

# **A LONGITUDINAL ANALYSIS OF THE EFFECTS OF SERVICE CONSOLIDATION ON LOCAL GOVERNMENT EXPENDITURES**

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## **ABSTRACT**

In the current era of fiscal retrenchment local governments are seeking means to provide core services at lower costs. One approach getting increased attention is service consolidation. One of the challenges for policy makers considering alternative service delivery options such as consolidation is the limited number of empirical investigations of the costs and benefits associated with such a difficult endeavor. This study focuses on the identified local governments in Wisconsin that consolidated a service between 1987 and 2009. I found that for communities that consolidated services, overall expenditures increased in some circumstances and expenditure reductions were only associated with one service: capacity management. When I examined protective services, we found limited evidence to suggest that spending increased in those communities following the consolidation.

## **INTRODUCTION**

The Great Recession of 2007-08 resulted in reductions in the public sector labor force not seen in the previous four recessions (Dadayan and Boyd, 2013). Five years following the recession, local government employment remains down 2.9 percent (compared to employment gains in three of the previous four recessions) and with limitations on tax and/or spending

growth (Amiel, Stallmann and Deller, 2009) there are few resources available to add public employees. Despite these fiscal pressures, local governments are responsible for providing essential services to the public, including police and fire protection, road repairs, assessments, building inspections, etc. Politically, the fiscal gap between service demands and revenue limitations appears to be perceived as a spending problem, not a revenue problem. Local managers, administrators and policy makers continue to pursue alternative service delivery options as a means of maintaining services while also reducing costs. Unfortunately, the literature often provides either inconclusive or conflicting evidence about the extent to which alternative service options produce cost saving. In part that is due to the almost exclusive use of pre-consolidation expenditure reduction estimates cited within the existing literature (Holzer and Fry, 2011). Such estimates are often very different from the final amounts, providing a false sense of savings (Holzer and Fry, 2011).

Service consolidation and shared service agreements can take on a variety of meanings (Nunn and Rosentraub 1997, McCabe 2000, Feiock 2009, Scholz and Feiock 2010, Thurmaier and Wood 2002). According to Holzer and Fry (2011), service consolidation means "... inter-local agreements, shared services, service transfers, government partnerships, contracts with government, and many other variants" (48). For our purposes, service consolidation focuses on contractual agreements where services are either shared or transferred from one governmental unit to another, or to a newly formed unit (e.g., regional dispatch). Quite often, the driving force behind the selection of service consolidation over other forms of shared service agreements is its perceived ability to reduce expenditures through personnel reductions while also retaining, or even enhancing, service quality. This paper attempts to examine the effects on spending in Wisconsin communities that use a particular form of alternative service delivery: consolidation. The panel dataset allows for: 1) comparisons of local governments that did and did not consolidate services; 2) comparisons of expenditures before and after a community consolidated a service and; 3) examination of the effects of various types of consolidated

services. The paper follows with a literature review, a discussion of local finances in Wisconsin to provide context, a discussion of service consolidation in Wisconsin, methodology, results and conclusions.

### LITERATURE REVIEW

Government consolidation has a long and controversial history in the U.S. (Fleischmann, 2000). It was a common strategy in the early-mid twentieth century for school districts in the United States when their numbers dropped from over 119,000 in 1938 to just over 22,000 in 1968 (Snyder, Tan and Hoffman, 2004). While never as common at the municipal level, municipal consolidation – the merging of two communities or a city and county government into one unit – dates back to 1805 when the City of New Orleans merged with its county (Duvall, 1999). Yet large scale consolidation of local governments does not have a successful history. Since the 1950's many city-county consolidations have been proposed but over 85 percent have been rejected by voters (Thurmaier and Leland, 2005). The high failure rate of city-county consolidations has led many governments to seek out its closest alternative: service consolidation.

The advantage service consolidation has over government consolidation is its ability to select those services appropriate for merging (Holzer and Fry, 2011). Another benefit of service consolidation is that, unlike municipal consolidation, the process typically does not require voter or legislative approval<sup>5</sup> (Holzer and Fry, 2011). The ability to by-pass voters has become increasingly appealing to local government officials (Sparrow, 2004). For instance, after years of failed city-county consolidation attempts, Sacramento and Sacramento County turned to service consolidation to essentially achieve the same ends (Sparrow, 2004). Furthermore, scholars have found that

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<sup>5</sup> However, see Piker and Maher (forthcoming). A recent attempt to consolidate police services was prevented because it crossed over county boundaries, thus needing state legislative approval, and the union which opposed the consolidation was able to block legislative approval.

service consolidation has stronger political support than service privatization (Hawkins 2009, Delabio and Zeemering 2013).

The basic premise underlying consolidation is that it offers a means of providing the same services more efficiently (Vojnovic, 2000; Holzer and Fry, 2011, Benton 2013). By consolidating services, the expectation is that costs can be lowered by eliminating positions (Stenberg, 2011), eliminating duplicative services and, sharing buildings and equipment (McAninch and Sanders, 1988; Holzer and Fry, 2011). Recent research on solid waste services has shown that particularly for smaller cities lower costs are achieved through cooperative agreements (Bel, Fageda and Mur year, Bel and Costas 2006, Bel and Mur 2009).

Interestingly, others have contended that cost-savings associated with service consolidation have been very difficult to predict (Hirsch 1959) and startup costs are often not accurately estimated or completely ignored (Holzer and Fry, 2011; Piker and Maher, forthcoming). Claps (2008) recommends that governments conduct a thorough economic impact study when consolidation is initially proposed. Some communities have hired consultants to evaluate the proposed merger, whereas other local officials simply estimate expenditure implications themselves (Zettek, 2003). Self-estimation of costs has created research and comparability problems for scholars and practitioner alike (Holzer and Fry, 2011). Without clear expenditure evaluations (before, during, or after consolidation), the results of a service consolidation are often determined after it has occurred (Simon, 2011).

On a practical side, the ideological perspective of policy makers and citizens toward consolidation can often cause actors to disregard information about expenditure changes (Holzer and Fry, 2011). Such evaluation of expenditure changes is not uncommon and even administrators can err in their estimates by focusing on the long-term savings, while ignoring initial costs (Holzer and Fry, 2011). Service consolidation can become contentious, particularly when it involves high-profile services such as public safety (Simon, 2011; Namanny, 2013; Superville, 2013). Citizens in rural communities in particular like to see their community's name on service vehicles is both a source of

pride and identity (Simon, 2011). Rebranding essential services tends to elicit fear and hostility among a community's citizens, administrators, and elected officials (Idzerda, 2013).

At the state-level, large numbers of local municipalities and special districts within states have been identified as a main cause of government inefficiency (Karcher, 1998). Karcher (1988) contends that by reducing duplication of services, the administration of the service is improved and costs are reduced. Thus, by pooling resources, a better and more effective service can be provided (Pachon and Lovrich, 1977). Such arguments have also been used in a number of recent state-level commissions on local government services, including New York (2007), New Jersey (2006), Wisconsin (2012), Minnesota (2009) and Illinois (forthcoming).

This movement is also consistent with classic civic reform theory (Lyons and Lowery, 1989) where large cities are able to generate economies of scale (Hilvert and Swindell 2013) and presumably, the same end should be achieved through consolidation (Savitch and Vogel, 1995; Feiock and Carr, 1997). There is also evidence suggesting that improvements in service delivery through consolidation are attractive to developers (Owen 1992; Rusk, 1993; Savitch and Vogel 1995; Feiock and Carr, 1997; Vojnovic, 2000; Leland and Thurmaier, 2005). The promise of increased efficiency, cost savings, and potential economic development has created a favorable environment for consolidation among administrators (Holzer and Fry, 2011). Furthermore, Ostrom, Tiebout, and Warren's seminal work suggests that joint service provision is a viable option to privatization (1961).

While the discussion of service consolidation often comes back to cost savings, an array of other justifications have also been offered. According to Feiock (2009), the research tends to identify political and contextual reasons, as well as economic, for selecting alternative service delivery options. Hilvert and Swindell (2013) note that in addition to cost savings, service collaborations improve service delivery and increase demand for services. Less obvious reasons for service consolidation include, "needs to stimulate innovation, desire to improve working relationships with other jurisdictions, difficulty

in solving problems that are multidimensional in scope, past internal successes and observations of success by others” (Hilvert and Swindell 2013, 243).

We are thus left with an expansive array of research on service consolidation as an alternative to traditional forms of public service provision or privatization. We have a sense of the issues local officials need to consider prior to considering moving in the direction of service consolidation (Hilvert and Swindell 2013, Blair and Janowsek 2013, Piker and Maher forthcoming, Carr and Hawkins 2013, Holzer and Fry 2011). We also have some research on the effects of service consolidation for certain services e.g., public safety (Andrew and Hawkins 2013, Lynn 2005, McEntire and Dawson 2007) and solid waste (Bel, Fageda and Mur year, Bel and Costas 2006, Bel and Mur 2009). It is our contention that a more extensive longitude study is needed that considers the effects on expenditures on communities that consolidated services, comparisons to communities that did not consolidate services and one that examines an array of consolidated services.

### **LOCAL GOVERNMENT FINANCE IN WI**

Municipalities in Wisconsin consist of 190 cities, 1,255 towns and 405 villages. Cities are generally the largest in population (average 17,246 in 2009) and villages (1,989) and towns (1,350) are generally much smaller. Wisconsin cities and villages have home-rule powers, meaning that they can do that which is not prohibited by the State (Hintz, 2001). Towns, not having home-rule powers can only do that which is expressly permitted by the State. In reality, municipal home-rule powers are largely reserved for administrative functions. Wisconsin municipalities focus on providing that which you would expect: cities and villages focus on public safety, road work and general government functions, whereas towns focus on road repair and construction. Not surprisingly, in fiscal year 2009, cities spend the most per capita (\$1,477) and towns the least (\$469). Cities and villages generally spend the same on debt service and, road and highway expenditures. Compared to other types of municipalities, cities spend more on police (\$296 per capita) and

fire protection (\$154 per capita). Towns, on the other hand, typically focus their expenditures on road and highway work (43 percent).

On the revenue side, Wisconsin municipalities have limited options: no sales tax, only property taxes, intergovernmental aids and fees/charges. In 2009, the average city collected \$1,214, most of which came from property taxes (39 percent) and state aids (31 percent). Villages and towns are somewhat more reliant on property taxes (45 percent and 48 percent, respectively) and a little less reliant on state aids (20 percent and 34 percent). Towns heavy reliance on state aid is largely a function of the emphasis on road-related expenses which are offset, somewhat, by state transportation aids.

The fiscal data also reveal the challenges faced by many Wisconsin municipalities. In fiscal year 2009, operating expenditures exceeded revenues, particularly in cities and villages. This suggests that many Wisconsin municipalities are drawing down their reserve funds to balance their budgets. More concerning is that this gap between municipal revenues and expenditures has existed since the mid-1980s and got worse when the Great Recession hit. The widening gap between municipal revenues and expenditures is consistent with national trends (Pagano, Hoene and McFarland, 2012), particularly for communities heavily reliant on property taxes and state aid.

Exacerbating the challenges facing Wisconsin municipalities is the strict levy limits imposed by the State. Following passage of Wisconsin Act 10 in 2010, municipal levies were frozen, except for growth in new construction. Given that this limit was imposed when the recession was hitting cities the hardest (Pagano, Hoene and McFarland, 2012), this has essentially meant levies have been unable to increase for most municipalities. In addition, state aids have seen limited growth over the years. Interestingly, the highly publicized Act 10 restriction on collective bargaining passed on the basis of giving local governments greater flexibility in dealing with fiscal challenges exempted protective services, thus, offering little fiscal relief for most municipalities.

Taking a page from the economies-of-scale argument, Wisconsin Governor's Commission on Waste, Fraud and Abuse

report (2011) cites the "... need to create more initiatives for consolidation" (49). Focusing on identified savings in dispatch service, the commission recommended not only "encouraging" consolidation efforts, but also offering loans for local governments (including school districts) to engage in efforts to consolidate services (50). The Wisconsin commission's recommendations regarding service consolidation were largely based on a report, "Governor's Work Group: Public Safety Answering Point Consolidation, A Guidebook for Consolidation Strategies" presented to Minnesota Governor Pawlenty in December, 2009. As the title suggests, the report describes a Public Safety Answering Point (PSAP) service which shares emergency communications between of jurisdictions. Consolidation of PSAP services already occurred at the state-level and the report argues the same efforts should occur at the local level. In Illinois, Governor Quinn formed the Local Government Consolidation Commission in 2011 for the purposes of: "(i) permit effective management of local affairs, (ii) encourage local policy decision making, (iii) reduce the multiplicity of local governments, (iv) eliminate overlapping and duplicating of unnecessary powers, (v) increase efficiency and economy in local governments, and (vi) allow optional forms of local governments and increase their authority for cooperation among the levels of government." The final report was due December, 2012 and to date, is not available.

In an effort to gauge the level of fiscal stress facing Wisconsin municipalities, Steven Deller has co-authored several reports since the mid-1990s based on survey results of local officials that sought to gauge local officials' perceptions of their community's financial condition. In a survey of cities and villages conducted in 1997, less than one in five municipal officials expressed concern about the adequacy of their fiscal position (Deller, Hinds and Hinman 2001). A similar survey was conducted in 2010 and by Deller, Maher and Kovari (2010) who found that compared to 1997, the fiscal health of Wisconsin municipalities has fundamentally changed for the worse. Between 1997 and 2010, the percent of respondents expressing concern about their community's current financial condition more than doubled.



When municipal officials were asked to consider their future (five years) fiscal health, the picture again changes significantly between 1997 and 2010. A majority (52.4 percent) of survey respondents in 2010 believed that their revenues will be inadequate and 36.1 percent report that they will be forced to reduce services. Only two of the 195 respondents believe that they will be in a position to reduce taxes. Compare these results to the same question asked in 1997: a clear majority of respondents in 1997 believed that they had adequate revenues over the next five years and 17 percent thought that they would be able to reduce taxes! Compared to the 2004 results – a time of modest economic growth – today’s results differ little (Deller, Maher and Kovari, 2010).

One of the enduring observations by Levine (1980) and his research of fiscal retrenchment are the array of strategies adopted by governments. For instance, during periods of low fiscal stress, governments tend to focus on near-term strategies such as delaying capital spending, drawing down fund balances, pursuing grants, etc. When the fiscal stress level reaches a moderate level, actions need to be ratcheted up, and include strategies such as salary and hiring freezes, reducing employment through attrition, efficiency reforms, etc. When the fiscal crisis escalates, the options change to things such as layoffs, the closing of facilities, terminating of programs, transferring services to other units of government or other sectors, etc. We have experienced another level of fiscal stress in certain communities during the last recession and that consists of bankruptcy (e.g., Detroit MI, Jefferson County AL, San Bernardino CA, Stockton CA).

The work by Deller, Maher and Kovari (2010) sheds light on the paths pursued by Wisconsin municipal officials in their efforts to cope with fiscal stress. Their study focused on three broad categories: service delivery or management, revenue alternatives, and changes in expenditure policies. Administrative officials were asked to indicate the degree to which they agree or disagree with the listed strategies as they describe their community’s recent efforts to cope with fiscal stress. Interesting, the top three service delivery or management strategies were improving productivity through better

management (78 percent), contracting out services (49 percent) and pursuing regional cooperative agreements (49 percent) (Deller, Maher and Kovari, 2010). The strategies least supported by municipal officials were the reduction of hours for public facilities (20 percent), eliminating services (25 percent) and department consolidation (34 percent) (Deller, Maher and Kovari, 2010).

### **SERVICE CONSOLIDATION IN WISCONSIN**

#### ***Protective Services***

Local government consolidation of police protection services is uncommon in Wisconsin. To date, there are only six consolidated police departments covering approximately 62,000 of the nearly 3.6 million people living in Wisconsin municipalities that provide full-time police protection (Wisconsin Taxpayers Alliance, 2008a). One of the largest consolidated departments is the Fox Valley Metro Police Department that consists of the villages Kimberly (population = 6,500), Little Chute (11,020) and Combined Locks (3,114). The metro department was established in April 1, 1995 and only included Kimberly and Little Chute; Combined Locks joined in 2011. The initial discussions in 1994 were precipitated by previous success with a library merger, and the retirement of Kimberly's police chief (Elsass, 2003). One of the arguments for consolidating the departments was cost savings and according to initial estimates, the consolidation was to generate \$100,000 annually in operating expenditures (Elsass, 2003). The anticipated savings was not realized for several reasons, including the reassignment of central administrative costs to the Police Departments to reflect actual costs as well as enhanced service levels (Elsass, 2003). Based on the real per capita expenditures for the villages of Little Chute and Kimberly, average real annual costs grew for both communities following consolidation, particularly for Little Chute. Little Chute's annual average real police protection operating expenditures rose from \$121 per capita (years 1987-1994) to \$247 per capita (years 1995-2009). Average annual operating costs also rose for

Kimberly from \$139 per capita (1987-2004) to \$169 per capita (1995-2009).

Combined fire departments in Wisconsin are more prevalent than police protection: in 2006, there were 110 such fire departments accounting for 13 percent of all fire departments in Wisconsin (Wisconsin Taxpayers Alliance, 2008b). The North Shore Fire District is one the largest of the consolidated departments both in terms of the number of municipalities involved (seven) and population served (approx. 64,000) and contains many of the most affluent communities in Milwaukee County. The district was formed in 1995 following two serious apartment fires in one of the communities coupled with the City of Milwaukee's decision to stop providing mutual aid to surrounding communities (Elsass, 2003). The discussion was also aided by the death of one of the fire chiefs in 1993 (Elsass, 2003) and a history of successful service-level mergers (Local Government Institute of Wisconsin, 2012). Identified benefits of the agreement included service enhancements, better code enforcement and improved insurance ratings for residential, commercial and industrial properties (Local Government Institute of Wisconsin, 2012). Also noted as a benefit was "more efficient delivery of services – number of administrators reduced from 21 to 7" (42, Local Government Institute of Wisconsin, 2012).

Some of the most challenging aspects of the North Shore Fire District merger included the division of assets and the development of a cost-sharing formula (Elsass, 2003). According to Elsass (2003), "The annual costs for each community was determined through a financing formula based upon three factors: (a.) The population of each municipality, (b.) The equalized valuation of each municipality, and (c.) The average of the prior three-year usage." The financing formula is frequently at the heart of threats to dissolve the Department and as recently as November, 2013 one of the members faced the threat of expulsion over payment (Whitefish Bay NOW, 2013). The municipal fire protection spending patterns for North Shore Fire District members are similar to that found with the Fox Valley Metro Police Department: greater overall costs following consolidation. The real average cost of fire protection operations

rose from \$136 per capita (1987 – 1994) to \$192 per capita (1995 to 2009). Average costs rose for six of the seven municipalities, with Bayside, WI experiencing the biggest jump: from \$39 per capita pre-consolidation to \$181 per capita post-consolidation.

The differences in average real annual per capita protective services expenditures before and after consolidation for all identified cases in Wisconsin are police protective services for all observations in Wisconsin are stark (see Table 1). On average, real per capita police protection expenditures for all consolidations rose from \$70.57 prior to consolidation, to \$159.81 following consolidation (see Table 1). This increase of 125.6 percent in real per capita expenditures is substantially more than the 3.4 percent growth in real per capita equalized valuation for those same communities. For all fire protection consolidations, real per capita expenditures rose from \$90.73 before consolidation to \$152.30 following consolidation (up 67.9 percent) whereas real per capita equalized valuation rose only 29 percent during the same period for the same communities.

**Table 1**  
*Descriptive Statistics for Consolidated Protective Services*

	Fire Protection			Police Protection		
	N	Mean	Std. Deviation	N	Mean	Std. Deviation
<b>Before Consolidation</b>						
PC Expenditures	291	90.73	99.56	56	70.57	75.24
Eq Value Per		88.32	35.24		65.67	22.67
<b>After Consolidation</b>						
PC Expenditures	285	152.30	100.68	198	159.81	87.79
Eq Value Per		113.95	81.04		67.93	28.23

\$1,000

***Other Service Consolidations***

For most of the other service consolidations we were able to identify, the richness of contextual information was not readily available. The Local Government Institute of Wisconsin released a report, “Local Government Collaboration in Wisconsin: Case Studies” in 2012 that summarized most of the consolidation we were able to identify. Instead of going through each agreement we offer the following summary: the words “cost saving”, “efficiency” were identified in nearly every rational for seeking an agreement; the cost savings more often referred to operating but many also identified capital cost savings; having a history of working relationships was important and; enhanced service delivery was frequently cited. Interestingly, the state of Wisconsin apparently awards additional aids for recycling service consolidations because it was cited as a reason for pursuing the endeavor. For the two sanitary service consolidations we identified, the primary motivation was the ability to spread the costs associated with the replacement of eroding wastewater treatment plants. Based on our overview of these service consolidations, the most consistent rational for pursuing these agreements is cost savings.

**METHODOLOGY**

The previous sections about municipal finance in Wisconsin reflects both growing fiscal pressure and a willingness to pursue alternative service delivery methods. Unknown is the extent to which regional cooperation includes service consolidations. Furthermore, the existing literature on service consolidation is restricted to case studies and lacks empirical investigation of the policy effects. This research endeavor has two aims, the first is to begin the process of cataloging service consolidations in Wisconsin municipalities. The second objective is to answer the question: does service consolidation affect spending? The challenge was collecting data that would enable a pseudo pre-consolidation vs. post-consolidation test. The data were collected from multiple sources, the most important of which were the University of Wisconsin-Extension’s Local Government Center (LGC) and the

Local Government Institute of Wisconsin. The LGC annually works with the Wisconsin Department of Revenue to collect local government revenue and expenditure data and then makes the financial data available to local Extension agents and officials<sup>6</sup>. The LGC financial panel dataset consists of revenues and expenditures for all municipalities and counties between fiscal years 1987 and 2009. The available revenue and expenditure categories are the same as those presented in Table 2.

The data on service consolidation were collected from multiple sources, the most important of which was the Local Government Institute of Wisconsin's website: <http://localgovinstitute.org/casestudies2012>. The Institute's website lists a number of service consolidation contracts that typically provided the communities involved, the affected service(s) and the year of creation. These data were supplemented by telephone interviews with local officials known by the authors who have service consolidation contracts, and reports published by the LGC (Elsass, 2002) and Wisconsin Taxpayers Alliance (2008a; 2008b). All told, we identified 94 municipalities and counties that had a service consolidation agreement between 1987 and 2010.

Table 2 (below) lists the 17 services identified where there were consolidation agreements. The services are varied both in terms of type and locations in Wisconsin. The most frequently identified were protective services: both fire and police. The fire service consolidations involve six different agreements that cover towns, cities, villages and counties. The most notable is the North Shore Fire Department. Created in 1994, this Department comprises seven affluent suburbs of Milwaukee. The agreement is often cited as a model for service consolidation in Wisconsin (Elsass, 2002). A report by the Wisconsin Taxpayers Alliance (2008a) identified six joint police departments. The report noted that for these departments, the number of officers per 1,000 population was lower than other municipalities and in 2006, "... spent an average of \$152.33 per

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<sup>6</sup> University of Wisconsin-Extension's Local Government calls the dataset and associated program GREAT (Graphing Revenues, Expenditures and Taxes).

capita on law enforcement, nearly \$84 less than the municipal average...” (2008a, 7).

In most cases I was only able to identify one consolidated service offered by the local governments. The exception is the North Shore area, consisting of six villages and one city in northern Milwaukee County. These communities have service agreements for public works, capacity management, a senior center (only two of the seven municipalities), animal control (with the county), data services and fire protection. That said, it would be inaccurate to characterize service agreements as being unique to southeastern Wisconsin. I identified consolidation agreements as far north as Bayfield, WI and as far west as LaCrosse, WI. I was also pleased to find that the agreements were relatively evenly divided between cities (27 percent), villages (32 percent) and towns (34 percent). Of the 72 counties, we also found seven with service agreements.

**Table 2**  
*Types of Consolidated Services*

	Towns	Cities	Villages	Counties
Fire Protection	11	14	7	1
Police	3	13		2
Recycling	17		3	2
Animal Control		10	9	1
Data Services		1	8	1
Public Works		1	6	
Capacity Mgmt.		1	6	
Dispatch			5	1
Municipal Court		1	3	
Emergency Services	1	3		
Transit		2		2
Storm Water Mgmt.		2	1	1
Building Inspection			3	
Sanitary			3	
Library			2	
Parks		1	1	
Senior Center			2	

***Dependent Variable***

This analysis focuses on the relationship between service consolidation and spending. I take two approaches to operationalizing expenditures. The first is to regress a set of variables against total operating expenditures. It can be argued that given the complexity associated with service agreements and consolidations (Thompson and Perry, 2006) those organizations that reflect an organizational culture committed to such an endeavor do so to lower overall costs, not just those expenses specific to a particular service. Therefore, the first dependent variable is total operating expenditures for each Wisconsin community between 1987 and 2010. These expenditures were adjusted for inflation, population and intergovernmental charges. With respect to the latter, it is often the case that one of the communities serves as the fiscal agent for the service consolidation which affects their reported expenditures and is offset on the revenue side through intergovernmental charges. Given the nice subset of police and fire protection services, I was also able to conduct a more focused analysis on the influence of protective service consolidations on police and fire protection services expenditures from 1987 to 2010.

***Independent Variables***

*Service consolidation.* The primary hypothesis I sought to test is the relationship between service consolidation and expenditures. The expectation was that following a service consolidation agreement, the community's expenditures would decrease. To capture this effect, a dichotomous variable was created and coded 0 for the years prior to the service consolidation agreement; and 1 for the years following the service consolidation<sup>7</sup>. In the first model, the variable is coded 0 for the years that those identified communities had identified no service agreement; and 1 for the years that an array of service agreements were in effect (refer to Table 1). For the subsequent analyses, I focused on two specific services: police and fire. For

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<sup>7</sup> Per our earlier example of the Fox Valley metro Police Department, we also created dummy variables to capture each year of the consolidation with the expectation that costs would increase in the first years of the agreement, then taper off and perhaps decrease. This did not occur in any of the models and in an effort to save space we opted to exclude those results. The results are available upon request.



the communities that have consolidated police protection, we coded 0 for the years prior to the consolidation, and 1 for the years following consolidation. The same coding methodology was used for fire protection services.

*Form of government.* Municipalities in Wisconsin fit the traditional model where cities and villages are incorporated and typically provide an array of services, including full-time police protection, full-time fire protection, administrative services, etc. Towns are unincorporated and typically few services other than road maintenance. These differences in service delivery are reflected in expenditures: in fiscal year 2009, the average city's operating expenditures were \$1,477 per capita; villages spent \$1,216 and towns \$419. Counties are different from municipalities both in terms of their size and services provided and which are reflected in their spending. Dichotomous variables we created for cities, towns and counties, with villages representing the comparison group.

*Intergovernmental aids.* There is convincing evidence of a "fly-paper effect" in Wisconsin municipalities (Deller and Maher, 2009; Deller, Maher and Lleudo, 2007, Deller and Maher, 2005). This means that state aid payment, more specifically state shared revenues, have a stimulative effect on spending greater than personal income. To account for this effect, real per capita shared revenues payments from the state to the local governments is included as a control variable.

*Equalized property valuation.* To capture service demand, we include real per capita equalized valuation as a control variable. The expectation is that, controlling for other factors, per capita real equalized property valuation will be positively associated with municipal spending.

*The North Shore.* The seven municipalities in the northern part of Milwaukee County are unique for a couple of reasons. The first is, as stated earlier, they are engaged in a number of service consolidation and sharing programs. Second, these are smaller (average population is 9,551 compared to 18,706<sup>8</sup>) and more affluent than most of the other communities in Wisconsin that have consolidated a service. This is captured

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<sup>8</sup> Given their disproportionate size, Milwaukee county and city were excluded from the average. Including them increases the average population to 31,252.

when comparing average real per capita equalized property valuation (\$137,168 vs. \$75,273) and average real per capita shared revenues received from the State (\$62 vs. \$144). These differences translate into differences in service-level demands measured in average real per capita expenditures (\$1,706 vs. \$957). Given their uniqueness, a dichotomous variable was created and coded 1 if the community is part of the “north shore” group and 0 otherwise.

Table 3 provides a set of descriptive statistics comparing communities in Wisconsin that had a service consolidation agreement in 2009 to those without such an agreement. Interestingly, communities with agreements tend have larger populations (14,180 vs. 6,952) and higher average operating expenditures (\$1,121 vs. \$790). State shared revenue payments and equalized property valuation capture community wealth, and there is no difference in either measure when comparing the two groups.

**Table 3**  
*Descriptive Statistics for Communities With and Without Consolidated Services: 2009*

	Without Consolidated Services				With Consolidated Services			
	Min.	Max.	Mean	St. Dev	Min.	Max.	Mean	St. Dev
Population	2	969,252	6,952	51,846	100	196,321	14,180	29,508
PC Operating Expenditures	\$118	\$18,730	\$790	\$778	\$219	\$4,891	\$1,121	\$776
PC Shared Revenues	\$2	\$699	\$100	\$108	\$6	\$524	\$97	\$100
PC Equalized Value	\$20,158	\$5,091,918	\$107,812	\$149,215	\$36,694	\$737,115	\$107,975	\$88,588
N	1,969				91			

## RESULTS

Tables 4 and 5 presents fixed-effects regression models which include the dependent variable lagged one year as an independent variable to address problems with serial correlation. Due to the nature of the fixed-effects models – chosen over the random effects after conducting the Hausman Test – the form of government variables dropped out of the models. Given the size

of the overall  $R^2$ 's, I feel comfortable with the overall models. Table 4 includes all municipalities and counties in Wisconsin between 1987 and 2009. Table 5 includes only those communities that consolidated a service between 1987 and 2009. The two sets of tables help answer the research question in slightly different ways. Table 4 focuses on the effect of consolidation on operating expenditures when compared to spending patterns in all municipalities and counties during the time period. Table 5 is a bit more targeted and examines the effect of consolidation in those communities that adopted such an agreement between 1987 and 2009.

Turning our attention to Table 4. Of the 13 consolidated services in the model<sup>9</sup> seven services are significantly associated with operating expenditures. Of those services, six are positively (animal control, building inspection, data services, library, municipal court and sanitary) and only capacity management is negatively associated with operating expenditures. Given the small number of identified communities that consolidated each of these services it is a stretch to read the coefficients and extrapolate their effects on overall operating expenditures. Suffice it to say that the overwhelming pattern in this model does not support the argument that these agreements resulted in cost reductions which was a stated purpose for most. The one service we should have expected a positive effect was sanitary since the agreements were created to replace multi-million dollar wastewater treatment plants. The second model in Table 3 focuses on police services and suggests that for communities that consolidated police protection services, spending increased by approximately \$28 per capita annually after controlling for inflation. A similar result occurred for fire protection services, following consolidation average spending rose \$22 per capita in real dollars. The spending patterns police and fire are consistent with our case studies where we demonstrated spending growth following service consolidation.

Consistent with expectations, equalized property valuation is positively associated with spending in each of the three models in Table 4. Shared Revenue payments are also positively associated with overall operating expenditures and fire

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<sup>9</sup> Dispatch and transit dropped out of the model due to collinearity problems.

protection services, but negatively associated with police protection expenditures. Consistent with previous fly-paper research on Wisconsin communities, overall operating expenditures increases by 50 cents for each dollar of Shared Revenues. The effect of Shared Revenues on fire protection expenditures is much less dramatic: real per capita spending on fire protection increases by seven cents with each dollar of Shared Revenues. Interestingly, the relationship is reversed when examining police protection services. The model suggests that for each dollar of shared revenues, local spending on police services decreases by two and a half cents.

Table 5 is, in essence, a set of difference in means tests, the goal of which is to ascertain the effects of service consolidation on expenditures. The first model examines the effect of an array of service consolidations on total operation expenditures. Similar to Table 4, the model here suggests that five of the six services associated with spending are in the positive direction. As stated previously, caution is warranted when interpreting the results given the small number of identified communities that have such agreements. It is, however, worth noting that the evidence does not support the argument that these agreements were pursued as cost-saving measures and the model more directly captures the pseudo pre-post effects of consolidation in those communities.

The next sets of results in Table 4 focus on police and fire protection expenditures. With an  $R^2 = .71$  and lack of significant variables other than the lagged dependent variable, it appears that incremental budgeting, at least for police protection, is the norm in these communities. The model does not support the hypothesis that police protection expenditures were affected by service consolidation. There is only marginal evidence that fire protection services were positively affected by service consolidation. These findings for police and fire are significant because they suggest that for those communities that consolidated their services, not only did it enhance service delivery (mentioned in all cases as a reason for service consolidation) but it did so without significantly increases costs. In both models, the control variables are insignificant.

**Table 4**  
**Fixed - Effects Regression Models: All Wisconsin Communities**

	All Consolidated Services			Police Protection			Fire Protection		
	Coeff.	S.E.	p-value	Coeff.	S.E.	p-value	Coeff.	S.E.	p-value
<b>Consolidated Services</b>									
Animal Control	168.43	48.54	0.001						
Building Inspection	610.99	135.91	0.000						
Capacity Management	-759.72	199.08	0.000						
Data Services	391.35	184.52	0.034						
Emergency Services	-4.23	160.31	0.979						
Library	158.95	222.09	0.000						
Municipal Court	404.29	154.07	0.009						
Parks	2.74	148.45	0.985						
Public Works	28.95	162.55	0.859						
Recycling	-12.16	45.61	0.790						
Sanitary	245.85	111.76	0.028						
Senior Center	-83.59	160.01	0.601						
Stormwater	-28.08	98.21	0.775						
Police				28.19	4.51	0.000			
Fire							22.35	10.050	0.026
Equalized Property Value	1.79	0.072	0.000	0.038	0.0003	0.000	0.023	0.001	0.000
Shared Revenues	0.501	0.06	0.000	-0.025	0.003	0.000	0.073	0.009	0.000
Lag Expenditures	0.245	0.005	0.000	0.599	0.004	0.000	0.122	0.005	0.000
Constant	364.76	11.39	0.000	21.77	0.548	0.000	29.31	1.650	0.000
	R <sup>2</sup> overall=.574 N = 39,385			R <sup>2</sup> overall=.951 N = 39,385			R <sup>2</sup> overall=.266 N = 39,385		

**Table 5**  
**Fixed - Effects Regression Models: Only Communities That Consolidated Services**

	All Consolidated Services			Police Protection			Fire Protection		
	Coeff.	S.E.	p-value	Coeff.	S.E.	p-value	Coeff.	S.E.	p-
<b>Consolidated Services</b>									
Animal Control	181.29	39.46	0.000						
Building Inspection	480.51	116.31	0.000						
Capacity Management	-785.79	159.46	0.000						
Data Services	391.66	147.91	0.008						
Emergency Services	8.45	129.20	0.948						
Library	184.39	177.92	0.300						
Municipal Court	374.19	124.28	0.003						
Parks	2.58	120.40	0.983						
Public Works	27.05	130.29	0.836						
Recycling	-34.16	37.94	0.368						
Sanitary	379.87	90.66	0.000						
Senior Center	-128.03	128.18	0.318						
Stormwater	18.84	79.49	0.813						
Police				3.38	13.16	0.797			
Fire							14.59	8.550	
Equalized Property Value	3.93	0.378	0.000	0.314	0.300	0.298	0.051	0.083	
Shared Revenues	0.501	0.06	0.000	-0.005	0.214	0.809	0.07	0.094	
Lag Expenditures	0.215	0.022	0.000	0.831	0.118	0.000	0.505	0.039	
Constant	158.99	38.19	0.000	8.729	16.19	0.591	40.67	16.410	
	R <sup>2</sup> overall=.566 N = 1,822			R <sup>2</sup> overall=.709 N = 212			R <sup>2</sup> overall=.694 N = 480		

## CONCLUSION

I am generally pleased with the overall strength of the models of local spending in Wisconsin communities between 1987 and 2009. In addition, I believe that adding the time element – where I was able to track spending over time – I am adding to the discussion about the effects of alternative service delivery when prior works relied on pseudo controlled studies comparing communities that consolidated to those that did not consolidate (Feiock and Carr, 1997). While still a case-study in the sense that only communities in Wisconsin were examined, the approach, coupled with an array of different service agreements, sheds light on how to expand future research in communities across states. A qualitative element to the research was added by getting a sense of the intent behind most of the consolidation efforts as well as a quantitative analysis of the effects of the agreements on expenditures. In an era of fiscal retrenchment when alternative service delivery is getting increased attention, this latter point cannot be overstated.

I acknowledge that service consolidation is not solely about cost savings and our examination of the intent behind many of the agreements reflects the argument that they often include multiple goal statements. These goals are often about enhancing service quality and, in the cases of sanitary services, spreading/sharing the costs associated with multi-million dollar infrastructure upgrades. That said, it cannot be denied that nearly every explanation for service consolidation mentioned cost: whether stated in general terms such as “efficiency”, or specifically stating operating and/or capital cost savings. This study focused on this latter point with a more thorough time-series analysis. I was also able to examine the effects of a variety of types of service agreements and the effects on operating expenditures. The data also afforded us the opportunity to focus on two of the more costly operating expenditures – police and fire protection – to determine the extent to which consolidation agreements were associated with the operating costs.

Reviewing the results, scant evidence was found that communities that committed to service consolidation

experienced overall spending reductions. In only one circumstance – capacity management – did we find a negative relationship between the service consolidation and lower operating expenditures. I, however, caution using this result to assert a larger association given that this service consolidation only pertained to seven of the more than 2,000 counties and municipalities in the study. From my perspective, the more important takeaway from the analysis is the lack of evidence that service consolidation lowered operating costs despite its mention as a justification for consolidation in nearly every circumstance. The same point applies to police and fire protection service consolidations: justification pursuing many of these agreements is based on service enhancement and cost savings. Again, little overall evidence was found to support the cost-savings claim. In fact, there is some evidence to suggest that fire protection operating costs increase following consolidation both when compared to spending by all municipalities and counties, and in only those jurisdictions that consolidated fire protection services in Wisconsin during the given time-frame. The evidence is weaker for police protection services although a positive relationship was found between police protection operating expenditures and service consolidation when all municipalities and counties are included in the model. This relationship is insignificant when only the communities that consolidated police services are examined.

I acknowledge that one of the greatest shortcomings is the lack of data measuring service quality. Future work needs to incorporate both cost and service quality measures to really assess the effects of these agreements. Furthermore, the ability to examine both operating and capital expenditures would also be helpful given that the cost of “big ticket” items such as buildings or wastewater treatments can be sufficient incentive to pursue consolidation agreements.



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