

Notes on Saint Louis City-County Merger

William H. Rogers

Version Date: 2019-01-31

Preface

This document is a collection of my notes on local government consolidation with a focus on a possible Saint Louis City-County merger. These notes are incomplete and will be updated sporadically.

Introduction to Fiscal Federalism

Saint Louis County Missouri contains a population of nearly one million with 91 municipalities (many with their own police departments), 25 school districts, 23 fire protection districts, 20 municipal fire departments, numerous county services, state representative districts, and more (see Jones 2011). Viewing a county map of all these districts is almost impossible to decipher. To promote simplicity, it seems prudent to combine these into one general-purpose local government. Appeals for at least some consolidation of government services in the region suggests potential cost savings, improved professionalism, reduced corruption, reduced tax competition, reduced red-tape, better business conditions, less socio-economic inequality, and giving one voice to the region.

By the 1950s, local governments were viewed as an inefficient way to deliver services to the public (Fischel 2001). The national government could deliver all local services with at a lower cost and with greater professionalism (see Samuelson 1954, 1948). Still, in the face of these claims, Saint Louis County has become ever more decentralized since the 1950s (Jones 2000), and attempts to unify Saint Louis County and Saint Louis City have not materialized (see Jones 2000, 2011). Additionally, decentralization in the area is more extensive when considering the interaction of municipal governments and community associations (Rogers 2010). Is this the wrong direction? Would residents be better off with fewer or even one local government?

There is a small mountain of social science literature looking into the above questions, which will be referred to as the *fiscal federalism* literature, throughout this review. The main lesson from the research is relatively clear, if residents largely agree on the mix of local services and local taxes *and* the cost structure of these

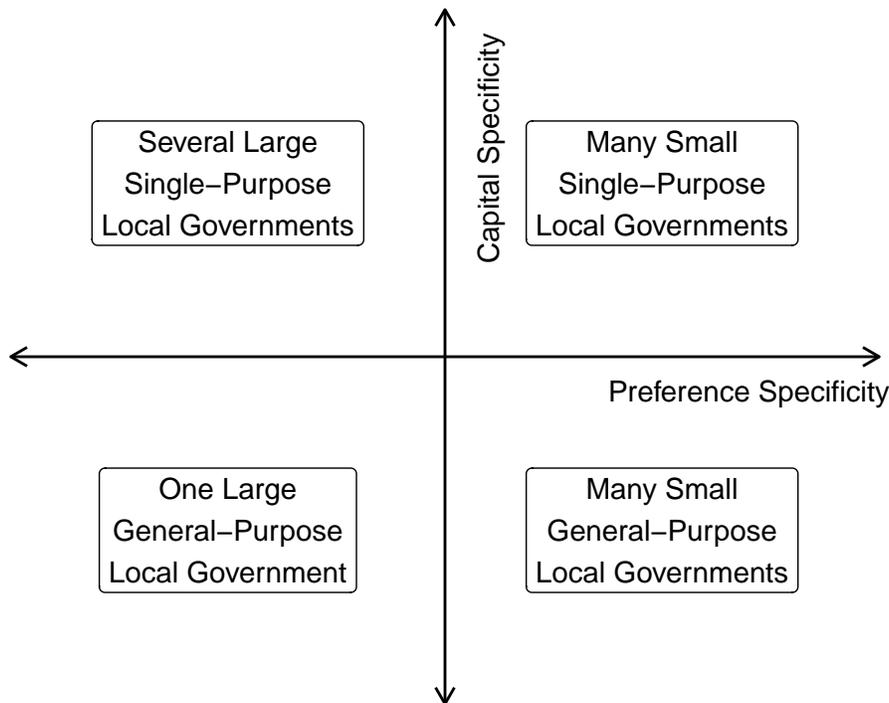


Figure 1: Local Government Formation

services remain the same, then local-government consolidation may be optimal. On the other hand, if the residents are diverse in their preferences and providing the desired services requires specialized equipment and skills, then the optimal governance structure will be complex.

Local-government complexity can be arranged on a grid, as the below figure depicts. As capital (and labor skills) needed to provide the mix of services becomes more specialized (i.e. *Capital Specificity*) it becomes prudent to create special districts or single-purpose governments (e.g. school districts, fire districts, sewer districts). Likewise, as people differ more in their preferences (i.e. *Preference Specificity*) for the mix of local-government services and taxes, it becomes prudent to create additional local governments. In this arrangement, one large general-purpose local government is optimal only if residents want the same services and the cost structures of those services are identical.

The fiscal federalism literature does not imply consolidation is never a good idea, only that it depends on specific details of the region. For example, Brueckner (2004) shows that even when relying on a capital-distorting tax (e.g. property taxes), fiscal decentralization is optimal when in the “south-eastern” corner of the above figure. On the other hand, if service production has large economies of scale or if preferences are largely the same, then a decentralized system will engage in a “race-to-the-bottom” form of tax competition.

The remainder of this essay will highlight the most relevant issues of the fiscal federalism literature and review academic research on actual cases of consolidation.

Fiscal Federalism Theory

Modern fiscal federalism theory starts with the Tiebout Model (Tiebout 1956; Oates 1972; Henderson 1985; Brueckner 2004). In contrast to Samuelson (1954), who argued that decentralized decision making will provide too little local-government services, Tiebout (1956) argued that a patch-work of small local governments can provide the optimal amount of services. While Tiebout's work was initially ignored until the 1970s, at a low-point of faith in the federal government's ability to provide solutions, it has inspired nearly all the local government research since.

The main idea behind the Tiebout Model is that people can express their sanctification with local government officials at the ballot box and with their feet. Effective local governments will attract more residents, all else equal, and ineffective local governments will face a decline in population, all else equal. Since moving from one local government to another is much easier than moving from one country to another, local government officials will receive more feedback compared to a national government elected official.

The extra layer of feedback is useful given the well-documented limitations of democracy as outlined by the public choice literature (see Buchanan and Tullock 1962). Administrators of large local governments are more likely to be captured by development interests or maintaining the bureaucratic structure (Hoyt 2006), which leaves them less able to respond to local residents.

Furthermore, residents may incorporate conditions of neighboring jurisdictions to measure the performance of their own taxes and services.

It is also important to distinguish between provision of services and production of services. Small local governments would not be able to produce trash services efficiently, as they would need to hire staff and specialized equipment to match larger trash service providers. Instead, small local governments can contract out trash services from another larger local government or from the private sector. Of course, the viability of effective outsourcing will depend on the cost structure of the service. Outsourcing trash services may be effective, but sewer services may not.

One implication of fiscal federalism, according to the Tiebout Model, is population stratification by preferences. People will sort themselves into communities that provide the best match of services and taxes relative to individual preferences. If these preferences are changed by or simply correlated with income, ancestry, or any

other demographic, then the region will also be stratified.

It is difficult to know ahead of time if stratification by local government services is a problem. It is easier to design public services for small homogeneous populations. A region with small club-like service providers will generally raise welfare if preferences are diverse (Helsley and Strange 1998). On the other hand, when one large local government attempts to satisfy a diverse population, at best only the median voter will be recognized and at worst special interests.

Small local government may be more responsive to the desires of their members, but low-income communities will still have fewer resources to work with no matter how responsive the local government. One large local government would be able to redistribute taxes to fund services that benefit low-income households. In practice, however, redistribution at the city-level is unstable as high-income residents are more willing to move out (Glaeser 1998) and change zoning laws to limit the mobility of low-income households (Fischel 1987). Still, even if redistribution was stable, neighborhoods would remain stratified.

Another line of research focuses on that last point about stratified neighborhoods. There has long been concern about peer-group effects in primary and secondary education (Hanushek et al. 2003). Similar concerns exist at the neighborhood level through role-model effects (Bartolome 1990; Benabou 1993).

The Saint Louis Experience

The full history of municipal development, annexation, and succession in the Saint Louis area is covered by E. Terrence Jones's book *Fragmented By Design* (see Jones 2000). Much of the local-government decentralization was defensive in nature. The succession of Saint Louis City from Saint Louis County in 1876 was largely an effort to protect the city's coffers from cost of financing rural infrastructure in the rest of the county. A wave of municipal incorporation in the county during the 1930s and 1950s were done to protect unincorporated county residents from existing municipalities looking to shore up their finances through annexation.

Other incorporations, as the Tiebout Model predicts, were done for tax purposes, to provide a different mix of services, to develop different zoning regulations (Rogers 2010), or for social reform. Similar to special districts, they were built to deal with particular problems. Unlike special districts, municipalities are general-purpose local governments.

The problems with this model is that it forces all services (e.g. police, zoning, and sewer) to be produced at the same scale, and does not allow for sufficient governance change when the underlying economic conditions change. As Jones (2011) details a city-county re-merger requires significant legal surgery to complete properly.

Furthermore, Jones (2000) notes the appropriate alternative to consolidation, which is a relatively robust form of cooperation between the city and county governments. The Metropolitan Sewer District, Zoo-Museum District, Convention and Visitors Commission, and Regional Arts Commission are all great examples of cooperation between the two government agencies. One consequence of cooperation is that it reduces the potential for consolidation gains.

Fiscal Federalism Experience

The evidence produced above does not provide support for the full consolidation of Saint Louis City and Saint Louis County. Still, it may be the case that voters only approve of consolidation when the conditions are right. To that end, the most recent review of the consolidation literature concludes that there are no clear benefits after consolidation (Carr and Feiock 2016).

Simply put, the ability of consolidated government to produce the benefits promised by its proponents has not been established. Claims that these benefits are plainly in evidence in existing consolidated governments are a staple of newspaper editorials, but systematic analyses of the political, economic, and fiscal effects of city-county consolidation are conspicuously absent. — Carr and Feiock (2016), Page 6

Regional Growth

Carr and Feiock (1999): After controlling for state-wide economic growth, they found no correlation between fragmentation and income growth in manufacturing and service industries for 9 cities.

Post and Stein (2000): After controlling for state-wide economic growth, they found no correlation between fragmentation and income growth for 150 metro areas.

Hammond and Tosun (2011): Found a decline in growth in the face of many general-purpose local governments.

Faulk and Grassmuck (2012): 62 communities who all voted on consolidation at least once from 1970 to 2002. 12 communities saw the measure pass. There was no significant evidence that consolidation lowers local government spending. There was no attempt to control for the quality of government services.

Fiscal Outcomes

Boyne (1992): Lower spending when many small general-purpose governments, but no impact relative to single-purpose units, which is consistent with Brueckner (2004). No control for service quality.

Bunch and Strauss (1992): Consolidation is potentially helpful for small cities with declining populations. No control for service quality.

Parks and Oakerson (1993): Small local governments seem to provide the same services at lower cost.

Liner (1994): Cities that annexed neighboring areas did not realize cost savings for fire, police and sewer provision.

Moore, Nolan, and Segal (2005): City size and service scale was unrelated to cost savings across 46 major U.S. cities.

Schools

Hoxby (2000): Competition between public school districts may lead to better academic performance.

Police

Gyimah-Brempong (1987): evidence of dis-economies of scale in Florida police departments in cities with at least 5,000 people.

Gyapong and Gyimah-Brempong (1998): no evidence of economies of scale in Michigan police departments in cities with at least 5,000 people.

Finney (1997): looked at 14 suburban police departments in Los Angeles County, CA and found extensive sharing of resources but no sign of economies of scale.

Krimmel (1997): Consolidation of eight police departments in rural Pennsylvania (1972) lead to lower total expenditures, more opportunity for training and implementation of specialized units. No measurement of service quality was made.

McDavid (2002): The consolidation of three Nova Scotia police departments followed higher real costs, fewer officers, higher workloads, no change in crime rates, and lower satisfaction among people who called the police

Fire

Duncombe (1992) and Duncombe and Yinger (1993): Consolidation of small fire departments in New York State will not result in cost savings.

Political Participation and Satisfaction

Social Stratification

Environmental Issues

Consolidation Research Organized By Location

Indianapolis–Marion County, Indiana (1969)

According to Rosentraub (2000), the Indianapolis–Marion County consolidation (“UniGov”) was promoted in the 1960s as a way to promote the image of the city and rebuild the downtown area; and thus, consolidation was limited to the city-county’s economic development primarily by focusing on the downtown area. Most local-government services were still left to the smaller agencies.

This limited but focused consolidation redirected county’s debt-levering resources and federal funds to promote Indianapolis’s downtown. Extensive use of tax abatements and tax increment financing meant a significant change and spatial variation in tax burdens.

Blomquist and B.Parks (1995), Rosentraub (2000), and Segedy and Lyons (2001) all agree that economic development of the downtown and the city-county area grew as a result. However, it is important to consider regional data limitations pre-1969. For example, regional data on income and employment was not published by the U.S. Bureau of Economic Analysis until 1969. Without quality information pre-consolidation it is difficult to develop a clear picture of Indianapolis’s performance compared to the region.

Another complicating factor is the change in political-party power. After consolidation the Republican party dominated local politics for several decades afterwards and political participation declined in the long-run (Blomquist and B.Parks 1995). It is not clear how much single-party control or even Republican control impacted city-county development, but no study has attempted to split consolidation impact from political-party impact.

The perception of local-government service quality did not change (Blomquist and B.Parks 1995), which is not surprising given the limited focus of UniGov.

Through the Tiebout Model, the UniGov experience is an example of voters acting as if they believe economic growth is best accomplished at the combined city-county level, while most other services should still be provided at a smaller scale.

- Economic Development: positive impact (Blomquist and B.Parks 1995; Rosentraub 2000; Segedy and Lyons 2001)
- Perception of Service Quality: no impact (Blomquist and B.Parks 1995)
- Voter Participation: negative long-term impact (Blomquist and B.Parks 1995)
- Administrative Professionalism: positive impact (Rosentraub 2000)

Athens–Clarke County, Georgia (1990, 1991)

Consolidation was expected to reduce redundant government services and promote cooperation. The vote passed in 1990 and the new government as fully operational by 1991.

Economic growth seems to have slowed slightly after consolidation. Some departments saw cost savings but most did not, and overall government spending grew. Transition costs were higher than anticipated.

- Employment Growth: weak negative impact (Hall, Matti, and Zhou 2017)
- Population Growth: weak negative impact (Hall, Matti, and Zhou 2017)
- Income per Person Growth: weak negative impact (Hall, Matti, and Zhou 2017)
- Government Expenditures: positive impact, i.e. higher expenditures after consolidation (Selden and Campbell 2000)
- Cost Savings: weak positive impact (Selden and Campbell 2000)

Lafayette City–Lafayette Parish, Louisiana (1992, 1996)

The city was on a growth and annexation path. Consolidation was more of a final step along this path. The vote passed in 1992 and the new government as fully operational by 1996.

The Lafayette City-Lafayette Parish consolidation seems to have been a success in growth of income per person, total employment, and population. Shortly after consolidation, the area issues several hundreds of millions of dollars in infrastructure spending. Hall, Matti, and Zhou (2017) suggests these bonds were possible only after consolidation, but the cause of the new bonds are not apart of their model.

- Establishment Growth: no impact (Faulk and Schansberg 2009)
- Employment Growth: no impact (Faulk and Schansberg 2009); positive impact (Hall, Matti, and Zhou 2017)
- Population Growth: positive impact (Hall, Matti, and Zhou 2017)
- Income per Person Growth: positive impact (Hall, Matti, and Zhou 2017)

Augusta–Richmond County, Georgia (1995, 1996)

Consolidation was seen as a way for Augusta to avoid bankruptcy. The vote passed in 1995 and the new government was fully operational by 1996.

- Establishment Growth: no impact (Faulk and Schansberg 2009)
- Employment Growth: no impact (Faulk and Schansberg 2009); negative impact (Hall, Matti, and Zhou 2017)
- Population Growth: negative impact (Hall, Matti, and Zhou 2017)
- Income per Person Growth: weak negative impact (Hall, Matti, and Zhou 2017)

Kansas City–Wyandotta County, Kansas (1997, 1997)

Consolidation was seen as a way to spur economic development and improve government accountability (Faulk and Schansberg 2009).

- Establishment Growth: no impact (Faulk and Schansberg 2009)
- Employment Growth: negative impact (Faulk and Schansberg 2009)

Louisville–Jefferson County, Kentucky (2000,)

- Payroll Growth (Manufacturing, Retail, Service): no impact (Carr, Bae, and Lu 2006)

References

Bartolome, Charles A. M. de. 1990. "Equilibrium and Inefficiency in a Community Model with Peer Group Effects." *Journal of Political Economy* 98 (1): 110–33. <http://www.jstor.org/stable/2937644>.

- Benabou, Roland. 1993. "Workings of a City: Location, Education, and Production*." *The Quarterly Journal of Economics* 108 (3): 619–52. <http://dx.doi.org/10.2307/2118403>.
- Blomquist, William, and Roger B.Parks. 1995. "Fiscal, Service, and Political Impacts of Indianapolis-Marion County's Unigov." *Publius: The Journal of Federalism* 25 (4): 37–54. <http://dx.doi.org/10.1093/oxfordjournals.pubjof.a038224>.
- Boyne, George A. 1992. "Local Government Structure and Performance: Lessons from America?" *Public Administration* 70 (3): 333–57. <http://dx.doi.org/10.1111/j.1467-9299.1992.tb00942.x>.
- Brueckerner, Jan K. 2004. "Fiscal Decentralization with Distortionary Taxation: Tiebout Vs. Tax Competition." *International Tax and Public Finance*, 11 (2): 133–53. <https://doi.org/10.1023/B:ITAX.0000011397.47855.7c>.
- Buchanan, James M., and Gordon Tullock. 1962. *The Calculus of Consent: Logical Foundations of Constitutional Democracy*. University of Michigan Press. <http://www.econlib.org/library/Buchanan/buchCv3.html>.
- Bunch, Beverly, and Robert Strauss. 1992. "Municipal Consolidation an Analysis of the Financial Benefits for Fiscally Distressed Small Municipalities." *Urban Affairs Review* 27 (June): 615–29.
- Carr, Jered B., Sang-Seok Bae, and Wenjue Lu. 2006. "City-County Government and Promises of Economic Development: A Tale of Two Cities." *State and Local Government Review* 38 (3): 131–41. <https://doi.org/10.1177/0160323X0603800301>.
- Carr, Jered B., and Richard C. Feiock. 1999. "Metropolitan Government and Economic Development." *Urban Affairs Review* 34 (3): 476–88. <https://doi.org/10.1177/10780879922184031>.
- . 2016. *City-County Consolidation and Its Alternatives: Reshaping the Local Government Landscape : Reshaping the Local Government Landscape*. Reshaping the Local Government Landscape. Routledge. <http://ezproxy.lindenwood.edu:2048/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=e000xna&AN=1286191&site=ehost-live>.
- Duncombe, William. 1992. "Costs and Factor Substitution in the Provision of Local Fire Services." *The Review of Economics and Statistics* 74: 180–84.
- Duncombe, William, and John Yinger. 1993. "An Analysis of Returns to Scale in Public Production, with an Application to Fire Protection." *Journal of Public Economics* 52 (1): 49–72. <http://www.sciencedirect.com/science/article/pii/0047272793901042>.

- Faulk, Dagney, and Georg Grassmueck. 2012. "City-County Consolidation and Local Government Expenditures." *State & Local Government Review* 44 (3): 196–205. <http://www.jstor.org/stable/42002350>.
- Faulk, Dagney, and Eric Schansberg. 2009. "An Examination of Selected Economic Development Outcomes from Consolidation." *State and Local Government Review* 41 (3): 193–200. <https://doi.org/10.1177/0160323X0904100304>.
- Finney, Miles. 1997. "Scale Economies and Police Department Consolidation: Evidence from Los Angeles." *Contemporary Economic Policy* 15 (1): 121–27. <http://dx.doi.org/10.1111/j.1465-7287.1997.tb00459.x>.
- Fischel, William A. 1987. *The Economics of Zoning Laws: A Property Rights Approach to American Land Use Controls*. Johns Hopkins University Pres.
- . 2001. "Homevoters, Municipal Corporate Governance, and the Benefit View of the Property Tax." *National Tax Journal* 54 (1): 157–73. <http://www.jstor.org/stable/41789539>.
- Glaeser, Edward L. 1998. "Are Cities Dying?" *The Journal of Economic Perspectives* 12 (2): 139–60. <http://www.jstor.org/stable/2646967>.
- Gyapong, Anthony O., and Kwabena Gyimah-Brempong. 1998. "Factor Substitution, Price Elasticity of Factor Demand and Returns to Scale in Police Production." *Southern Economic Journal* 54: 863–78. <http://economics.usf.edu/pdf/factor.substitution.police.production.sejo8.pdf>.
- Gyimah-Brempong, Kwabena. 1987. "Elasticity of Factor Substitution in Police Agencies: Evidence from Florida." *Journal of Business & Economic Statistics* 5 (2): 257–65. <http://www.jstor.org/stable/1391906>.
- Hall, Joshua, Josh Matti, and Yang Zhou. 2017. "The Economic Impact of City-County Consolidations: A Synthetic Control Approach." *Working Papers from Department of Economics, West Virginia University*. <https://EconPapers.repec.org/RePEc:wvu:wpaper:17-08>.
- Hammond, George W., and Mehmet S. Tosun. 2011. "THE Impact of Local Decentralization on Economic Growth: EVIDENCE from U.s. COUNTIES*." *Journal of Regional Science* 51 (1): 47–64. <http://dx.doi.org/10.1111/j.1467-9787.2010.00683.x>.
- Hanushek, Eric A., John F. Kain, Jacob M. Markman, and Steven G. Rivkin. 2003. "Does Peer Ability Affect Student Achievement?" *Journal of Applied Econometrics* 18 (5): 527–44. <http://dx.doi.org/10.1002/jae.741>.
- Helsley, Robert W., and William C. Strange. 1998. "Private Government." *Journal of Public Economics* 69 (2): 281–304. <http://www.sciencedirect.com/science/article/pii/S0047272798000309>.
- Henderson, J. Vernon. 1985. "The Tiebout Model: Bring Back the Entrepreneurs." *Journal of Political*

- Economy* 93 (2): 248–64. <http://www.jstor.org/stable/1832176>.
- Hoxby, Caroline M. 2000. “Does Competition Among Public Schools Benefit Students and Taxpayers?” *American Economic Review* 90 (5): 1209–38. <http://www.aeaweb.org/articles?id=10.1257/aer.90.5.1209>.
- Hoyt, William H. 2006. “Imperfect Competition Between Communities, Politics, and Capitalization.” In *The Tiebout Model at Fifty: Essays in Public Economics in Honor of Wallace Oates*, edited by William A. Fischel, 127–57. Lincoln Institute of Land Policy.
- Jones, E. Terrence. 2000. *Fragmented by Design: Why St. Louis Has so Many Governments*. Palmerston & Reed. https://books.google.com/books/about/Fragmented_by_Design.html?id=QgbsAAAACAAJ.
- . 2011. “Reconciling the Great Divorce: The City of St. Louis Reentering St. Louis County.” Policy Brief 25. Public Policy Research Center. https://pprc.umsl.edu/pprc.umsl.edu/data/Metro-PDFS/pbrief_025_reentry.pdf.
- Krimmel, John T. 1997. “The Northern York County Police Consolidation Experience: An Analysis of the Consolidation of Police Services in Eight Pennsylvania Rural Communities.” *Policing: An International Journal* 20 (3): 497–507. <https://doi.org/10.1108/13639519710180132>.
- Liner, Gaines H. 1994. “Institutional Constraints, Annexation and Municipal Efficiency in the 1960s.” *Public Choice* 79 (3/4): 305–23. <http://www.jstor.org/stable/30026879>.
- McDavid, James C. 2002. “The Impacts of Amalgamation on Police Services in the Halifax Regional Municipality.” *Canadian Public Administration* 45 (4): 538–65. <http://dx.doi.org/10.1111/j.1754-7121.2002.tb01858.x>.
- Moore, Adrian, James Nolan, and Geoffrey F. Segal. 2005. “Putting Out the Trash: Measuring Municipal Service Efficiency in U.s. Cities.” *Urban Affairs Review* 41 (2): 237–59. <https://doi.org/10.1177/1078087405279466>.
- Oates, Wallace E. Oates. 1972. *Fiscal Federalism*. Harcourt Brace. https://books.google.com/books/about/Fiscal_Federalism.html?id=nh6zAAAIAAJ.
- Parks, Roger B., and Ronald J. Oakerson. 1993. “Comparative Metropolitan Organization: Service Production and Governance Structures in St. Louis (Mo) and Allegheny County (Pa).” *Publius: The Journal of Federalism* 23 (1): 19–40. <https://academic.oup.com/publius/article-abstract/23/1/19/1904980?redirectedFrom=fulltext>.
- Post, Stephanie Shirley, and Robert M. Stein. 2000. “State Economies, Metropolitan Governance, and

Urban-Suburban Economic Dependence.” *Urban Affairs Review* 36 (1): 46–60. <https://doi.org/10.1177/10780870022184741>.

Rogers, William H. 2010. “Measuring the Price Impact of Municipal Incorporation on Homeowner Associations.” *Land Economics* 86 (1): 91–116. <http://www.jstor.org/stable/27759720>.

Rosentraub, Mark S. 2000. “City-County Consolidation and the Rebuilding of Image: The Fiscal Lessons from Indianapolis’s Unigov Program.” *State & Local Government Review* 32 (3): 180–91. <http://www.jstor.org/stable/4355266>.

Samuelson, Paul A. 1948. *Economics, an Introductory Analysis*. McGraw-Hill.

———. 1954. “The Pure Theory of Public Expenditure.” *The Review of Economics and Statistics* 36 (4): 387–89. <http://www.jstor.org/stable/1925895>.

Segedy, James A., and Thomas S. Lyons. 2001. “Planning the Indianapolis Region: Urban Resurgence, de Facto Regionalism and Unigov.” *Planning Practice & Research* 16 (3-4): 293–305. <https://doi.org/10.1080/02697450120107907>.

Selden, Sally Coleman, and Richard W. Campbell. 2000. “The Expenditure Impacts of Unification in a Small Georgia County: A Contingency Perspective of City-County Consolidation.” *Public Administration Quarterly* 24 (2): 169–201. <http://www.jstor.org/stable/40861804>.

Tiebout, Charles M. 1956. “A Pure Theory of Local Expenditures.” *Journal of Political Economy* 64 (5): 416–24. <https://doi.org/10.1086/257839>.