CMAP

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WHAT ILLINOIS CAN LEARN FROM OTHER STATES ABOUT SUPPORTING CAREFUL LOCAL GOVERNMENT CONSOLIDATION

Increased coordination and partnership across local governments in Illinois would make our communities more resilient in the future. As of April 2018, Illinois has 8,529 units of local government, according to estimates by the State of Illinois Comptroller, more than any other state. The presence of many smaller local governments may lead to more local participation and transparency. However, when many small, adjacent jurisdictions provide the same services, the results also can be higher costs and confusion for residents. In addition, the region's local governments face revenue constraints driven by decreasing state and federal support. These conditions drive decreased capacity to provide services, lower staffing levels, and a backlog of infrastructure needs.

In their efforts to improve governance and service delivery, local governments in northeastern Illinois have long had a culture of creating partnerships. Many governments, including counties, townships, municipalities, school districts, and special districts, have found ways to share the cost of services or purchases, or in some cases, to consolidate units of local government. The State of Illinois should provide more support for local partnership efforts, as other states have seen the benefits of providing technical and financial incentives.

ON TO 2050, recommends encouraging partnerships for consolidating services or units of government based on the potential benefits, such as improved capacity and resources, greater efficiency, enhanced service quality, and cost savings. Such partnerships would allow communities access to professional staff and higher quality services than many smaller governments could provide on their own. The savings would potentially allow local governments to reduce costs or fund critical staff positions that enhance service. As part of implementing this recommendation, ON TO 2050 proposes that the State provide funding to local governments for service sharing and consolidation feasibility studies. This analysis explains the need for a program in Illinois, and provides case studies of four other states' programs.

Why is state support important at this time?

In recent years, the State of Illinois has created statutory processes to consolidate individual units of government. But these processes have not been greatly used, particularly when the legislation was not sparked by a specific local government consolidation initiative. Taking advantage of these tools requires up-front investment in studies and sometimes equipment purchases, which local governments do not always have the expertise, available funding, or time to pursue. A state-funded grant program could more comprehensively support local efforts and establish best practices, such as feasibility studies or public engagement. With more state support, successful partnerships that lead to cost savings or improved services could be replicated and adapted by local governments across the state. For example, the six south suburban Cook County communities served by the Thorn Creek Basin Sanitary District have seen significant cost savings by consolidating sewage treatment. Best practices could be pulled from projects like Thorn Creek Basin as others considers partnerships and consolidation.

The State also has a role in bridging tax rate differences between local governments considering consolidation. In some instances, dissimilar service levels or tax bases may result in an increased property tax burden for taxpayers located in the district with lower levels of service or a higher tax base. After accounting for any expected long-term cost savings, temporary tax credits could offset the resulting tax differential and ease concerns of property owners about tax increases.

Considerations for Illinois

To support and promote local government coordination and consolidation, Illinois should consider the following potential elements of a state program:

Grants for planning studies: The State should provide grants to local governments for consolidation feasibility studies (similar to the state's School District Reorganization program) that consider the fiscal and efficiency impacts of consolidation. Based on other states, a grant program might provide $50,000–$100,000 per project for planning studies.

Grants or loans for implementation costs: Similar to other states that provide assistance with implementation, the State could provide grants up to $1 million per implementation project, while a loan program might provide up to $100,000 per project applicant. Annual total loan program amounts could be subject to demand.

Temporary tax credits: The State should provide tax credits for a limited period to offset property tax differentials resulting from local government consolidation.

Outcomes-based approach: A grant or loan program should include requirements for a budget, work plan, and intergovernmental agreement in the application process, similar to other states, to ensure that local need and desire is clear. The program should study and report on metrics for tracking outcomes and measuring government performance pre- and post-consolidation, including enhanced services, improved infrastructure, and any state or local fiscal impact.

Priority to communities in disinvested areas with lower capacity: Communities in disinvested areas with lower government capacity —which may include low levels of revenues, staff, and/or tax base—should be given priority assistance through the program.

Experience administering grants: A state agency that already conducts outreach and provides training to local governments such as the Illinois Comptroller, should administer this program. An agency with experience in grant-making and administration, such as the Illinois Department of Commerce and Economic Opportunity or a Council or Commission within the executive branch of Illinois government could also be good candidates. Coordination with other state agencies that administer programs for local governments—such as the Illinois Treasurer, Illinois Department of Transportation, Illinois Department of Natural Resources, Illinois Environmental Protection Agency, and Illinois State Board of Education—is also a must.

Use regional, local and civic organizations: A state program should leverage current initiatives and organizations active in efforts at the local level for tasks such as designing a program, vetting applications, and providing technical assistance. In addition, counties, planning agencies, or civic organizations should be encouraged to partner with applicants, and provide technical and other assistance throughout the application, planning, and implementation process.

Many states have grant and loan programs to support consolidation efforts

Several states, such as Michigan, New York, Ohio, and Pennsylvania, have promoted and provided assistance for government consolidation by enacting legislation and awarding grants. These states' programs are summarized in the table below. The following case studies examine how those states have led and funded programs to encourage partnerships for consolidation.

State programs to encourage local government consolidation

State	Program type	Jurisdictions	Eligible uses	Program funding and award amount	Funding per project
Michigan	Competitive grant program.	Municipalities and counties (special/ school districts if partnered with eligible unit).	Shared service or consolidation analysis, legal fees, voting costs, office supplies, infrastructure, and equipment.	Fluctuated between $3.7 and $15 million annually.	No specified financial cap. Covers up to 25% for shared service or consolidation analysis and up to 100% for other expenditures.
New York	Competitive and non-competitive grants, tax credits, and a municipal restructuring fund for idea stage to implementation stage projects.	Municipalities, counties, local and regional district boards, special districts, school districts, and authorities.	Feasibility and planning studies, legal costs, equipment purchases, capital improvements, and transitional personnel.	$4 million in competitive grants, $492,345 in non-competitive grants, $9.7 million in tax credits, and $25 million available in municipal restructuring fund.	Competitive: Max $12.5k per applicant and $100k per project for feasibility studies. Max $200k per applicant and $1M per project for implementation costs. Noncompetitive: Max $100k, with $50k for planning and $50k for implementation. Annual property tax credit equal to 15% of levy post-consolidation.
Ohio	Competitive grant and loan program.	Municipalities, counties, school districts, and authorities.	Feasibility studies, implementation, equipment, facilities, and system costs.	$9 million was available for grant awards and $36 million for loan awards, both annually.	Max $100k per loan applicant. Up to $100k per grant applicant and $500k per project for implementation costs.
Pennsylvania	Competitive grant program.	Municipalities and counties.	Planning and feasibility studies, equipment purchases, and new personnel (up to 50 percent).	Awarded $466,900 in FY 2017-18.	No specified financial cap. Covers up to 50% of eligible costs.

Source: Chicago Metropolitan Agency for Planning analysis of information from the Michigan Department of Treasury, New York Department of State, Ohio Development Services Agency, and Pennsylvania Department of Community and Economic Development.

Michigan

Created in 2012, Michigan's Competitive Grant Assistance Program (CGAP) is housed within the Michigan Department of Treasury. The program incentivizes consolidations, mergers, and shared services by offsetting project costs. All municipalities and counties are eligible. Authorities and school districts are also eligible but must be consolidating operations with a municipality or county. Eligible expenses include shared service or consolidation analysis (up to 25 percent), as well as legal fees, voting costs, office supplies, infrastructure, equipment, and other approved expenditures (up to 100 percent).

Receiving a grant from this program requires demonstrated benefits from the merger. In addition to analysis of current services, applicants must provide a budget, timeline, potential barriers, and potential cost savings. These categories, and others, must be updated quarterly until completion or termination of the grant. The program will not release funding until board resolutions and an inter-local agreement from the applicants approving the project are submitted to the state.

CGAP was initially funded at $15 million annually in 2012, which decreased to $3.7 million in 2018. To date, CGAP has supported 131 projects, 56 have been specifically for pursuing consolidation efforts. Some examples include the following:

City-Township Fire Department Consolidation

The City of Pontiac took advantage of CGAP funds when it consolidated its fire department with neighboring Waterford Township in 2012. In CGAP's first round in 2012, the City of Pontiac received a $248,742 grant to cover legal and other implementation costs as it dissolved its fire department. In the next two rounds, Waterford Township received $716,000 for equipment, repairs, and training.

Emergency Dispatch Center Consolidation

Following a 2012 grant of $20,000 for a feasibility study, the Kalamazoo County Consolidated Dispatch Authority received a $1.9 million CGAP grant in 2018 toward the consolidation of five emergency dispatch centers. The funding agreement includes the City of Kalamazoo, City of Portage, Kalamazoo County, Kalamazoo Township, and Western Michigan University. The grant will offset the infrastructure and technological costs of building the new $21 million dispatch center, but may not be used for operational costs.

New York

As mentioned in a June 2017 CMAP analysis regarding consolidation practices, New York offers multiple programs to encourage consolidation. The New York Department of State administers each of the following programs.

The Local Government Efficiency Grant (LGEG) program is a competitive grant program that funds planning and implementation projects (including consolidation) with the goal of reducing municipal expenses and property taxes. Projects are graded based upon potential tax and cost savings, work plan and budget, and local and regional support. Priority is given to applicants that are "financially stressed local governments" with either three consecutive years of operating deficits or more than a 10 percent operating deficit in the last year. Municipalities and counties are eligible, as well as local and regional district boards and authorities. Reimbursable costs include feasibility and planning studies, legal costs, equipment purchases, and new personnel related to implementation (not to exceed three years).

Planning funding is a maximum of $12,500 per participant and no more than $100,000 for the project. Implementation project funding is $200,000 per participant and no more than $1 million for the project. In 2017, LGEG awarded $4 million for 19 projects.

The Citizens Re-Organization Empowerment Grant (CREG) program is a noncompetitive grant program offered on a monthly basis toward the restructuring of local units of government. It examines financial impact, potential management and service delivery changes, and other critical activities encountered during a municipal reorganization. Eligible expenses include planning, legal costs, capital improvements, transitional personnel costs, and equipment purchasing. The maximum CREG award shall not exceed $100,000, with a maximum $50,000 for planning and $50,000 for implementation. In 2017, CREG awarded a total of $492,345 across 12 eligible applications.

The Citizen Empowerment Tax Credit (CETC) program provides an annual tax credit equal to 15 percent of the local government's levy post-consolidation. This program can reduce tax increases when governments with different service levels or tax bases merge. To ensure that consolidation savings reach residents, a minimum of 70 percent of the funding from the tax credit must provide direct relief to property taxpayers. There is no specified phase-out of the tax credit and it remains in effect until the state determines otherwise. In 2017, the program allocated $9.7 million in funding to 19 local governments across New York where voters had approved a village dissolution or government consolidation within their boundaries.

The Municipal Restructuring Fund (MRF) is a $25 million fund aimed at stimulating property tax reductions through local government reorganization and changes in service delivery, which includes consolidation. The fund supports projects from development through implementation. All municipalities and school districts are eligible for funding of 20 percent of estimated future cost savings, with no local match requirement. Eligible expenses include legal and consulting costs for implementation, capital improvements or equipment purchases, and personnel directly related to implementation. Projects are ranked and prioritized based on service reorganization and tax impact. Specifically, projects receive higher grades if a service, departmental function, or entire entity are consolidated.

Some examples of New York's various programs in practice include the following:

Village-Town Dissolution and Consolidation
In 2014, residents of the village of Bridgewater voted to dissolve into the town of Bridgewater. After the dissolution was final, the CREG program reimbursed both the town and village for the implementation costs of dissolution and consolidation. The village received $49,950 in CREG funding, and the town received $38,520. The funding primarily reimbursed the costs associated with transferring village property and records to the town, as well as forming a town water district. Residents of the town of Bridgewater have also received $236,880 in tax credits through the CETC program since the town and village consolidated in 2015.

Special District Consolidation
In June 2018, the town of Brookhaven won New York's first statewide Municipal Consolidation and Efficiency Competition, a $20 million award to implement consolidation and shared service plans. Brookhaven has nine villages and more than 110 special districts. With this award, Brookhaven plans to consolidate or dissolve at least 24 special districts, public works operations within the nine villages, and billing for the nine ambulance districts within each village; as well as establish a shared information technology platform for town services.

Ohio
Created in 2011, Ohio's Local Government Innovation Fund supported the Local Government Innovation Program (LGIP). Due to budgetary constraints, the state legislature defunded Ohio's local government innovation programs in 2017.

The LGIP offered competitive grants and loans for the planning and implementation of projects that enhanced local government efficiency, which included consolidation projects. The majority of LGIP grants were awarded to feasibility studies aimed at cost savings resulting from consolidating or sharing services. LGIP loans, which were to be repaid using the project's savings, were used for implementation, equipment, facilities, and system costs resulting from a successful consolidation or merger. A public or private entity could provide a local match for the loans.

All municipalities, counties, school districts, and authorities were eligible for the program. Applications were considered on a quarterly basis. The program had set-asides for large and small units of government. At least 30 percent of funding went to counties with less than 130,000 residents or communities with less than 50,000 people, and at least 30 percent went to counties or communities above those thresholds. Similar to other state programs, the application required project analysis or a feasibility study, anticipated cost savings, an explanation regarding the probability of the proposal's success, board resolutions, and partnership agreements. It also required applicants to describe how the project responded to current economic conditions and how it could be replicated or expanded to include other nearby units of governments.

This state's selection process was different from other highlighted states. LGIP was within the Ohio Development Services Agency and overseen by the Local Government Innovation Council, a 15-member body initially created to establish the criteria for the programs. The Council was comprised of membership from the executive and legislative branches of Ohio state government, as well as the Ohio Municipal League, County Commissioners Association of Ohio, Ohio Township Association, Ohio Chamber of Commerce, and Ohio School Boards Association. The Governor appointed the majority of positions.

During its run, the Local Government Innovation Council awarded $38 million in grants and loans toward approximately 400 government efficiency projects, including 20 for consolidation. Some examples include the following:

City-County Health District Consolidation
In 2015, the City of Findlay and Hancock County received a $39,000 LGIP grant for the merger of their health departments. The grant was for facilities-related costs associated with consolidating the two health departments. After an affirmative vote by the Findlay City Council and the Hancock District Advisory Council, the two health departments merged and became the Hancock County Combined General Health District effective January 2016. Since the merger, the combined district has reported improved services, is self-supporting, and is currently seeking state accreditation.

City-Township Emergency Center Consolidation
In 2012, Copley Township and its partners, the cities of Barberton and Norton, received a zero interest LGIP loan of $300,000 to merge their public safety dispatch operations. The communities have 11 years to repay the loan with a one-year grace period at the outset. The project has a capped, shared budget of $1.77 million. The loan contributed to paying the costs of merging the municipalities' public safety dispatch operations, such as equipment purchases and capital renovations. The new Southwest Summit Communications Center employs personnel from all three communities. According to the Ohio Auditor's Office, this partnership saved more than $3.5 million in the first five years without increasing dispatch costs.

Pennsylvania
Pennsylvania's Municipal Assistance Program (MAP) was created in 2012 and is administered by the Department of Community and Economic Development. The competitive grant program funds up to 50 percent of the cost of planning and implementation activities for shared services, community planning and floodplain management. Consolidation falls under the shared services category. All municipalities and counties are eligible. Councils of government and intergovernmental organizations are eligible if they have a municipal partner.

Applications for the program can be submitted at any time. Applicants must submit board resolutions, anticipated costs, and a work plan. Authorization for the local match must be in the board resolution. Equipment purchases and new personnel are eligible if they are a result of a consolidation or merger. Planning and feasibility studies related to consolidation are also eligible. Infrastructure and legal costs, as well as costs in administering the MAP grant are not eligible. In 2017, Pennsylvania's MAP program awarded $466,900 to 19 projects. Some examples include the following:

Ferguson Township and the boroughs of Harmony and Zelienople took advantage of MAP funding for consolidations or partnerships:

City-Township Dissolution and Consolidation
In 2014, after an affirmative vote by residents, the borough of Lumber City, population 76, dissolved and consolidated operations with adjacent Ferguson Township. Ferguson Township received a MAP grant of $55,000 for consolidation implementation costs. This included administrative costs and the purchase of a new truck for public works to serve the borough territory consolidated into the township.

City-Township Fire District Consolidation
In 2015, Harmony and Zelienople boroughs, both located within Jackson Township, consolidated their fire districts into a single company by leveraging a MAP grant of $48,700 and technical assistance from the state. The grant reimburses Jackson Township for the cost of merging expenses and equipment upgrades. The newly consolidated fire district covers the two boroughs and two adjacent townships. The task force recommended consolidation to improve service delivery in an area where four adjacent municipalities have seen population growth.

Moving forward
The State of Illinois should begin pursuing implementation and providing funding for a program that helps local governments implement partnerships or consolidate. Local governments that are already sharing services, implementing infrastructure projects together, or engaging in joint contracts have proven that they are capable of working together. A state-led program should encourage these partnerships by providing resources to initiate studies and ameliorate near-term tax inequities that could prove a barrier to an otherwise beneficial consolidation.

312-454-0400
info@cmap.illinois.gov
www.cmap.illinois.gov

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