

Regionalizing Services

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Key Points

- Local governments in Michigan were created in the 1800s and generally reflect the needs of that time.
- Regionalizing some services could be beneficial for sound fiscal policy, and local governments have many tools at their disposal to do so.
- It is likely the state government will have to incentivize local governments to regionalize some of their services.

The National League of Cities suggests that local budget shortfalls could reach \$360 billion over the next few years. This comes on top of years of declining resources and growing expenditure pressures for local governments in Michigan. Local governments will require a combination of federal aid, state and local revenue increases, service cuts, and changes to service provision to mitigate this predicament.

While much work has been done on the [need for more revenue options for local governments](#), this is only one-half of the fiscal equation. [Changes to how local governments provide services](#) is an equally important part of the solution. Local governments are often challenged by vertical fiscal imbalances where their ability to raise revenues does not match their required or desired level of service provision. In 2000, at least half of all local governments did not have sufficient revenue bases to support a basic level of service provision (Walker 2000). This situation has not improved. Additionally, horizontal fiscal imbalance--where local governments of the same type vary greatly in their ability to provide services--has led to increasing social, economic, and service disparities both within metro areas and between metro and non-metro areas as local government structures have become increasingly fragmented.

Local Governments in Michigan

Michigan local government as we know it today was put into place in the 1800s when methods of communication and transportation were drastically different. As a result, many local services are provided by cities and townships instead of counties because they were closer to the people. Today, counties are underutilized and could provide various local services to both residents and their constituent local governments (Citizens Research Council of

Michigan 2017). Regionalizing services opens the possibility to review if services are still needed and how to provide them most efficiently and effectively.

Service delivery at the city and township level allows local units to customize services to meet the demands of their residents, but it is often inefficient when there are large fixed costs each government must meet. Redundancies, including duplication of equipment and personnel, are necessary in this model. Even if local governments are operating as efficiently as possible within the current structure, it is past time to question if the current model is appropriate for the 21st century. The COVID-19-induced recession provides us with the impetus to do just that.

For example, [research suggests](#) that benefits can be realized without consolidating governments, but by expanding the county role to handle more functions. Counties already provide a regional form of governance and they are well-suited to administer services to residents of smaller municipalities, such as contracting county sheriff deputies to provide law enforcement services. They can also partner with larger municipalities to maximize economies of scale so that services can be efficiently provided to benefit residents. A number of services that might benefit from an expanded county role include information technology and administration/general government services. Counties could be positioned as a regional support system capable of delivering services, performing functions, and facilitating cooperation that will enable cities, villages, and townships to concentrate their efforts on developing the identity and placemaking that will attract people and businesses.

Government reforms usually fit within one of three areas:

- Consolidation: most general-purpose government roles/responsibilities are moved into a single county or metro government.
- Public Choice: leave government structures unchanged but promote competition and let people “vote with their feet.”
- Collaboration: local governments work together with a multifaceted response which crosses traditional jurisdictional boundaries.

Of these, [collaboration](#) seems the most promising for regionalizing services in Michigan.

Types and Tools of Regionalism

There are four primary types of regionalism found across the United States (Miller, 2002). These include:

- Coordinating Regionalism: making use of regional councils and area wide organizations.
- Administrative Regionalism: creating interlocal agreements, special districts, urban counties, etc.
- Fiscal Regionalism: regional sharing of the tax-base.
- Structural Regionalism: changing government structures through annexation, consolidation, etc.

When regionalizing, local governments have access to 18 tools (Walker 1987), which allow a balance between local autonomy/identity and working across jurisdictional boundaries.

| Easiest | Middling | Hardest |
|------------------------------|-------------------------|---|
| informal cooperation | local special districts | one-tier consolidation (city-city, city-county) |
| interlocal service contracts | transfer of functions | two-tier restructuring (county-city-city. Ex: Metro Dade County) |
| joint-powers agreements | annexation | three-tier reforms |

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|---|--|---|
| | | (several municipalities and counties. Ex: Twin Cities Metropolitan Council) |
| Extraterritorial/cross-jurisdictional powers | regional special districts and authorities | |
| regional councils/COGs | metro multipurpose districts | |
| federally encouraged single-purpose regional bodies | reformed urban county | |
| state planning and development districts | | |
| contracting (private) | | |

However, the ability of local governments to overcome fragmented regional structures is often constrained by state statutes/constitutions and limited local authority. Additionally, state governments outline how much collaboration can occur among local governments without state legal intervention, and often local governments do not have the authority to make formal agreements with other local governments. As such, it is often contingent on the state government to provide incentives for collaboration and regional decision making among local governments.

Carrot and Stick Incentives

States can incentivize local governments for regional collaboration through both bottom-up (carrot) approaches and top-down (stick) approaches (see Krane, Rigos, & Hill 2001; Miller & Cox 2014). Research has indicated the following approaches are the most successful in spurring regional collaborations.

| Bottom-Up (Carrot) Approaches | Top-Down (Stick) Approaches |
|---|---|
| Expanding authority for local governments to enter into service sharing, transfer, or consolidation agreements. | Imposing limits on local revenues and the creation of new local units. |
| Facilitating local management improvement practices, such as collective purchasing and private contracting arrangements. | Strengthening the authority and capacity of counties to serve as regional governments, expanding their scope of authorized services, and sorting out and mandating transfer of functional responsibilities between counties and municipalities. |
| Authorizing the use of regional COGs or state areawide districts to provide local services. | Transferring financial and/or administrative responsibility for a service to the state. |
| Liberalizing or standardizing procedures for initiating annexation, downsizing governing boards, changing forms of government, and consolidating or dissolving jurisdictions. | Creating metropolitan authorities to provide services on an areawide or regional basis. |

| | |
|---|---|
| Providing state funding to support local planning studies for charter revisions and other actions to enable shared or consolidated services and merger or dissolution of local units. | Mandating interlocal or regional cooperation in service delivery. |
| Strengthening the power of voters to compel service or jurisdictional mergers. | Mandating regional consolidation of a local service. |
| Designating a state office to provide technical assistance to local government service sharing or merger initiatives and structural reform efforts. | Eliminating or reducing the number of nonviable units—such as some townships, rural school districts, and small general-purpose local units—that have very limited size and functional responsibilities, weak own-source financial bases, or heavy dependence on state and federal aid. |
| Providing incentives in state aid formulas for regional collaboration or local unit consolidation. | Curtailing or terminating state aid or local revenue authority to units that fail to meet effectiveness criteria (size, cost-savings, etc). |
| Establishing a statewide benchmarking system to provide the public and policy makers with information about local productivity and progress. | |

Recreated from: Nelson, Kimberly & Carl Stenberg. 2018. *Managing Local Governments*. Washington, D.C.: CQ Press, p.77.

Discussion

State and local policymakers can use the list above to incentivize enhanced regionalism in Michigan. Some incentives are already possible under [existing legislation](#), and others may need action by the state legislature to achieve. Local governments are already allowed to create metropolitan area councils (MACs) in statistical areas with less than 1.5 million residents, and these MACs have authority to provide nearly all municipal services (McGee, M.P. & Trebilcock, C.M.). Michigan has 14 metropolitan statistical areas that could create a MAC to share services, some of which already do have MACs. [Studies](#) on collaboration [provide examples](#) of what can be done.

The [Michigan Public Policy Survey](#), which is an annual survey done by the Center for Local, State, and Urban Policy at the University of Michigan, found that local leaders are generally positive about intergovernmental cooperation and interested in expanding cooperation. In fact, in 2011, 72 percent of local of local jurisdictions report that they are already involved in some form of local cooperation (MPPS March 2011). Survey respondents suggest that their reasons for desiring increased collaboration include wanting to improve the quality of existing services and decrease their costs (MPPS 2010).

Despite positive feedback on intergovernmental cooperation, local governments need additional support and assistance, which may come in the form of revenue sharing incentives. In 2011, 50% of local governments said that revenue sharing incentives would be effective to encourage more cooperation (MPPS March 2011). In 2015, former Michigan Governor Rick Snyder recommended revenue sharing practices which allowed for further collaboration between municipalities, however, further incentivization with revenue sharing could be beneficial

(Snyder). Grants are another consideration, which could offset higher costs in the first few years of new collaborations, or support planning and innovative pilot programs that local governments would not be able to afford otherwise (MPPS March 2011). Beyond grants and fiscal incentives, the Michigan state legislature could consider amending statutes to improve cooperation and providing locals with more technical support (e.g., legal services, contract design).

Conclusion

The COVID-19 recession is going to cost local governments hundreds of billions of dollars in lost revenue across the United States. Rethinking how local governments provide goods and services to citizens throughout Michigan is going to be essential for sound fiscal policy. Long-term strength and resiliency will take strategic, multifaceted actions. Regionalizing some services should help alleviate both vertical and horizontal fiscal imbalances across governments in Michigan.

However, there is no crystal ball or perfect formula to ensure success in regionalizing services. As discussed in an accompanying [memo on assessing collaborative readiness](#) (Staley 2020), collaboration is hard work and should not be taken lightly. For local governments to truly be able to adjust how they provide goods and services across jurisdictional boundaries it will likely take state action (both carrot and stick) to incentivize local governments to do so. As Beverly Cigler (2007) noted, regionalism remains “an unnatural act among nonconsenting adults.”

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This memo is part of a series of memos in the Local Government COVID-19 Fiscal Strategy and Resource Guide, available at closup.umich.edu/COVID-19. CLOSUP has partnered with public finance experts from universities, consulting firms, and research institutions from around the state to provide local governments up-to-date information as well as a set of ideas and tools that will help them strategically navigate the new fiscal landscape.

Have additional questions or issues you think we should address?

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