another.
[50] http://www.demographia.com/db-statemigra2008.pdf .
[51] Boone, Brown, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan, Putnam and Shelby counties (as defined by the US Bureau of the Census)
[52] Marion county had a net domestic migration loss of 47,000, while the suburban counties had a net domestic migration gain of 102,000. See: http://www.demographia.com/db-metmigracoreco.pdf.
[53] http://www.demographia.com/dhi.pdf.
[54] Assumes a 30 year mortgage at a 5 percent annual interest rate.

Housing affordability appears to be a principal reason why Indianapolis is gaining domestic migrants (while San Francisco, San Jose, Los Angeles, San Diego, Boston, Miami, New York and Washington are losing domestic migrants).[55]

Moreover, Indiana's business climate is well rated. The Tax Foundation rates Indiana as having the 14th most competitive business climate in the United States in its 2009 report. Indiana ranks 3rd out of the 21 Frost Belt states, behind only New Hampshire and South Dakota.[56]

Table 1
Population Growth & Net Domestic Migration: 2000-2007
Metropolitan Areas over 1,000,000 Population in the Frost Belt (Northeast and Midwest)

Metropolitan Statistical Area	2000	2007	Change	% Change	Net Domestic Migration	% of 2000
Indianapolis-Carmel, IN	1,531,170	1,695,037	163,867	10.70%	55,258	3.60%
Louisville/Jefferson County, KY-IN	1,165,123	1,233,735	68,612	5.90%	24,019	2.10%
Columbus, OH	1,619,606	1,754,337	134,731	8.30%	19,716	1.20%
Kansas City, MO-KS	1,842,912	1,985,429	142,517	7.70%	21,529	1.20%
Hartford-West Hartford-East Hartford, CT	1,150,972	1,189,113	38,141	3.30%	-6,746	-0.60%
Minneapolis-St. Paul-Bloomington, MN-WI	2,981,779	3,208,212	226,433	7.60%	-22,258	-0.70%
Cincinnati-Middletown, OH-KY-IN	2,014,727	2,133,678	118,951	5.90%	-17,109	-0.80%
St. Louis, MO-IL	2,701,667	2,803,707	102,040	3.80%	-34,093	-1.30%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	5,693,232	5,827,962	134,730	2.40%	-84,631	-1.50%
Providence-New Bedford-Fall River, RI-MA	1,586,886	1,600,856	13,970	0.90%	-37,550	-2.40%
Rochester, NY	1,038,405	1,030,495	-7,910	-0.80%	-39,404	-3.80%
Buffalo-Niagara Falls, NY	1,168,864	1,128,183	-40,681	-3.50%	-49,333	-4.20%
Milwaukee-Waukesha-West Allis, WI	1,502,338	1,544,398	42,060	2.80%	-67,067	-4.50%
Chicago-Naperville-Joliet, IL-IN-WI	9,119,158	9,524,673	405,515	4.40%	-477,254	-5.20%
Cleveland-Elyria-Mentor, OH	2,148,032	2,096,471	-51,561	-2.40%	-112,146	-5.20%
Boston-Cambridge-Quincy, MA-NH	4,402,652	4,482,857	80,205	1.80%	-260,176	-5.90%
Detroit-Warren-Livonia, MI	4,457,838	4,467,592	9,754	0.20%	-263,322	-5.90%
New York-Northern New Jersey-Long Island, NY-NJ-PA	18,356,506	18,815,988	459,482	2.50%	-1,643,228	-9.00%

Calculated from US Bureau of the Census data.
Includes metropolitan areas wholly or partly in the Frost Belt

55 http://www.demographia.com/db-haffmigra.pdf,
56 http://www.taxfoundation.org/research/show/22658.html.

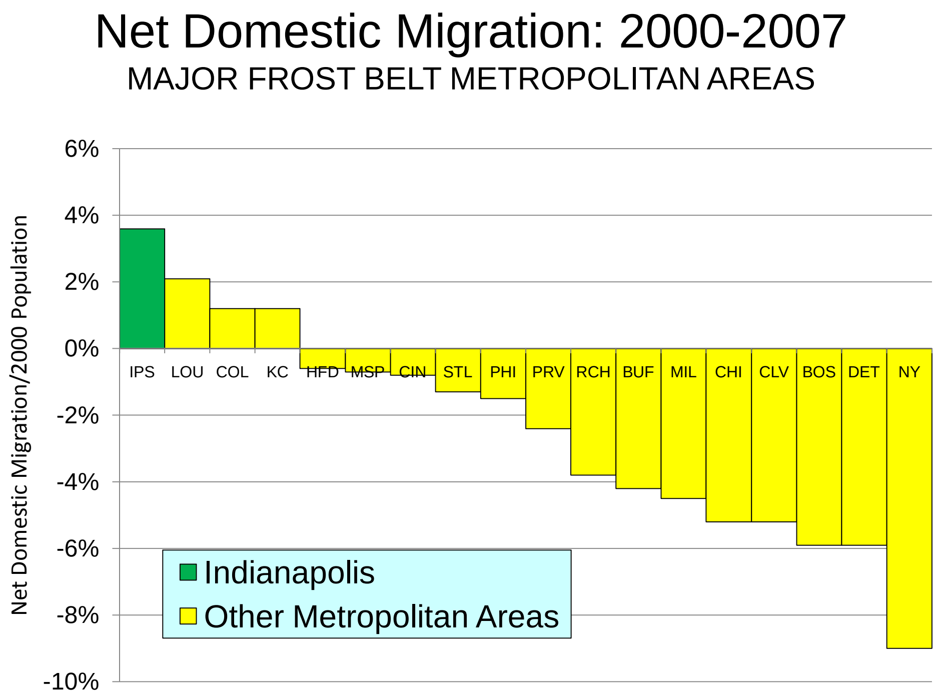

Figure 20

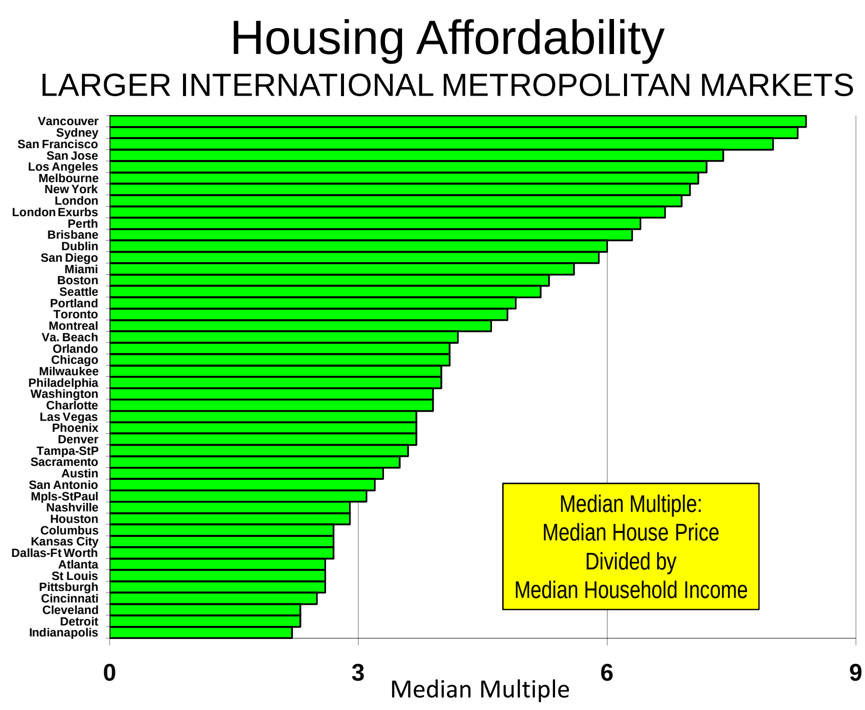

Figure 21

7. CONCLUSIONS

The Commission on Local Government Reform appears to have principally relied on opinions and assumptions, which are by their very nature subjective. The appropriate approach would have begun with an exhaustive review of the data.

Moreover, the Commission's focus was on the *means* of consolidating government and not on the *objective* of improving government efficiency. In a sense, the Commission began with a solution and set about seeking problems, at least with respect to township services. Any genuine initiative to improve government efficiency would appropriately begin with an examination of the means for improving efficiency, not a set of solutions.

The Commission on Local Government Reform's expectation of greater efficiency from consolidating township services into proposed county executive offices is not supported any analysis in its report. Moreover, the cost saving expectation is not reflected in the record of local government consolidations, or spending by average government size in the states. Indeed, comprehensive examinations of local government efficiency in "township" states demonstrate a strong relationship between smaller average local government sizes and *greater* efficiency (lower spending and debt levels per capita).

The particular circumstances of the proposed services to be consolidated in Indiana provide virtually no reasonable expectation that costs would be reduced. It is likely that much higher costs would be incurred as a result of declining reliance on volunteer fire departments. Township assistance and other township services would likely be provided by a larger complement of full-time employees, who would be compensated at higher levels than under the current township governments. This would not make government more efficient, rather it would lead to *less* efficient government, with an eventual annual price tag that could exceed $1 billion.

The Commission on Local Government Reform's strong belief that consolidation would lead to more efficient government is without defensible foundation. The Commission itself has provided nothing but rhetoric to support its contention that bigger-is-better among local governments. The people of Indiana deserve reality, not rhetoric. Reality can only be discerned by examining data, not opinions.

There is more than sufficient evidence that there is no necessary relationship between consolidated government and efficient government, nor are larger local governments necessarily more efficient than smaller government. Indiana's local governance model, which is based upon greater local democracy, is more efficient than the alternative proposed by the Commission on Local Government Reform and provides better value for taxpayers.