POLICY BRIEF: SPECIAL DISTRICTS AND LOCAL GOVERNMENT REFORM

This policy brief provides information on the scale and scope of special districts in Indiana, relative to the nation and other Midwestern states.

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INTRODUCTION

Several U.S. states (including Indiana, Florida and Ohio) have considered or recently implemented policies to restructure local government. The goals of these restructuring efforts are to make government more efficient and accountable and to reduce the cost of doing business in the state. A layer of government that is often overlooked during these reform efforts is special districts. Despite their growing presence, special districts often operate under the radar. Nationwide from 1952 to 2007, the number of special districts increased by more than 200 percent while municipalities increased 16 percent, townships decreased 4 percent and school districts decreased by more than 80 percent (Table 1). In some states, special districts have more expenditures or outstanding debt than general purpose governments, such as townships and municipalities (U.S. Census Bureau 2007a). Many types of special districts have taxing authority contributing to the overall property tax burden of a locality. Due to the substantial growth in their number and the level of debt and taxing authority exercised by special districts, government reform efforts should include a careful review of special districts. This policy brief provides information on the number of special districts in Indiana and their expenditures and debt relative to the nation and other midwestern states.

Indiana is among the states that have experienced a substantial increase in special districts. The Indiana Commission on Local Government Reform (ICLGR), created in 2007, was charged to find ways to restructure local government and reduce cost. The charge letter to the commission stated, "The structure and organization of local government in the Hoosier state has remained fundamentally unchanged since the mid-19th century." [1] This is true, however, only if you ignore the vast change in special purpose governments. From 1952 to 2007, the number of counties, municipalities and townships in Indiana was virtually unchanged (Table 1). The number of school districts decreased 74 percent (following national trends), but the number of special districts increased more than 300 percent, surpassing the national trend (Table 1). During the most recent reporting period (2002–2007), the number of special districts in Indiana increased by almost 150. Table 2, Panel A shows the number of special districts and other local entities in the five states carved from the Old Northwest Territory. [2] In 2007, Indiana had more special districts than townships per 1,000 population and per square mile (Table 2, Panel B). In the five states carved from the Old Northwest Territory, special district debt exceeds the

TABLE 1: Number of Local Governments - U.S. Total and Indiana (1952-2007)

	1952	1962	1972	1982	1992	2002	2007
U.S. Counties	3,052	3,043	3,044	3,041	3,043	3,034	3,033
U.S. Municipalities	16,807	17,997	18,517	19,076	19,279	19,429	19,492
U.S. Townships	*17202	17,144	16,991	16,734	16,656	16,504	16,519
U.S. School Districts	67,355	34,678	15,781	14,851	14,422	13,506	13,051
U.S. Special Districts	12,340	18,323	23,885	28,078	31,555	35,052	37,381
Total	99,554	91,185	78,218	81,780	84,955	87,525	89,476
	1952	**1962**	**1972**	**1982**	**1992**	**2002**	**2007**
IN Counties	92	92	91*	91	91	91	91
IN Municipalities	540	546	546	564	566	567	567
IN Townships	1,009	1,009	1,008	1,008	1,008	1,008	1,008
IN School Districts	1,115	884	315	305	294	294	293
IN Special Districts	293	560	832	897	939	1,125	1,272
IN Total	3,049	3,091	2,792	2,865	2,898	3,085	3,231

SOURCE: Data for 1952 – 2002 from U.S. Census Bureau, 2002 Census of Governments, Table 4. General-Purpose Local Governments by State: 1952 – 2002, and Table 5. Special-Purpose Local Governments by State: 1952 – 2002. . Data for 2007 from U.S. Census Bureau 2007b, 2007 Census of Governments, Local Governments and Public School Systems by Type and State: 2007.

NOTE: *Since the consolidation of Indianapolis and Marion County in 1970, the Census Bureau does not count Marion County as a separate county government.

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1. Available at http://indianalocalgovreform.iu.edu/charge/index.html, accessed on February 10, 2012.

outstanding debt of townships, and in four of the five states (including Indiana), special district expenditures exceed township expenditures (Table 2, Panel C), illustrating that special districts have a larger local fiscal impact than townships.

In contrast to townships, which have been the focus of much policy debate in Indiana over the past several years, special districts have received little attention. The U.S. Census Bureau (2002) identified 23 types of special districts in Indiana (plus two unique districts) so efforts to simplify government and reduce costs might be expected to include special districts. When the ICLGR issued its report, the 27 recommendations included only three specific to special districts, and the only special districts mentioned by name were library districts (ICLGR 2007). [3] This critique does not diminish the value of the report, which has served as a starting point for improving local government in the state. Rather, it highlights the elusive nature of special districts and the challenge they present to government reform. Without increased attention to special districts, efforts to improve the efficiency and accountability of local government will be incomplete.

DEFINING AND COUNTING SPECIAL DISTRICTS

State laws that create or enable special districts give them responsibilities and powers that vary widely (McCabe 2000). The U.S. Census Bureau (2002) provides this definition:

> Special district governments are independent, special purpose governmental units (other than school district governments) that exist as separate entities with substantial administrative and fiscal independence from general purpose local governments. [4]

The Census Bureau's definition, which is used in this brief, excludes independent school districts. Some observers argue that school districts are similar to other special districts and should be included rather than counted separately.

Special districts perform diverse functions. Nationally, the most common functions are fire protection, water supply, housing and community development, drainage, soil and water conservation, sewerage, parks and recreation, and upkeep of cemeteries (Berry 2009). Indiana's most numerous special districts include school building corporations, library districts, housing authorities, and special districts for conservancy, soil and water conservation, and solid waste management (Palmer 2009). Table 3 shows the most common types of special districts in Indiana along with the amount of property tax revenue and outstanding debt in 2007. Special districts found in other states include health districts, county historical museum districts, irrigation districts, auditorium (arena) districts and districts established to control pink bollworms, mosquitos or other pests.

TABLE 2: Local Governments in Old Northwest Territory States (2007 Data)

PANEL A: Number of Local Governments

	Illinois	Indiana	Michigan	Ohio	Wisconsin
Counties	102	91	83	88	72
Municipalities	1,299	567	533	938	592
Townships	1,432	1,008	1,242	1,308	1,259
School Districts	912	293	579	668	441
Special Districts	3,249	1,272	456	700	756
Total Local Entities	6,994	3,231	2,893	3,702	3,120

PANEL A SOURCE: U.S. Census Bureau 2007b, 2007 Census of Governments, Local Governments and Public School Systems by Type and State: 2007.

PANEL B: Density of Townships and Special Districts

	Illinois	Indiana	Michigan	Ohio	Wisconsin
Townships per 1,000 Population	0.1121	0.1588	0.1236	0.1135	0.2248
Special Districts per 1,000 Population	0.2542	0.2004	0.0454	0.0608	0.1350
Townships per Square Mile	0.0258	0.0281	0.0219	0.0319	0.0232
Special Districts per Square Mile	0.0585	0.0355	0.0080	0.0171	0.0139

PANEL B SOURCE: U.S. Census Bureau 2007c, Census of Governments, Local Governments and Public School Systems in Individual County Areas, by State, 1942-2007.

PANEL C: Expenditures and Outstanding Debt – Townships and Special Districts

(In Thousands)	Illinois	Indiana	Michigan	Ohio	Wisconsin
Township Expenditures	619,256	333,526	2,350,254	1,332,113	705,347
Percentage of Total Local Government Expenditures**	0.97%	1.21%	5.08%	2.54%	2.74%
Special District Expenditures	10,528,108	2,200,510	1,896,057	3,625,116	1,122,274
Percentage of Total Local Government Expenditures	16.6%	8.0%	4.1%	6.9%	4.4%
Township Debt*	157,513	62,513	1,951,572	349,727	354,714
Percentage of Total Local Government Debt**	0.25%	0.28%	4.42%	0.86%	1.77%
Special District Debt	12,247,313	8,284,457	6,486,282	3,048,751	2,368,917
Percentage of Total Local Government Debt	19.7%	37.5%	14.7%	7.5%	11.8%

PANEL C SOURCE: *Amounts in thousands* from U.S. Census Bureau. 2007a, 2007 Census of Governments, Table 2. Local Government Finances by Type of Government and State: 2006-2007.

NOTE: *Sum of long- and short-term debt outstanding. ** Sum of county, municipal, township, special district and school district expenditures or debt as applicable.

2. Illinois, Indiana, Michigan, Ohio, and Wisconsin
3. Four recommendations were targeted to "all local governments."
4. The U.S. Census Bureau definition and classification of special districts is the most widely used, though it has critics. See Leigland (1990).

REASONS SPECIAL DISTRICTS ARE CREATED

There are numerous explanations for the proliferation of special districts. One argument is that special districts allow more flexible operations and personnel practices than general purpose governments; this makes it easier to hire "impartial experts" who prefer to work outside the glare of partisan elections (Smith 1969). Special districts may be created to provide basic services (water, sewerage, street lights) to new residents outside formal boundaries of existing municipalities (Bollens 1957, Foster 1997). If groups of citizens believe that general government officials are not responsive to their needs, they may unite to form special districts (Bollens 1957, Foster 1997).

Often, special districts are formed to circumvent debt limits imposed on general local governments by states (Bollens 1957, Smith 1969, ACIR 1987, Leigland 1990). During the New Deal era, the federal government spurred the creation of special districts for development projects, so it could more quickly provide project financing throughout the country (Smith 1969). Special districts are sometimes created to achieve regional coordination of services such as transportation, though Berry (2009) reports that only 10 percent of districts cross the boundaries of two or more counties. Ultimately, turning to special districts rather than to general purpose governments to provide services can become a matter of habit and local political culture.

Whatever the reasons for creating special districts, state-enabling laws are a decisive factor (McCabe 2000). Berry (2009) analyzed census information and found that Hawaii enabled just one type of special district while Illinois enabled 34 types of special districts — the most of any state. It is no coincidence that Illinois has the most special districts.

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TABLE 3: Most Common Indiana Special Districts, 2007

Special District Function	Number of Special Districts	Property Tax Revenue ($ in thousands)	Outstanding Debt ($ in thousands)
Education (School Building Authorities)	431	0	6,431,385
Libraries	305	231,116	435,040
Soil and Water Conservation**	94	0*	0*
Sewerage**	78	4,245	212,544
Solid Waste Management	68	13,588	9,981
Housing and Community Development	63	28	10,632

SOURCE: Calculations from U.S. Census Bureau 2007d, 2007 State and Local Government Finances, Individual Unit Data File (Public Use Format).

NOTES: *Initial calculations from the Individual Unit File showed two districts classified by Census as Soil and Water Conservation Districts as having property tax revenue and outstanding debt: Kosciusko County Soil and Water Conservation District ($37,000 in property tax revenue) and Kickapoo Creek Conservancy District in Warren County ($5,000 in property tax revenue and $26,000 in outstanding debt). Conversations with administrators from each district revealed that these values were errors and they were removed from table 3. In Indiana, Soil and Water Conservation Districts are not allowed to levy property taxes or issue debt. Conservancy districts may levy taxes and issue debt, although few of them do so.
** There is also a variety of water supply and related districts in Indiana distinct from the ones included in this table: water supply (12 districts), natural resources and water supply (2 districts), sewerage and water supply (11 districts).

HOW SPECIAL DISTRICTS ARE GOVERNED AND FINANCED

Special districts seldom have an elected chief executive; the majority of special districts are governed by boards who hire a manager (Liebmann 2002). Nationwide, about 52 percent of special district boards are entirely elected, about 43 percent are entirely appointed, and the remainder have both elected and appointed members (Berry 2009). Special district elections are often held in off- years which decreases voter turnout and accountability (discussed further below). In some districts, the appointed board members are chosen from officials elected to other posts. For example, the boards of Indiana's solid waste management districts include individuals who are members of the legislative or executive bodies of other local governments (ISC). In the case of elected boards, voting is sometimes restricted to citizens who own property in the district. This is especially true for districts that provide drainage, flood control, soil and water conservation, or related services (Liebmann 2002).

Nationwide in 2007, special districts derived about 13 percent of their revenue from own-source taxes, about 39 percent from charges and fees, and about 25 percent from other governments including 6 percent from other local governments (Table 4). Nationally, about 23 percent of special district revenue is derived from utilities. Indiana's special districts derive about 12 percent of their revenues from own-source taxes, about 23 percent from charges and fees, and about 53 percent from other governments including 30 percent from other local governments (Table 4). About 12 percent of the revenue of Indiana's special districts represents utility revenue.

Many special districts issue debt in the form of bonds and short-term notes. Nationally in 2007, special districts accounted for 11 percent of local government revenue and 20 percent of local government debt. In Indiana, special districts accounted for 9 percent of local government revenue and 38 percent of local government debt (U.S. Census Bureau 2007a). This debt load is substantially higher than that of other states in the region.

ISSUES RELATED TO SPECIAL DISTRICTS

Special districts have strong supporters as well as critics and are often compared to general purpose governments along three dimensions, as summarized below (Killian 2011).

Cost of government services.

Proponents of special districts often point to the benefits of competition among multiple service providers; as more governments compete for the favor of citizens, competition will exert downward pressure on costs. Also, when there are more service providers to choose from, citizens are more likely to find a community that offers the basket of public services they prefer at a price (taxes) they are willing to pay. Some studies have shown that increasing the number of local governments does, in fact, lower the cost, at least for select services (DiLorenzo 1981, Mehay 1984). Boyne (1992) reviewed multiple studies and concluded that fragmentation of local government is sometimes associated with lower spending. Boyne (1992) also noted that special districts are often engaged in capital-intensive services (transportation, waste-water treatment) where the necessary investment in capital assets elevates the overall cost of services.

Defenders of special districts argue that the search for an "optimum, balanced" approach to public budgeting is itself an illusion.

Critics of special districts have found opposite effects. Foster (1997) found that services provided by special districts tend to have higher costs, even when controlling for capital costs. Berry (2009) found that increased reliance on special districts increases both current (operational) spending and capital spending within a county area. Given the diversity of special districts and variations in state-enabling laws, one might expect conflicting results among localized studies. However, Foster (1997) and Berry (2009) conducted very broad studies, and their findings should not be dismissed without close inspection.

TABLE 4: Special District Revenues by Type of Revenue - U.S. Total and Indiana (2007) *(thousands)*

	U.S. Special District Revenue	Pct. U.S. Special District Revenue	Indiana Special District Revenue	Pct. Indiana Special District Revenue
Total revenue	$173,691,913		$2,460,333	
Intergovernmental				
From federal	$21,001,725	12.1%	$270,071	11.0%
From state	$11,756,280	6.8%	$288,868	11.7%
From local governments	$9,757,775	5.6%	$748,895	30.4%
Own source taxes	$22,660,978	13.0%	$289,606	11.8%
Own source charges & fees	$68,087,956	39.2%	$558,532	22.7%
Utility revenue	$39,216,153	22.6%	$304,361	12.4%
Insurance trust, other	$1,211,046	0.7%	$0	0%

SOURCE: U.S. Census Bureau, 2007a, Census of Governments, Table 2. Local Government Finances by Type of Government and State: 2006 – 2007.

Balancing competing needs.

Critics charge that special district officials lack the broad perspective needed to assess community priorities and pursue a balanced use of scarce resources (ACIR 1964, Barlow 1991, Foster 1997). Berry (2009) has linked special districts to common pool problems, where special interests are able to "fish from the common pool" (tax base) to advance their particular agendas which leads to higher levels of spending. Due to fiscal illusion, such as property tax bills that meld several taxing jurisdictions, citizens may be unable to separate the costs of their general purpose governments and special purpose governments (Sanders 1994).

Defenders of special districts argue that the search for an "optimum, balanced" approach to public budgeting is itself an illusion. Citizens have different needs and values; only by enabling a variety of service providers can we address the diverse yet legitimate needs of citizens (Wood 1961, ACIR 1987). When service needs (such as irrigation or pest control) are not limited to the boundaries of a single jurisdiction, the most equitable approach may be to create a new district to provide the service. Further, special districts provide necessary shelter for public officials who must make critical but unpopular decisions, such as the location of low-income housing or landfills (Axelrod 1992).

GOVERNMENT ACCOUNTABILITY

Measuring cost-efficiency is easier than assessing accountability (Lowery 2001), so special districts are most often compared to general purpose governments in terms of cost. Several studies have tackled the accountability issue, and again the findings are mixed. Mehay (1984) concluded that citizens can monitor small, specialized units of government more effectively than large, general governments. Wagner and Weber (1975) noted that larger, general governments are more likely to behave as monopolies and become unresponsive to citizens; therefore, a more fragmented, overlapping government structure is preferred. In a nuanced view, ACIR (1987) found that citizens can monitor a single, special district government with ease, though it becomes harder for citizens to monitor local governments as their numbers increase.

Critics charge that the proliferation of special districts confuses citizens and detracts from democratic accountability. Bollens (1957) and Axelrod (1992) found

that special districts insulate officials from voters; normal, democratic checks and balances do not apply. Often this is because special district elections are held on different dates than general elections (NYSCLGEC 2008). An outcome of this election cycle is that it is often a narrow constituency of voters who benefit from special districts, lobby for special districts and vote in these elections. A recent Indiana study (Killian and Le 2012) found that in the aggregate, citizens are more aware of the general purpose governments and less aware of the special district governments that serve them (though this pattern did not always apply to specific entities). When citizens are aware of being served by both general and special governments, they are more familiar with the goals, objectives and financial practices of general purpose governments (Killian and Le 2012). These results suggest that citizens are unaware of special district practices despite their aggregate fiscal impact.

SUMMARY

Special districts are the fastest growing type of local government. They now represent 42 percent of all local governments in the United States and 39 percent of Indiana's local governments (Table 1). Indiana and Illinois have more special districts than townships per 1,000 population and per square mile (Table 2, Panel B). Special districts often have expenditures or debt that exceeds the expenditures or debt of general purpose governments. Among the Old Northwest Territory states, special district expenditures and debt generally exceed that of townships (Table 2, Panel C).

Special districts are established for a variety of reasons. A particular concern is the potential use of special districts to circumvent debt limits imposed on general-purpose governments.

There is wide variation in the number and types of special districts across states, due largely to variations in state-enabling laws. About half of special districts have elected boards; few have elected chief executives. Special districts derive revenue from a variety of sources (Table 4). In Indiana, 30 percent of special district revenue comes from other local governments.

Special districts are often compared to general purpose governments along three dimensions: the cost of delivering a specific service, the ability to balance competing needs and achieve an optimal allocation of resources, and the ability of citizens to hold public officials accountable. On each of these dimensions, plausible arguments can be offered to either support or criticize special districts. Empirical studies have found conflicting results, but recent, broad studies (Foster 1997, Berry 2009) highlight important issues related to higher costs and reduced accountability. Any attempt to streamline and improve local government must address special districts.

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