

## City-County Consolidation and Urban Economic Development – (Final)

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### Executive Summary

This paper addresses an old urban public policy (city-county consolidation) that has garnered much attention in the recent years since the Great Recession. City-county consolidation involves the merging of the separate city and county governments in a county into one countywide government. During many consolidations, the central-city annexes outlying territory in the suburban periphery, which increases the consolidated city's population and tax base. This report presents results testing the effects of city-county consolidation on economic development in the form of job growth for consolidations between 1950 and 1993. It examines whether or not annexation, along with consolidation, entices businesses to locate to the newly consolidated city-county. It also examines whether or not a city's elasticity (its annexation of underpopulated land) increases the likelihood of economic development. The economic sectors studied are the manufacturing sector and the retail/service sector. Results show that city-county consolidation has no independent effect on increasing economic development in the form of job attraction. However, annexation of surrounding territories does increase the number of manufacturing and retail/service firms in a county, irrespective of consolidation. There is also no evidence that the combination of city-county consolidation and annexation promotes economic development. If anything, city-county consolidation actually hinders development.

When a city's elasticity is considered, results indicate that inelastic counties (counties with high population per square mile) cannot use annexation to promote economic development. There is simply no room left for business to locate. The effects of annexation contingent upon elasticity are also insignificant. Ultimately, if a city has land to annex that is not highly populated, it can promote economic development through annexation only. City-county consolidation is not a necessary condition for economic development.

In what follows, I identify the problem at hand and then discuss several theoretical perspectives concerning consolidation and economic development in the form of job growth. I then present several key factors that may interact with consolidation to enhance job growth. Next, I discuss the design for this study, followed by the results of the statistical analysis. I conclude with a policy recommendation based upon my research findings.

### Problem Identification

When cities face economic hardship, local politicians often support merging city and county governments into a single entity. A recent report by the International City Managers Association (ICMA) noted that with the recent economic downturn and recession, cities are attempting to find unique ways to trim budgets and spur economic development.<sup>1</sup> Some strategies range from cutting the size of the municipal workforce to government reorganization through city-county consolidation.<sup>2</sup> Supporters of consolidation argue that it increases efficiency and reduces the cost of government through the elimination of duplication of services<sup>3-6</sup> and the consolidation of government departments.<sup>7</sup> A number of empirical studies have examined these and other effects of city-county consolidation and other local government reforms on costs, yielding mixed results.<sup>8-17</sup>

A problem not directly related to economic development is the disconnect between the applied world of politics and the recent academic literature. Cities engaged in city-county

consolidation over the past half-century – namely from the 1960s to the 1990s. During the economic boom period, city-county consolidation was not discussed as much as it has been over the past 5 years. In the applied world of politics, city-county consolidation is a real policy option, and politicians and civic leaders continue to debate its merits, without much empirical evidence of its successes and failures. The academic community has largely ignored quantitative empirical studies of city-county consolidation, and few academic journals and proceedings have focused on this policy in recent years. This disconnect has come at a real cost – the cost of a public policy being debated, and in many cases, implemented, without knowledge of its implications. This report attempts to bridge the two communities – applied and academic – in an attempt to help provide insight on whether or not city-county consolidation is a viable policy option for economic development.

### **Why Consolidation?**

To understand why consolidation may attract business to an area, we must understand some of the theoretical arguments underlying consolidation proposals. There are generally four theoretical perspectives concerning consolidation,<sup>18</sup> but only three of them are used in supporting the argument that consolidation may or may not attract business.

The *reform perspective* argues that consolidation achieves technical efficiency through the combination of government departments,<sup>19</sup> realizing economies of scale,<sup>20</sup> and greater accountability.<sup>21-22</sup> These gains may decrease competition between the city and county, which could lead to economic development in the form of job growth.<sup>23-27</sup>

The *development perspective* sees consolidation as a means to improve central city development by halting low-density sprawl<sup>28-30</sup> and an eroding tax base that has shifted to the outlying suburbs outside the central city limits.<sup>30</sup> This tax base, however, continues to benefit from the amenities of the central city, but is not financially responsible.<sup>32-38</sup> One method to halt this process is through consolidation<sup>39</sup> and/or annexation of the territory, which could also decrease competition between the city and county and attract business.

The third perspective presents a completely different view concerning consolidation's effects on economic development and job growth. Known as the *fragmentation school of thought*, supporters argue that increased governmental fragmentation allows the various governmental units to provide services to their unique jurisdictions in accordance with citizen preferences.<sup>40-43</sup> Competition between the city and county may lead to overall improvements in the region as both the city and county are pressured to improve governmental operations and to attract business. It is this view that consolidationists staunchly oppose,<sup>44</sup> arguing that competition is ultimately a detriment to the city and its county, which prevents economic development.<sup>45-46</sup>

### **Existing Evidence**

The evidence for consolidation's effects on job growth, however, has not been adequately studied empirically and prevents the scientific and political community from knowing if consolidation brings its intended results.<sup>47</sup> Supporters of consolidation argue that reduction of government costs will attract business to the county.<sup>48</sup> The few studies examining consolidation's effects on job growth also yield mixed results, with some scholars finding support for consolidation attracting jobs,<sup>49-52</sup> and other scholars finding that consolidation has no effect on a city's job prospects.<sup>53-55</sup> The studies revealing a positive effect on job growth from consolidation<sup>56-59</sup> all rely upon case study research utilizing a qualitative design. While such

designs are acceptable, it is far more difficult to obtain generalizable results.<sup>60</sup> One empirical study conducted by Carr and Feiock (1999)<sup>61</sup> examines the effects of consolidation on job growth using a time-series design. Their initial results suggest that consolidation has a positive effect for some cities, but they neglect important theoretical and methodological issues that may reveal why consolidation has worked for some cities. Instead, they should ask the question, “Under what circumstances might consolidation attract business?,” and incorporate various theoretical explanations in their empirical models.

### **Consolidation and Economic Development: A Study Using Time Series Analysis**

Carr and Feiock (1999)<sup>62</sup> offer a quantitative test of the effects of consolidation on job growth using a time series design. They examine nine city-county consolidations, collecting manufacturing and retail/service sector data for over 50 years. Using ARIMA models, they present their initial results (Table 1).

*Table 1: Summary of Carr and Feiock’s (1999) Study: Effect of Consolidation on the Number of Total Manufacturing and Retail/Service Establishments using ARIMA Models*

<b>Consolidation (Year Consolidated)</b>	<b>Manufacturing (level of significance)</b>	<b>Retail &amp; Service (level of significance)</b>
Anchorage/Anchorage County, AK (1975)	No	Yes
Jacksonville/Duval County, FL (1967)	No	Yes
Columbus/Muscogee County, GA (1970)	No	No
Indianapolis/Marion County, IN (1969)	No	Yes
Lexington/Fayette County, KY (1972)	Yes	No
Houma/Terrebonne County, LA (1984)	No	No
Butte/Silver Bow County, MT (1976)	No	No
Carson City/Ormsby County, NV (1969)	Yes	Yes
Suffolk/Nansemond County, VA (1972)	No	Yes

The results show that three of the nine consolidations (Columbus/Muscogee County, GA; Houma/Terrebonne County LA; and Butte/Silver Bow, MT) yielded no significant job attraction. The remaining six consolidations yielded at least some growth in one of the two sectors, with the Carson City/Ormsby County, NV consolidation resulting in growth in both the manufacturing and retail/service sectors. What might account for this possible success of consolidation to attract jobs? Table 2 presents the seven consolidations and pre-consolidation characteristics that could be important determinants of consolidation success.

Table 2: Consolidations &amp; Their Characteristics

<b>Consolidation</b>	<b>Job Growth</b>	<b>Crisis Climate</b>	<b>Urban Services</b>	<b>Central City/Suburb Conflict</b>	<b>Govt. Efficiency</b>	<b>Econ. Development</b>	<b>Pop. (prior to consolidation)</b>
Jacksonville/Duval County, FL (1967)	R & S	Yes	Poor school funding; poor police/fire protection	No, but there was no regulatory power for counties.	Govt. costs and taxes were soaring	Would be an indirect effect of solving other problems	201,030
Columbus/Muscogee County, GA (1970)	No	No	44 depts. to 9 after merger	No	Double tax structure to single structure after merger	No	154,168
Indianapolis/Marion County, IN (1969)	R & S	Somewhat		Suburbanization; deteriorating downtown	No; tax rates actually increased post-consol.	Improvement of image/downtown would bring development.	744,624
Lexington/Fayette County, KY (1972)	Manuf.	No	Main argument for consol.	No, but city wanted county for added territory.	No	No	108,137

Table 2, contd.

Consolidation	Job Growth	Crisis Climate	Urban Services	Central City/Suburb Conflict	Govt. Efficiency	Econ. Development	Pop. (Prior to Consolidation)
Houma/Terrebonne County, LA (1984)	No	No	No	No	Main argument for consol.	No	32,602
Butte/Silver Bow, MT (1976)	No	No	Envt. Problems	No	No	No	41,981
Carson City/Ormsby County, NV (1969)	R & S; Manuf.	No	Calls for Improved services	No	No	No	15,468

### Consolidation, Annexation, and Elasticity

My central argument lies in the development school of thought, dealing with annexation. While this school of thought predominantly focuses on containing sprawl and merging tax bases, it is premised on Rusk's<sup>62</sup> city elasticity hypothesis. Rusk argues that for a city to grow economically, it must annex its peripheral territories.<sup>63</sup> Such an expansion allows the city to "grow," increasing its tax base, and allows it to have more land resources to attract more business. Annexation may also decrease rival competition between the central city and its unincorporated county areas.<sup>64-65</sup>

Such provisions of consolidation may be driving the results shown by Carr and Feiock (1999).<sup>66</sup> For a consolidation to be successful, it must include a provision for the central city to annex surrounding territory. Brierly (2004)<sup>67</sup> summarizes this logic as discussed by Rusk (1995)<sup>68</sup>: "Once a core city's land area maximum is attained, Rusk argues that the process of growth qualitatively changes, with the prospects for further area growth greatly diminished" (88). The city can no longer add territory and its elasticity shrinks.

Consolidations differ in their provisions, with the least comprehensive consolidations involving the merger of one or two departments; moderate consolidations often merge governing bodies, service delivery, and taxes. The most comprehensive consolidations usually involve all these provisions along with the annexation of surrounding territory.<sup>69</sup> All of the consolidations in the dataset included the annexation of territory and the consolidation of governmental functions. Therefore, degree of consolidation is operationalized as the natural log of years since consolidation. For this study, I hypothesized that *consolidation attracts jobs to the city only when the city annexes large tracts of unincorporated areas in its county (Hypothesis 1)*.

Consolidation may not necessarily attract jobs to the new area. What other process could dictate an increase in the number of jobs in the county? One possibility is that annexation attracts jobs to an area, but only if the area is highly elastic.

Thus, if a city annexes an overpopulated and inelastic unincorporated area, there may be no room for businesses to locate, which caused me to hypothesize that *annexation attracts jobs to an area, but only if the annexed territory is elastic (Hypothesis 2)*.

## Research Design

I obtained the initial data for this project from the Jered Carr and Richard Feiock. This dataset contains county-level figures of total establishments in the manufacturing, retail, and service sectors between the years 1950 and 1993. Table 3 shows the city-counties used in their original study and for this study. For the most part, I use the same city-counties as Carr and Feiock (1999).

*Table 3: City-Counties Used in Previous and Current Study*

City-County	State	In Carr/Feiock (1999)?	In this Study?	Control Group
Anchorage	AK	X		
Jacksonville-Duval	FL	X	X	
Ft. Lauderdale-Broward	FL		X	X
Columbus-Muscogee	GA	X	X	
Augusta-Richmond	GA		X	X
Indianapolis-Marion	IN	X	X	
Ft. Wayne-Allen	IN		X	X
Lexington-Fayette	KY	X	X	
Louisville-Jefferson	KY		X	X
Houma-Terrebonne	LA	X	X	
Bossier City-Bossier	LA		X	X
Butte-Silver Bow	MT	X	X	
Great Falls-Cascade	MT		X	X
Carson City-Ormsby	NV	X	X	
Reno-Washoe	NV		X	X
Suffolk-Nansemond	VA	X		

I omit the Anchorage-Anchorage Borough consolidation, because Alaska is not a continental U.S. state and may experience unique conditions that bias the results. Additionally, I omit the Suffolk-Nansemond County consolidation. Virginia is unique in that it has both counties and incorporated cities, which also have the same powers as counties. This design complicates collection of data concerning the central-city and its county, since the central-city is considered the county.

I added cities to the original dataset to act as a kind of control group to gain greater explanatory power. Therefore, for each city-county, I found a similar city (in population immediately before consolidation) in its respective state.

Using various editions of the *City-County Data Book* and *County Business Patterns*, I added data on central-city and county population and land area. Most of this data is only available for Census years. Therefore, I employed linear interpolation to obtain data for non-Census years. The final dataset has population and establishment data for 14 city-counties from 1950-1993.

The data is organized in a time-series – cross-sectional manner, so the use of ordinary least squares (OLS) is not acceptable. Therefore, to test each hypothesis, I use OLS regression with panel-corrected standard errors for the following model that tests my first hypothesis:

$$\begin{aligned} \# \text{ of Establishments}_{i,t} = & \beta_0 + \beta_1 \text{Consolidation}_t \\ & + \beta_2 \text{Annexation}_t \\ & + \beta_3 \text{Consolidation}_t * \text{Annexation}_t \\ & + \beta_4 \text{Controls} \\ & + \varepsilon \end{aligned}$$

The dependent variable is simply the number of establishments in industry  $i$  at time  $t$  for each county.

As mentioned previously, the effects of consolidation are not immediate, with the full effects likely occurring 5 years after the initial consolidation (Carr and Feiock 1999).<sup>71</sup> At some point after consolidation, however, the consolidation should have little, if any, effect on job attraction. Therefore, the *Consolidation* variable is operationalized as the natural log of the number of years since consolidation.

My measure of *Annexation* is simply the amount of land area of the central city for each year in the dataset. If a consolidation included the annexation of surrounding unincorporated areas, the central city land area increases dramatically.

I utilize three control variables in my model. The first variable is *Industry<sub>t-1</sub>*, which is simply the number of establishments in the respective industry in the previous year. *Industry\_Proportion* is the ratio of manufacturing firms to retail and service sector firms per year. Manufacturing and retail/service industries require different forms of capital which may not be compatible, meaning that an area with many manufacturing industries may have fewer retail and service sector industries. The final control variable is *1974*, which is a dummy variable, coded 1 if the observation is in any year after 1973; 0 otherwise. *County Business Patterns* publishers changed how they calculated the number of establishments in a sector in 1974, and this variable accounts for a large jump in all industry numbers for that year.

To test my second hypothesis, I use OLS with panel-corrected standard errors in the following model:

$$\begin{aligned} \# \text{ of Establishments}_{i,t} = & \beta_0 + \beta_1 \text{Annexation}_t \\ & + \beta_2 \text{Elasticity}_t \\ & + \beta_3 \text{Annexation}_t * \text{Elasticity}_t \\ & + \beta_4 \text{Controls} \\ & + \varepsilon \end{aligned}$$

My measure of a county's elasticity is simply the population per square mile. The variable *Annexation<sub>t</sub>\*Elasticity<sub>t</sub>* is an interaction term that tests if the effects of annexation are modified by a county's elasticity.

## Results & Discussion

Table 4 presents the results of the model testing Hypothesis 1 for the manufacturing sector.

Table 4: The Effect of Consolidation on Manufacturing Jobs

Variable	Coefficient	Standard Error
Consolidation	-0.541	0.753
Annexation	0.001*	0.0005
Consolidation*Annexation	-0.002*	0.001
Industry <sub>t-1</sub>	1.019**	0.006
Industry_Proportion	12.049	32.518
1974	1.266	4.198
Constant	-1.302	3.243
N = 420		

Dependent Variable: # of Manufacturing Establishments

\*= p<0.05; \*\* = p<0.01; Standard errors are reported as panel-corrected standard errors.

From the results in Table 4, which tests the first hypothesis, there are statistically significant coefficients ( $p < 0.05$  level) on the annexation variable and the interaction term. However, we cannot interpret the marginal effects of the constitutive terms of the interaction term simply by looking at the table of results. A post-hoc analysis of marginal effects reveals that only for the consolidations that involve the central city annexing large parts of the unincorporated area, do the consolidations actually have an effect on the number of manufacturing establishments. However, this relationship is *opposite* what I predicted in my first hypothesis. It seems that consolidations actually *discourage* manufacturing firms from entering the area after large-scale annexation. The key significant variable is Annexation, which suggests that annexation alone improves economic development.

Table 5 reveals the results of the test of Hypothesis 1 for the retail/service sector. The coefficients on the interaction term and the annexation variable are significant at the  $p < 0.05$  level. The marginal effect of consolidation on the number of retail/service jobs is significant across nearly all levels of annexation; only the consolidations with the least amount of annexation does the graph show no relationship between consolidation and retail/service job growth. The post-hoc analysis shows that as the level of annexation increases, consolidation actually has a *negative* effect on retail/service job growth. This relationship is *opposite* what I predicted in Hypothesis 1. One possible explanation for this effect is similar to what might be occurring with the manufacturing sector – consolidation increases transition costs of government and may lead to an increase in taxes, deterring business from locating to the consolidated area.

*Table 5: The Effect of Consolidation on Retail/Service Sector Jobs  
Dependent Variable: # of Retail/Service Establishments*

<b>Variable</b>	<b>Coefficient</b>	<b>Standard Error</b>
Consolidation	-10.668	6.509
Annexation	0.005*	0.002
Consolidation*Annexation	-0.014*	0.007
Industry <sub>t-1</sub>	1.039**	0.006
Industry_Proportion	-286.463	337.614
1974	62.797	50.244
Constant	-30.273	30.345
N = 406		

\*= p<0.05; \*\* = p<0.01; Standard errors are reported as panel-corrected standard errors.

The previous results naturally lead into the test of Hypothesis 2. Maybe the process that dictates establishment growth is the annexation of territory when the area has high elasticity. Table 6 reports the results from the second model, testing the effects of annexation, conditional upon a city's elasticity. Consolidation variables are removed from the manufacturing model due to evidence in this study and other studies that it has a null effect on job attraction.

The elasticity variable shows significance (p<0.01 level). However, a post-hoc analysis shows no significance for the marginal effect of annexation on manufacturing across all values of a city's elasticity, and thus, Hypothesis 2 is not confirmed for the manufacturing sector.

Does this relationship also hold for the retail/service sectors? Table 7 reports the results for this industry. Unlike the manufacturing sector, annexation appears to have a significantly negative effect on the number of retail/service sector establishments in an area across nearly all levels of elasticity. However, this relationship is contingent upon a city's elasticity. As a central city annexes land that is increasingly inelastic, the number of retail/service establishments declines. This finding is in line with the expected relationship in Hypothesis 2. Annexing land that is already highly populated is unlikely to bring in new business for a number of reasons. First, there simply is no room for business to locate. Second, inelastic areas probably already have markets filled with retail and service industries. New industries likely do not want to face stiff competition. The annexation of fairly underpopulated land may signal potential suburban growth for the city and thus more markets for retail/service products. This relationship also suggests that factors that bring manufacturing firms to an area are different than factors that entice retail/service firms.

*Table 6: Effect of Annexation on Manufacturing Jobs*  
*Dependent Variable: # of Manufacturing Establishments*

<b>Variable</b>	<b>Coefficient</b>	<b>Standard Error</b>
Annexation	-0.00004	0.0005
Elasticity	-0.014**	0.004
Annexation*Elasticity	0.00003	0.00002
Industry <sub>t-1</sub>	1.01**	0.0171
Industry_Proportion	50.811	39.923
1974	-0.987	3.964
Constant	-1.307	4.160
N = 420		

\*= p<0.05; \*\* = p<0.01; Standard errors are reported as panel-corrected standard errors.

*Table 7: Effects of Annexation on Retail/Service Jobs*  
*Dependent Variable: # of Retail/Service Establishments*

<b>Variable</b>	<b>Coefficient</b>	<b>Standard Error</b>
Consolidation	-8.340	6.891
Annexation	-0.009*	0.003
Elasticity	-0.149**	0.024
Annexation*Elasticity	0.0006**	0.0002
Industry <sub>t-1</sub>	1.013**	0.170
Industry_Proportion	-388.647*	177.902
1974	56.249	48.08
Constant	8.125	28.128
N = 406		

\*= p<0.05; \*\* = p<0.01; Standard errors are reported as panel-corrected standard errors.

## **Conclusion & Recommendations**

I have presented evidence that city-county consolidation does not bring additional business to an area. In fact, consolidation may actually decrease the number of retail/service industries in an area. This finding corroborates previous research by urban scholars, but uses a different methodology in an attempt to better understand the relationship between consolidation and job growth.

This study also corroborates the theory offered by Rusk (1995) that annexation matters for job growth and is partly contingent upon elasticity. Annexation of inelastic areas is unlikely to lead to increased job growth. This finding has implications for city officials attempting to bring greater economic development to their area. Therefore, I present several recommendations:

- 1.) Cities should not consider city-county consolidation as a means for economic development in and of itself, or combined with annexation. This report shows absolutely no economic impact of consolidation. In fact, any effect revealed is actually negative. This finding likely stems from high transaction costs of consolidation.
- 2.) Cities should consider annexation to promote economic development. This research indicates that annexation alone improves economic development and attracts business, but annexation comes with a key caveat.
- 3.) Cities should measure their elasticity before annexing. Annexing densely-populated areas will not encourage job growth. There is simply no available space. For example, many Northeastern cities are heavily populated and the population per square mile is substantially larger than cities in the South and West. Therefore, city politicians in the South and West may consider annexation of surrounding areas to attract business to their region.

## Notes

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The Global Urban Economic Dialogue Series: Nairobi. In Russia only Moscow's economy demonstrates similar difference – the share of Moscow's GMP in the total Russia's GDP prevails over the share of Moscow's population in the country's total population by 10.7 percentage points. For St.-Petersburg the prevalence makes up around 2 percentage points. Table 5 gives the total contribution of capital cities in national GDP and population for the following groups of regions arranged according to their economic position and housing market conditions[3]: Regions with depressed housing markets and deteriorating Urban economics is broadly the economic study of urban areas; as such, it involves using the tools of economics to analyze urban issues such as crime, education, public transit, housing, and local government finance. More narrowly, it is a branch of microeconomics that studies urban spatial structure and the location of households and firms (Quigley 2008).