

- *Illinois has many more local governments than any other state and the number is increasing.*
- *The number of local governments increased in the past decade in counties of all sizes, in rural as well as urban areas, even in rural counties losing population.*
- *Creating new governments to avoid tax and debt limitations no longer seems to be a primary factor affecting the growth in the number of governments.*
- *No evidence was found to suggest that more governments in a county leads to more aggregate per capita spending in the county.*
- *No evidence was found to suggest that municipalities with home rule spend more money per capita.*
- *Regardless of government structure, delivering local government services as efficiently as possible will be crucial for maintaining tax rates and expenditures at levels that retain and even attract residents.*

issue: *Local Government Structure and Public Expenditures in Illinois: Does Governmental Structure Matter?*

by Norman Walzer and Bethany Burns

Editor's Note: This is another in a series of *Policy Profiles* examining local government issues in Illinois. Since Illinois has the dubious distinction of being the state with the largest number of local governments, it provides an excellent locus for examining whether or not an increase in the number of local governments causes an increase in local government expenditures. This issue of *Policy Profiles* addresses that question.¹

Local governments in Illinois have been experiencing major challenges in trying to balance their budgets during the recession just past and the currently on-going period of slow recovery. Persistent high unemployment and the shift from higher-paying manufacturing jobs to lower-paying service jobs have adversely affected public revenues for Illinois governments at all levels.

In Illinois, the budget problems facing all governments are severe, but they are especially vexing for the state's rural governments:

- Rural governments are even more heavily dependent upon a property tax base to finance local public services, yet the distressed housing market and falling real estate values are eroding the rural tax base just as they are in more affluent urban areas.
- Rural populations continue to decline, making it even harder to maintain public services at reasonable tax levels.
- In many counties, the structure of rural local governments was designed to serve the needs of the much larger rural populations characteristic of past decades.

The plight of rural governments generates a sense of urgency about examining whether or not some portion of the fiscal stress facing Illinois local governments, and especially it's rural local governments, might be caused by systemic features in the design of Illinois' local government system.

What features of Illinois' local governments might be increasing governmental costs?

The first structural characteristic examined in this issue is the sheer number of local governments in Illinois. A previous *Policy Profiles*² described the trends in number and distribution of governmental units in Illinois, by type and functions, between 1997 and 2007 and compared them with experiences in other states. This current *Profiles* issue reports the findings from a new study that examines the multiplicity of local governments in Illinois, with special attention paid to the effects of government structure on financing public services.

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This analysis is not intended to identify or determine the most suitable governmental arrangement for delivering services; rather, it describes how the current system in Illinois may have affected expenditures.

The second structural feature examined in this study is Illinois home rule. Critics of the home rule system, now used in all but one of the state's cities and villages over 25,000 population and in a growing number of smaller cities and villages, base their opposition on the presumption that home rule, by removing statutory restrictions on the property taxing powers of home rule governments, likely leads to high government spending. Proponents of home rule claim that enlarging the taxing powers of existing municipal governments reduces the need to create more units of local government.

Specifically, the following discussion addresses two sets of questions. First, does home rule affect governmental structure or expenditures? Do areas with home rule authority have fewer governmental units? Second, do Illinois counties with more units of local government per capita have higher per capita expenditures, and did those expenditures increase more in the past decade than in counties with fewer governments?

Why should the number of governments matter?

On a technical level, a streamlined system of local government can offer efficiencies and cost-savings when governmental units achieve economies of scale in purchases, more efficient use of specialized skills, and savings in service delivery costs.³ While larger and more centralized governments can lead to bureaucracy and lose touch with residents, they also can attract more qualified personnel and use

the latest technology in their operations. More centralized governments also may avoid duplication of services, make more efficient decisions, and help taxpayers assess responsibility for services provided.

Proponents of decentralization (more governments per population), however, argue forcefully that small governments are closer to the public, can best gauge local preferences, and provide many services using volunteer labor which further reduces service costs.⁴ Areas desiring fewer public services can spend less; areas wanting more services can pay for them. The result is that different communities offer different blends and levels of services. Prospective home buyers are thus afforded diversity in types and amounts of services – and tax burdens – from which they can choose. Decentralized governmental arrangements also make it easier for more taxpayers to be involved personally in government decision-making.

How does the number of local governments in Illinois compare with other states?

Illinois has historically ranked first among states in number of local governments. In 2007, the year of the last Census of Governments, Illinois had 6,994 units of local governments, an increase of 2.3 per cent between 1977 and 2007.⁵ Pennsylvania, with the next highest number of local governments (5,149), still has 26 percent fewer units than Illinois. Special purpose districts have been a major factor adding to the growth in Illinois with 3,034 in 1997, 3,145 in 2002, and 3,249 in 2007, a 7.1 percent increase during the past decade. The number of school districts, once numbering in the thousands, has been falling; it decreased from 944 in 1997 to 912 (3.4%) a decade later.

Comparing only numbers of governments can be misleading because of population size differences. A comparison based on number of governments *per population* ranks Illinois 14th among states with the most units. Illinois is one of relatively few (20) states with the township form of government and has 1,443 townships in 85 Illinois counties, but 17 of Illinois' 102 counties have no townships, instead providing services through other governmental units. In the analysis below, both the absolute number of governments and the ratio of governmental units per 10,000 population will be compared.

Also important is Cook County which contains Chicago and more than 800 other local governments in a densely settled region. In this setting, cities and villages sometimes provide services collectively using special districts—an arrangement perhaps less likely in other areas of Illinois. Because Cook County represents such an unusual size (pop. 5,194,675) and structure of government, it is omitted in subsequent comparisons in this study.

How did Illinois get so many governments?

The process for creating a governmental unit is relatively simple in Illinois, and each new government provides additional taxing and borrowing powers. So creating a government is a relatively simple way for local officials or even local citizen groups to secure added services. And such districts can be created to provide services without respect to existing government boundaries. The growth of suburbanization only accentuated the use of new governments to solve specific problems. In suburban areas, for example, residents in unincorporated areas can create with relative ease new, single purpose districts to obtain desired special services such as libraries, parks, water supply, and sewage disposal.⁶

The creation of new governments can be traced to other factors as well. In the post-Depression era, many efforts were made to regulate public agencies to ensure financial integrity.⁷ Included among these strategies were bond, debt, and tax rate limits. Over the decades, these limits were modified and made more restrictive, leaving a complex system of revenue constraints, especially on cities and villages. Special districts were one way to provide services and by-pass tax and debt limits in the process.

The tax rate and debt limits imposed on city and village governments provided incentives to create special districts to expand particular services and simultaneously circumvent established tax or debt rate limits. Many library and park districts owe their existence to this process. These new government units often increased local reliance on property taxes because single purpose districts have fewer revenue sources than do cities and villages.

The bond, debt, and tax rate limits remained in place on all governments until the ratification of the 1970 Illinois Constitution which provided home rule authority to governments designated by size or based on a successful local referendum. Thus, one might hypothesize that counties in which a larger share of the population lives in cities with home rule have fewer reasons to create government units.

However, the percentage of residents in cities having home rule in 1997 is not statistically correlated with changes in number of either governmental units or special districts between 1997 and 2007 when income, population change, public employment, and governmental structure in 1997 are considered. While far from conclusive, this finding suggests that avoiding debt and tax rate limits may no

longer be a primary factor affecting growth in the number of governments.

Is the State of Illinois doing anything about the number of governments?

Researchers and practitioners alike have long debated whether a decentralized governmental system (more units of government per population) leads to better services or more satisfied residents.⁸ Understanding local governments and their operations is especially difficult in a complex environment. Measuring the quality of services is difficult for taxpayers and there is no market process to determine the “correct” level of services needed. The result is that state government is in the difficult position of deciding which delivery system of local public services makes most sense or is best-suited to specific circumstances.

In the past eight years several efforts have been undertaken by Illinois’ state government to reach a better understanding of this issue and the kinds of responses that might be made to it. In 2005, House Bill 62 created the Local Government Consolidation Commission (LGCC) to conduct a broad-ranging study of local government powers, organization, functions, and jurisdictions, and to report back. Two years later, The Property Tax Reform and Relief Task Force (P.A.95-

644) reviewed the local public finance system in Illinois and, among other items, recommended considering legislation to provide additional incentives to local governments “to centralize and consolidate services now delivered by separate taxing bodies within a region.” It also recommended reauthorizing the LGCC to continue its activities and report back to the General Assembly.⁹

In 2011-2012, Lieutenant Governor Sheila Simon led a *Classrooms First Commission* that encouraged local initiatives to reduce the number of school districts and, by saving administration costs, place more money into classroom instruction. The motivation to reduce costs is especially important in rural areas where small and declining numbers of students render some local schools no longer viable.

Is the number of governments in rural areas declining?

Most rural Illinois counties declined in population during the 2000’s, continuing a long-term trend.¹⁰ To determine how the number of governments changed with these population shifts, this study grouped the 101 Illinois counties (excluding Cook) into five size categories and then compared changes in governmental structure between 1997 and 2007 (*See Table 1*).

Table 1: Local Governments per 10,000 Population

County by Size (#)	1997	2007	% Change
Less than 15,000 (24)	28.4	30.4	7.1
15,001- 25,000 (26)	25.0	26.9	7.6
25,001- 100,000 (34)	15.7	16	1.9
100,001- 250,000 (10)	7.8	7.6	-2.6
250,001 or greater (7)	3.6	3.2	-11.1

Sources: U.S. Bureau of the Census: 1996, 1997, and 2007 Census of Governments. Government Organizations. Washington, DC.

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What happened in the smallest counties?

The smallest counties, those with populations under 15,000 residents, are mostly rural counties located in the southern part of Illinois. They declined 3.9 percent in population between 1997 and 2007, with the average number of residents dropping from 9,334 in 1997 to 8,974 in 2007. *Yet, these counties reported a 7.1 percent increase in government concentration from an average of 28.4 units per 10,000 residents in 1997 to an average of 30.4 units ten years later. (Table 1)* The increase resulted from both a decline in population and an increase in the absolute number of governments.

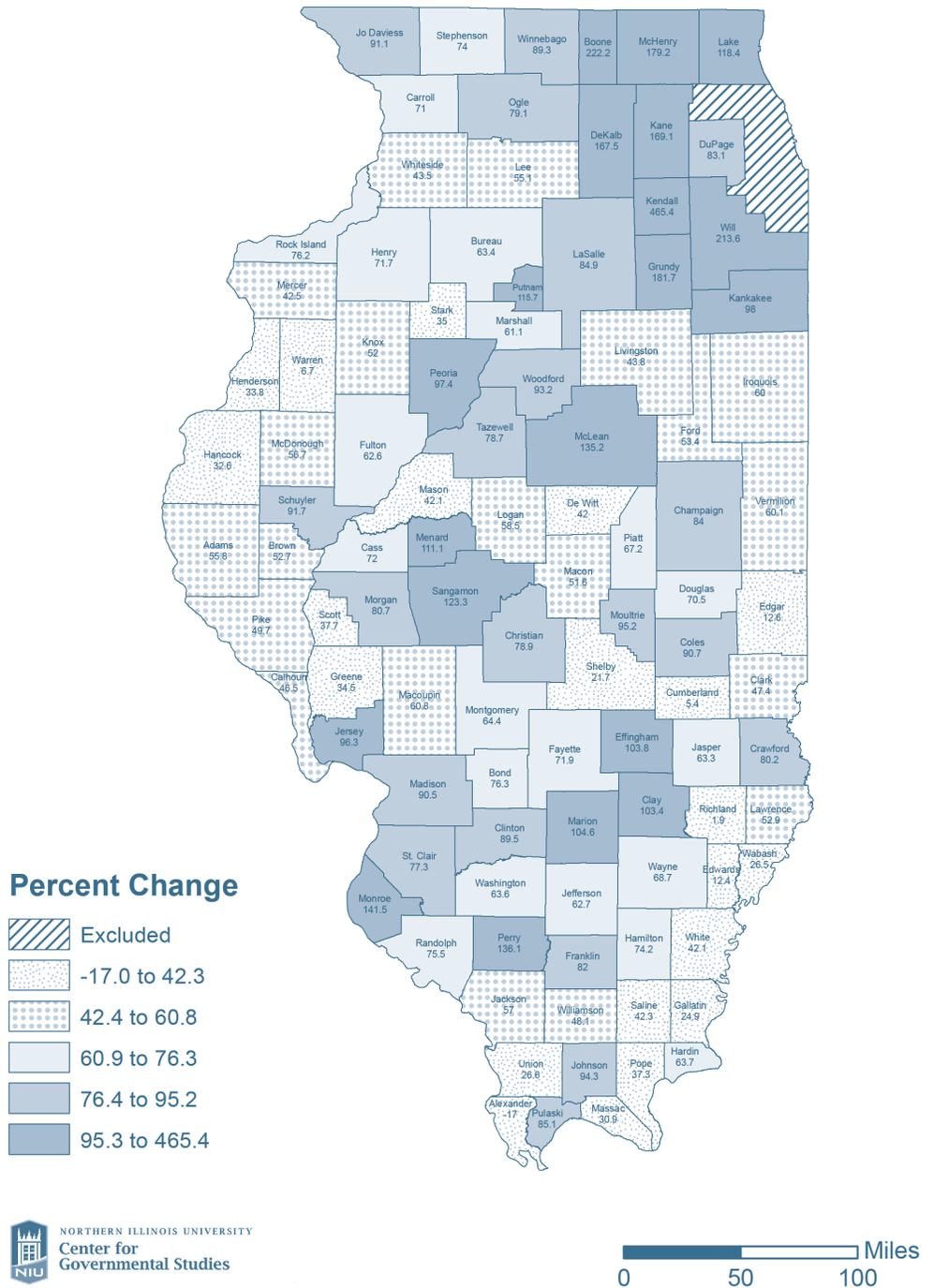
Counties such as Hamilton, Putnam, Hardin, and Henderson counties had the largest increases in number of special districts. (The location of each Illinois county is shown in *Figure 1*). The most common special districts created involved either basic services (e.g. fire protection and drainage districts) or quality-of-life enhancing services (e.g. park districts or libraries). Multi-township assessment districts increased as well.

Did larger counties fare differently?

Illinois' counties with between 15,001 and 25,000 populations averaged a 3.0 percent population decline, and they also reported on average a 4.1 percent increase in absolute number of local governments. Carroll, Warren, Richmond, and Hancock averaged a 21.9 percent increase in numbers of special districts between 1997 and 2007. Counties with populations between 25,001 and 100,000 persons also experienced an increase in number of governments, both absolute and per 10,000 residents.

Both populations and absolute numbers of governments increased in counties larger than 100,000. However, the number of governments per population declined,

Figure 1: Change in Aggregate Total Expenditures for All Local Governments by County 1997-2007



indicating that, proportionally, the population increased relatively more than the number of governments (*Table 1*). This, in turn, caused the ratio of governments to population to decrease during this period, spreading costs over more residents. In places with suburban expansions, some unincorporated communities incorporate as municipal governments at the expressed request of the residents served.

What does this suggest?

More government units in smaller counties may suggest that alternative arrangements for delivering services are being tried or implemented, especially when decreases in population make it cost-prohibitive for small communities to deliver services by themselves. Instead, they can use an intergovernmental agreement with neighboring governments, contract for services with a private company, or form a special district with a larger population and tax base. This can explain increases in fire protection districts and other governments.

The increase in multi-township assessment districts stems from the Illinois Revised Statutes 2-10 (35 ILCS 200/2-10) which require that every ten years each county prepare a map suggesting multi-township districts for purposes of property tax assessment in the county. Upon receipt of the map, the board of trustees in each affected township must decide, by majority vote, whether to join the multi-township district suggested in its county map.

Is the number of governments in Illinois still increasing?

The absolute number of governments in Illinois continued to increase in the past decade and county size did not seem to matter in counties with less than 100,000 population. The absolute number of governments increased even in areas where

Table 2: Expenditure Per Capita

County by Size (#)	1997	2007	% Change
Less than 15,000 (24)			
Current	\$1,901.11	\$3,115.15	63.9%
Constant Dollars	1,901.11	2,141.00	10.6
15,001- 25,000 (26)			
Current	1,990.09	3,060.45	53.8
Constant Dollars	1,990.09	2,103.40	5.7
25,001- 50,000 (24)			
Current	1,834.07	3,338.32	82.0
Constant Dollars	1,834.07	2,294.38	25.1
50,001-100,000 (10)			
Current	2,074.75	3,447.33	66.2
Constant Dollars	2,074.75	2,369.30	14.2
100,001- or larger (17)			
Current	2,117.27	3,909.16	84.7
Constant Dollars	2,117.27	2,686.71	26.9

Sources: U.S. Bureau of the Census: 1996, 1997, and 2007 Census of Governments. Government Organizations. Washington, DC.

population declined. As noted previously, counties larger than 100,000 residents had different experiences.

Simply put, *the number of local governments in Illinois increased during the past decade* but different reasons may have caused the increases in counties of different sizes.

How is this affecting the cost of government?

Expenditures for public services are usually a subject of controversy and increases are carefully scrutinized. An often debated question is whether more governments per population leads to higher per capita expenditures for services after other factors are considered. This study used multiple regression analysis to identify factors associated with changes in aggregate county expenditures by units of

government between 1997 and 2007, with special attention paid to the possible impacts of governmental structure.

The largest percentage spending increases were in central Illinois and in the Chicago suburbs (*Figure 1*). Overall, metropolitan areas reported larger percentage increases in government spending than did rural areas with population declines, although several counties in south-central Illinois also reported above average expenditure growth. Comparisons of per capita expenditures are complicated because the figures are affected both by what happens to the expenditures and also by population changes. Expenditure changes are especially difficult to compare in small counties because a relatively small change in population can represent a large percentage change. Likewise, population declines can artificially increase per capita expenditures even when absolute expenditures did not change.

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Table 3. Change in Structure, Expenditures, and Property Taxes 1997-2007

County by Size (#)	No. of Local Governments % Change	Expenditures per Capita % Change (Constant Dollars)	Property Taxes % Change	Property Tax As % of 2007 Annual Revenue
Less than 15,000 (24)	2.4%	13.2%	18.5%	6.9%
15,001- 25,000 (26)	4.1	8.8	25.2	9.1
25,001- 100,000 (34)	1.1	20.3	41.5	11.1
100,001-250,000 (10)	4.2	27.2	55.3	13.5
250,001 or Over (7)	2.5	25.6	92.0	24.2

Sources: U.S. Bureau of the Census: 1996, 1997, and 2007 Census of Governments. Government Organizations. Washington, DC.

What is the relationship between population size and expenditure increases?

When compared in size, small Illinois counties (less than 15,000) with long-term population declines increased in absolute number of governments and increased 63.9 percent in current expenditures and 10.6 percent in constant dollars (*Table 2 on the previous page*). Slightly larger counties (15,001 to 25,000) with population declines and increases in the absolute number of local governments (4.1%) reported a 53.8 percent increase in expenditures (5.7 percent in constant dollars). Thus, a combination of population declines and additional governments is associated with per capita spending increases.

While the counties over 100,000 population reported higher expenditures in 2007, a comparison of expenditure changes and government structure does not reveal definite patterns. For instance, the seven counties larger than 250,000 (not shown) had a *decrease* of 11.1 percent in number of governments per 10,000 but reported an *increase* in expenditures of 83.3 percent (25.6% in constant dollars). At the same time, counties between 50,000 and 100,000 added governments and reported expenditure increases of 66.2 percent in current dollars (14.2% in constant dollars) (*Table 2*).

Changes in governmental structure, expenditures, and reliance on property taxes are summarized in *Table 3* for each county size group. The percentage growth in local governments was substantially higher in counties of 100,000-250,000 population (4.2%) as was the increase in per capita property taxes for counties 250,001 or greater population (92.0). Likewise, the reliance on property taxes (property taxes as a percent of total revenues in 2007) is much higher in counties over 250,001 population (24.2 %) than in small counties (6.9%). Most likely, this reflects a broader property tax base in larger communities.

Did other structural variables affect spending levels?

The question was raised previously about whether governmental structure is associated with either levels of government spending or increases in number of governments between 1997 and 2002. Simple OLS multivariate regression analysis (results not shown here) generated several findings. First, when controlling for population size and change, average income, percent with home rule, assessed valuation, public employee wages, number of public employees, and dependence on property taxes, *the number of governments per 10,000 residents in a county is not statistically related to level of aggregate per capita expenditures*. This finding

is not often evidence of efficiencies in providing services; rather, it may suggest that governments use alternative arrangements to provide essentially the same services. While these findings may seem counterintuitive, they are consistent with a more sophisticated and detailed analysis for local governments in Illinois reported by Chicoine and Walzer (1985) using several measures of governmental structure.¹¹

Likewise, *no statistically significant relationship is found between percent of residents living in municipalities with home rule and aggregate per capita spending at the county level in 2007*. This may be at odds with the view that home rule, since it removes tax and debt limits, often leads to higher government spending.

As one might expect, the ratio of government employees to population is positively associated with spending levels, as is assessed valuation per capita. However, there is *no* statistically significant relationship between ratio of governments to population and number of governmental employees, contrary to what might be expected if small governments or special districts depend more on unpaid volunteer labor. However, it does not adjust for pay levels.

A related analysis examined whether the governmental structure in 1997 was associated with the percentage change in per capita expenditures in the subsequent 10 years. Once again, *no* statistically significant relationship was found between governmental structure in 1997 and subsequent percentage changes in per capita expenditures. In other words, more governments in a county do not necessarily increase aggregate per capita public spending in the county.

What does it all mean?

Illinois has, by far, the largest number of local governments of any state, and that number increased between 1997 and 2007. The proliferation of Illinois' local governments is as characteristic of the state's rural areas as of its metropolitan regions, but, because rural areas are losing population, continued proliferation may pose significantly greater challenges in rural areas in the future.

A limited analysis of the effects of governmental structure on per capita spending showed that more governments per 10,000 residents do not usually lead to higher per capita expenditures. Likewise, counties with more governmental decentralization did not have higher expenditure growth between 1997 and 2007. It also offered evidence that counties with a larger percentage of residents living in cities with home rule did not have higher expenditures in 2007. It may well be that home rule's value lies, not in generating more property tax dollars, but in providing governments, large and small, with a broader range of options for dealing with local problems.

Whatever form future reorganization might take, delivering local government services as efficiently as possible will be crucial for maintaining tax rates and expenditures at levels that retain and even attract residents. Avoiding duplication of services will also be essential, especially in small counties. Fortunately, information technology and other new management tools offer options to deliver better services at the same or lower cost. Such management tools hold promise for local governments. *Modernizing governmental operations may be a key to the prosperity, and even survival, of small, rural governments not only in Illinois but in other states as well.*

Endnotes

¹This, and all issues of *Policy Profiles*, can be seen on the internet at niuogs.org/portfolio/policy-profiles/index.html

²Walzer, Norman and Tatchalerm Sudhipongpracha, "Local Government Structure and Public Employment: A Fresh Look at Illinois' Predicament." *Policy Profiles*. Volume 10: 2, 1-12, 2011.

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¹⁰Walzer, Norman and Tatchalerm Sudhipongpracha. 2011.

¹¹See the full bibliographic citation in note 8.

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