

Government Efficiency

The Case for Local Control



THE ASSOCIATION *of*
TOWNS
OF THE STATE OF NEW YORK

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In 2007, then Governor Eliot Spitzer created, by executive order, the Local Government Commission on Efficiency and Competitiveness. One of the charges to the Commission was to consider the consolidation of local governments as a means of reducing costs and thus real property taxes. It was apparent from the beginning, that they harbored an underlying assumption that larger, more regional governments, would result in less expensive and more efficient government for the residents of New York State. Based on our observations, this assumption runs contrary to the findings of previous commissions and private organizations that have promoted regionalism as a means to lower real property taxes.

As a result, I recommended to the Executive Committee of the Association of Towns that we hire a consultant experienced in the analysis of local governments to provide us with information and data that could be used as we interacted with the Commission.

Wendell Cox of Demographia, Inc. is a recognized expert in preparing reports that compare the efficiency and costs of local governments to larger regional governments. I was familiar with his work from a report that he prepared for the Pennsylvania State Association of Towns and Townships (PSATS). Mr. Cox was retained by the Association to compile and analyze the data which is summarized in this document. His analysis makes it quite apparent that smaller local governments provide services to their residents more efficiently than can be done by larger regional governments. He also concludes that smaller governments afford New Yorkers a greater voice in their governance and more access to local government officials.

It is the hope of the Association of Towns that this report will encourage decision-makers to recognize that New York's smaller governments, for the most part, efficiently provide essential services to their residents. More importantly, this report demonstrates the lack of support for the presumption that local government consolidation will result in material cost savings or better governance.



Executive Director

The Association of Towns of the State of New York



"Make sure you handle that load efficiently, We need to be competitive!"

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New York State has a Competitiveness Problem. Trends in New York’s population growth, economic growth, migration and public finance are matters of serious concern for all New Yorkers. Combined state and local government taxation per capita in New York State is the highest in the nation. The problem runs deeper than the State’s failure to attract businesses and people. New York is in danger of losing the residents and commerce that it already has. The depth of the problem is illustrated by the fact that New York has both the highest net domestic migration loss, as well as the highest loss rate in the nation (even greater than Louisiana, despite the aftermath of Hurricane Katrina).

In an attempt to improve New York’s competitive position, former New York Governor Eliot Spitzer established a Commission on Local Government Efficiency and Competitiveness (the Commission) to “improve the efficiency, competitiveness and quality of life of New York’s localities.” The Executive order establishing the Commission specifically cites consolidation, regionalization and smart growth as strategies for increasing the efficiency, competitiveness and quality of life in New York State.

Although the stated goals of the Commission are admirable, the Commission’s work is based upon a faulty premise: that New York’s competitiveness and efficiency problems will be alleviated by consolidating and regionalizing local governments and services. Consolidation and regionalization as a means to “improve the efficiency, competitiveness and quality of life,” are more likely to make New York *less efficient and competitive*, leaving its citizens with a *diminished* quality of life. This conclusion is supported by analyzing the effectiveness of other local government consolidation initiatives (nationally and internationally), evaluating New York’s current government efficiency relative to other states, and comparing the efficiency of local governments within New York State.

Government consolidation does not improve government efficiency. The actual national and international experience with consolidated governments, in general, provides no support for the “bigger-is-better” theory of government efficiency. Neither larger nor consolidated governments are consistently more efficient than their smaller counterparts. A number of post-consolidation studies of local governments indicate that consolidated, regional government tends to be less efficient. The harmonization of services, harmonization of labor agreements, and the dilution of local democracy are among the primary reasons behind this result.

Harmonization of Services: Consolidation of local governments often expands the services provided by a particular local government and forces them upon a larger geographic area without regard to whether those services or level of service are desired or needed within the larger geographic area. This increases spending, making the larger, consolidated local government less efficient.

Harmonization of Labor Agreements: Local government consolidation leads to higher personnel costs because it produces larger organized labor forces and requires the harmonization of differing labor contracts that tend to incorporate the highest compensation rates and least productive work rules. Incorporating the highest compensation and most liberal labor practices into a single agreement that applies to a larger work force will lead to increased personnel costs for the consolidated unit.

Dilution of Local Democracy: Consolidating local governments detaches people from their local governments, marginalizing citizens’ influence on their immediate surroundings while vesting greater influence in interest groups such as labor unions, political contributors and the State. At the same time, it provides economies of scale to special interest groups, since a single, large governmental unit is less costly and logistically easier to lobby than multiple, smaller governmental units.

Nationally, states with larger governments are not more efficient. States vary significantly in their reliance on local governments for service delivery and taxation. New York relies on its local governments to a very high degree, as its local governments rank first in taxation and fourth in spending. Therefore, in order to validly compare New York’s competitiveness to that of other states in the areas of taxation and spending, the comparison must be conducted at the combined state and local level, not just at the local level. If valid, the bigger-is-better theory of government would tend to support the conclusion that the states with the larger average local government populations have lower combined state and local taxation, and less spending, per capita. In other words, the bigger-is-better theory presumes that States with a lesser number of larger local governments are more efficient than states with a greater number of smaller local governments. This, however, is not the case. An evaluation of New York’s efficiency relative to other states shows that there is no material association between larger average local government size and increased efficiency.

New York’s average local jurisdiction size is larger than that of two-thirds of the other states. If the bigger-is-better theory of government efficiency were valid, New York would be among the lowest spending and taxing states. New York, in fact, is a high tax and spending state. No state has higher state and local taxes per capita, and New York ranks third among states in spending. In addition, although it is the nation’s highest taxing state, New York ranks third in federal revenue per capita and receives far more federal revenue per capita than any of the other nine largest states.

The source of New York’s competitiveness problem, therefore, is not revenues, but spending. Virtually all of the difference between New York and the national average of state and local spending can be attributed to four functions — personnel expense, primary and secondary education, public welfare and interest on debt.

Personnel Expense: New York State has the second highest government wages and salaries per capita, trailing only Alaska.

Compensation per employee in New York is at least 44 percent higher than the average in the other 49 states, and 48 percent higher than the average in the other nine largest states.

Primary and Secondary Education: New York State has the second highest primary and secondary education expenditures per pupil, trailing only New Jersey. New York's education expenditures per pupil are 61 percent higher than the average of the other 49 states, and 64 percent higher than the average of the other nine largest states.

Public Welfare: New York has the highest public welfare expenditures per capita of any state. Public welfare spending per capita in New York is 83 percent higher than the average of the other 49 states. Among the 10 largest states, New York's public welfare expenditures are 95 percent higher than the other nine largest states.

Interest on Debt: New York has the third highest per capita general government debt of any state, and is 92 percent higher than the average of the other 49 states. New York State has the highest general government debt per capita among the 10 largest states, and is 88 percent higher than the average of the other nine largest states.

These four categories account for nearly all of the difference in per capita spending between New York and the average of the other 49 states. Note that this information is not being offered to question the wisdom of New York's spending in each of these areas; rather, it is being offered only to demonstrate that efforts to improve New York's efficiency and competitiveness through consolidation are not likely to be successful without addressing these issues.

Within New York State, there is a strong association between smaller units of local government and greater government efficiency. An analysis of the government financial data within New York State further demonstrates that there is no association between larger units of local government and increased governmental efficiency. A comparison of local governments' expenditures for the delivery of a core set of services was conducted at the following levels:

Combined County-Local Government Spending: The highest expenditures per capita are in the counties with larger average jurisdictions, while lower expenditures per capita are generally associated with counties that have smaller jurisdictions. The lowest expenditures per capita are in counties with average jurisdiction sizes of 1,000-5,000 residents.

Combined City, Town & Village Spending: The highest expenditures per capita are in the local government areas with larger average jurisdiction sizes, while lower expenditures per capita are generally associated with local government areas that have smaller average jurisdiction sizes. The lowest expenditures per

capita are in local government areas with average jurisdiction sizes of 1,000-2,500 residents.

Combined City, Town & Village Spending in Metropolitan Areas: Within Metropolitan areas there is a general association between lower spending per capita and smaller jurisdiction populations. The lowest spending per capita is in Metropolitan areas with average jurisdiction populations between 1,000 and 2,500 residents.

Combined City, Town & Village Debt: The highest debt levels per capita are in local government areas with the largest average populations, while the lowest debt levels are in the local government areas with the smallest average jurisdiction populations (under 1,000).

Fire Service Spending by Local Government Area: Fire protection services are generally less costly per capita in local government areas with smaller jurisdictions. The lowest cost per capita for fire service is in jurisdictions with an average population of between 1,000 and 2,500 residents.

At each of these levels of comparison there existed a strong association between larger average jurisdiction size and greater spending per capita for the same set of core services. Further, consolidating fire services that integrate paid fire employees with volunteers would likely lead to a loss of volunteer services, increasing costs for providing fire services.

Claims that local government consolidation would improve New York's competitiveness are not supported by experience. One measure by which New York's competitive position relative to other states can be evaluated is net domestic migration. Net domestic migration is the movement of people between states or other geographic areas within the state, and is a leading indicator of population growth. It is an indication of the attractiveness of a state or area relative to other states or areas. Generally, if there are significant net domestic migration gains, it can be expected that there is greater employment than where domestic migration rates are lower.

New York is experiencing a net domestic migration loss, which suggests that New York is less competitive than other states. New York, however, is part of a larger region that has witnessed lagging population and economic growth for decades. This region is commonly referred to as the "Frost Belt," and is comprised primarily of states located in the Northeast and Midwest United States. Nationwide, employment growth has been greater in the "Sun Belt" (West and South regions of the United States) than the Frost Belt.¹ Among states located in the Frost Belt, New York's population and economic growth trends can be considered to be typical.

In the Frost Belt, higher employment growth has been associated with smaller units of local government. Within this region, metropolitan

¹ The 19 metropolitan areas with the highest employment growth rates are located in the Sun Belt. Of the 16 metropolitan areas with the lowest employment growth rates, all but one (New Orleans) are in the Frost Belt. Factors that are known to contribute to this disparity in economic growth are the weather, taxes, labor costs and political entrenchment.

areas with average local jurisdiction populations under 10,000 experienced 38 percent growth in employment, while those having local jurisdictions with populations between 10,000 and 20,000 experienced a 20 percent growth in employment. Metropolitan areas with average local jurisdictions greater than 20,000 experienced a 17 percent growth in employment. This is not to suggest that smaller local jurisdictions are the cause of greater employment growth, but rather to highlight the fallacy of contending that government consolidation and less local democracy causes greater employment growth.

Nationwide, the New York City, Buffalo and Rochester metropolitan areas rank in the lowest quintile for job growth, while the Albany Metropolitan area ranks in the second-lowest quintile. Within New York State, local government areas with smaller average jurisdiction populations are generally more efficient than those with larger average jurisdiction populations. New York's towns and villages are competitive in efficiency with the rest of the nation, despite serious challenges and expensive state mandates.

Furthermore, elements of smart growth such as land-rationing and growth boundaries that are strongly associated with regional planning threaten to make New York State less competitive by artificially inflating the cost of housing. This is particularly true in the Frost Belt, where there is a strong association between increased population and employment growth, and less restrictive land use regulations.

Toward a More Competitive New York: New York's system of smaller local governments is a competitive asset.

Simply put, there is no material association between consolidated or regional forms of government and increased efficiency. In fact, mandated local government consolidation is likely to lead to less government efficiency and a higher cost of living. This would mean a less competitive New York. Government consolidation is not inherently good, nor is it an end in itself. A more competitive New York can be achieved, but it will require lower taxes, less onerous regulation and an affordable cost of living. Forced mergers of local governments are likely to make things worse.

Conclusions in Brief

Conclusion #1:

Government consolidation does not improve government efficiency.

Conclusion #2:

Nationally, states with larger governments are not more efficient.

Conclusion #3:

There is a strong association between smaller units of local government and greater government efficiency in New York.

Conclusion #4:

There is a strong association between regional planning, smart growth and the loss of housing affordability. Imposition of regional planning and smart growth would be likely to raise the cost of living, making New York less competitive.

Conclusion #5:

Claims that local government consolidation would improve New York's competitiveness are not supported by the experience.

Conclusion #6:

New York's system of smaller local governments are principal competitive assets.

The Commission on Local Government Efficiency and Competitiveness

In 2007, then New York State Governor Eliot Spitzer appointed a Commission on Local Government Efficiency and Competitiveness (hereinafter “the Commission”), to “improve the efficiency, competitiveness and quality of life of New York’s localities.” In so doing, Governor Spitzer noted that New York has the highest local tax burden in the nation. In a January 9, 2007 commentary in *The New York Post*, Governor Spitzer explained New York’s competitive position:²

Today in New York, man-made forces have combined to wreak havoc on our state economy. A combination of high taxes, steep costs and burdensome regulations has created a “perfect storm of unaffordability” that is driving people, businesses and jobs out of our state. . . . Consider the fact that New York has the highest combined state and local taxes in the nation - driven mainly by property taxes, which have increased 60 percent since 1999.

The Executive order establishing the Commission specifically cites consolidation, regionalization and smart growth as strategies for achieving the goals of efficiency, competitiveness and quality of life. In establishing and appointing the Commission, Governor Spitzer asked that:

... the local government leadership in each county identify at least one major merger, consolidation, shared service or smart growth initiative that is either already underway or can be initiated in the year 2007.³

As Governor Spitzer indicated (and this report will reiterate), New York’s population growth, economic growth, migration and public finance trends are matters of serious concern. Although New York’s competitiveness problem is serious, it is not rooted in the number, structure, or size of the local governments in New York State. Accordingly, the problem will not be solved by consolidating local governments or services.

Difficulties with the Commission’s Approach

There are difficulties with the approach of the Commission as charged by Governor Spitzer. First, the level of government efficiency in New York cannot be appropriately examined at the local level alone. Local governments must operate under the laws

and policies established by the State Legislature and the Governor, and New York State is heavily dependent on its local governments to carry out these policies and to deliver essential services. Any genuine examination of New York’s competitiveness must begin with a comprehensive approach that considers the efficiency of both state and local governments (Box 1).

The second difficulty is the prejudicial suggestion of strategies to achieve the objectives. The Executive order cites the “sheer number” of taxing jurisdictions as a cause of higher taxes and calls for government consolidations, regionalization and smart growth as strategies to reduce high property taxes.⁴ Thus, local government consolidation and smart growth are presumed to be the pathway to achieve the goals of efficiency, competitiveness and quality of life. This confuses ends with means, and excludes true barriers to more efficient government, such as state mandates, public employment policies and a host of other issues.⁵ Any genuine initiative to improve government efficiency, economic competitiveness and our quality of life must also begin with an objective inventory of issues, not a set of presumed solutions.

Perspectives on the Favored Solutions

Moreover, despite their popularity in some academic circles, local government consolidation, smart growth and regional planning are not unquestionably appropriate means for improving government efficiency, economic competitiveness or our quality of life. Indeed, it could do just the opposite.

Despite theoretical associations of the bigger-is-better theory of government efficiency, the practical reality is that larger and consolidated local governments tend to have higher (and certainly not lower) costs per capita and are thus less efficient. Consolidation is likely to lead to less efficient government and an economically less competitive state.

Purpose of this Report

This report analyzes issues of government consolidation, regionalization and smart growth as they relate to government efficiency and economic competitiveness. It is generally concluded that the strategies favored in the Executive order would worsen the situation Governor Spitzer sought to improve. Government consolidation is likely to retard government efficiency, and create a *lower* standard of living and a *less* competitive New York. The result is likely to be a state from which *more* people seek to move and in which *fewer* jobs are created, leading to less economic growth and, as a consequence, increased poverty.

Box 1: Note on Efficiency

As noted by Governor Spitzer, the ultimate goal of the Commission is to lower the real property tax burden in New York State. Measures that increase the quantity or quality of a particular service, however desirable, are likely to increase costs and, in turn, taxation. In a nation with strong interstate competition, overall tax rates are an important competitiveness issue. Thus, for purpose of this report, “Efficiency” is a measure of cost effectiveness. When less is spent to provide a defined quantity and quality of a good or service, there is greater efficiency.

² Governor Spitzer, (January 9, 2007) “NEW YORK’S ‘PERFECT STORM’ STATE CAN BEAT AFFORDABILITY CRISIS”, New York Post http://www.nypost.com/seven/01092007/postopinon/opedcolumnists/new_yorks_perfect_storm_opedcolumnists_eliot_spitzer.htm.

³ Letter to Local Government Officials regarding Commission April 23, 2007 <http://www.ny.gov/governor/press/LocalGovEfficiencyLtr4-23.pdf>.

⁴ Governor Spitzer (April 23, 2007) “COMMISSION TO TARGET EFFICIENCY AND COMPETITIVENESS” Press Release <http://www.ny.gov/governor/press/0423071.html>.

⁵ Although it was not part of its original charge in the Executive order, the Commission ultimately incorporated a limited review of state mandates into its work.

Governor Spitzer's Executive order is based on the presumption that government consolidation strategies would improve the efficiency of local government in New York. This is a common view, yet one that is not consistent with the empirical evidence. The actual national and international experience with consolidated governments, in general, provides no support for the bigger-is-better theory of government efficiency. Neither larger nor consolidated governments are consistently more efficient than their smaller counterparts. A number of post-consolidation studies of local governments indicate that consolidated, regional government tends to be less efficient. These studies suggest that consolidation poses significant political, operational, organizational and accountability barriers to improved government efficiency.

Nonetheless, there are few public policy issues on which opinion seems more in agreement than the assumption that larger government units are more efficient than smaller government units. This belief is premised on the assumption that costs are reduced as the scale of government operations increases. This bigger-is-better theory of government efficiency has led to proposals to consolidate local governments, with the avowed intention of reducing the burden on real property taxpayers. In the United States, such proposals often call for the combination of municipal and county governments or merging adjacent municipal governments (such as cities, towns and villages). This section examines the national and international evidence on government efficiency as it relates to local government consolidation.

Government Size and Efficiency

If the bigger-is-better theory of government efficiency is correct, then it can be expected that the evidence will routinely and compellingly show that larger governments are less costly per capita than smaller governments and that government consolidation has resulted in spending reductions and lower overall tax burdens. Comprehensive research, however, indicates that no material association exists between government size and efficiency at the state and local level or in metropolitan areas.

Government Size and Taxation per Capita by State

If the bigger-is-better theory of government efficiency is correct, then states with larger average government populations should exhibit lower per capita state and local taxation than those with smaller average government populations.⁶ There is no such indication in the data.⁷ States with larger government populations may have higher or lower per capita taxation. Similarly, states with smaller government populations may have higher or lower per capita taxation. There is no consistent relationship between the population of local government units and government efficiency. State and local taxes per capita tend to be lower in the quintiles (fifths) of states with medium and smaller average jurisdiction populations. State and local

taxation per capita are highest in the two quintiles with the largest average jurisdiction populations (Figure 1). The bigger-is-better theory of government efficiency is therefore not a reliable predictor of efficiency among the nation's state and local governments.

Taxes by Government Size Quintile
STATE: PER CAPITA BY JURISDICTION POPULATION

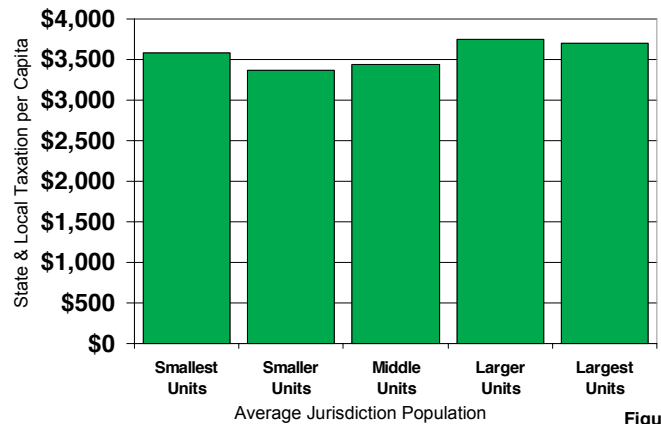


Figure 1

Hawaii: Hawaii has the largest average jurisdiction population, which according to the bigger-is-better theory, should then have among the lowest taxes. In fact, Hawaii has the 10th highest rate of state and local taxation in the nation.

North Dakota: North Dakota has the smallest average jurisdiction population of any state; approximately 1/25th that of New York. If the bigger-is-better theory of government efficiency were reliable, then North Dakota would have some of the highest taxes in the nation. Yet more than half (28) of the states have higher per capita taxation than North Dakota.

Pennsylvania: Our review of governance in Pennsylvania indicated a strong relationship between *smaller* units of local government and *greater* government efficiency.⁸ This is the opposite of what is predicted by the bigger-is-better theory of government efficiency.

Metropolitan Areas: Finally, research indicates that increases in local government expenditures are greater in US metropolitan areas with fewer government units than with more.⁹

Evaluations of Government Consolidations

Proponents of government consolidation often leap from the generally erroneous bigger-is-better theory of government efficiency to the conclusion that consolidated governments would be more cost efficient. Often these claims are made by citing the number of governments that exist in a particular area and implying that public services would be more efficiently provided by fewer governments.

⁶ State and local taxation is considered because state and local service responsibilities vary, making a comparison of local government taxation invalid. This issue is discussed further in Section 4.

⁷ In a linear regression analysis, the "R-squared" is 0.04, indicating no significant statistical relationship between government size and taxation per capita.

⁸ Wendell Cox, *Growth, Economic Development, and Local Government Structure in Pennsylvania*, Pennsylvania Association of Township Supervisors, 2005 (http://www.psats.org/local_gov_growth_report.pdf).

⁹ Ronald J. Oakerson and Roger B. Parks, "Citizen Voice and Public Entrepreneurship: The Organizational Dynamic of a Complex Metropolitan County," *Polycentricity and Local Public Economies*, Michael D. McGinnis (editor), (Ann Arbor: University of Michigan Press), 1999.

A particularly misleading claim is that reducing the number of elected officials will materially improve efficiency. Overlap and duplication of services is routinely charged. But as government consolidation expert Robert Bish of the University of Victoria (Canada) points out:

*Enumerations of local government units in any particular metropolitan area provide only census-type information about the number of units, population and area served. No data are [sic] provided about the costs of public services, the output of public services nor the relative efficiency with which public services are produced.*¹⁰

Typically, government consolidation proposals have been justified on claims of greater efficiency and lower costs, resulting in less of a tax burden. However, at best, the national and international data is mixed. At worst, the evidence generally shows that bigger governments tend to be *less* efficient.

Although consolidation proposals are often accompanied by reports indicating that greater efficiencies *will* occur, there are few reports that comprehensively compare the financial performance of governments *after* consolidation. One examination has found the academic literature on local government consolidation to be generally weak, noting that the available reports indicted that “significant gains in efficiency are unlikely.”¹¹ Even researchers who favor consolidation have noted that proponents of consolidations have generally failed to demonstrate cost efficiencies resulting from their proposals.¹²

After-the-fact evaluations of local government consolidations fall into two basic categories - those that show spending to have increased, and those that tend not to discuss overall spending. Generally, the after-the-fact evaluations of consolidations show no compelling evidence of improved government efficiency:

- ◆ A study on the consolidation of the City of Jacksonville and Duval County (Florida) found that initial savings were quickly erased by an increase in longer term spending. Moreover, the study showed that costs rose more quickly than in a comparable metropolitan area in the region that had not consolidated.¹³

- ◆ Research indicates that the 1960’s consolidation of the City of Nashville and Davidson County (Tennessee) led to an overall increase in spending.¹⁴
- ◆ A municipal-regional consolidation was forced upon Halifax, Nova Scotia by the provincial government in 1996, with claims that the new government would save taxpayers money.¹⁵ By 2000, there was no indication of any savings, while user fees and taxes had increased. Taxes rose from 10 percent in the former central city to 30 percent in rural areas, as the tax burden was spread to suburban voters who had not been involved in electing the city leaders who had imposed the higher cost structure of the city.¹⁶ Moreover, the expenditures have risen, rather than fallen, since that time. Between 2000 and 2007, operating expenditures rose 14 percent per capita, inflation adjusted.¹⁷ Finally, the transition costs of the merger were four times what had been projected.¹⁸
- ◆ The Toronto municipal consolidation was promoted to provide substantial spending reductions. Expenditures, however, have risen strongly since consolidation. Despite the strong business support for consolidation, a 2003 report by the prestigious Toronto City Summit Alliance noted that *the harmonization of wages and service levels has resulted in higher costs for the new City. We will all continue to feel these higher costs in the future.*¹⁹ A more recent report indicates that Toronto city government employment levels have risen by more than 4,000 employees since the consolidation.²⁰
- ◆ New York City, perhaps the world’s ultimate local government consolidation, exhibits higher spending per capita than the combined spending levels exhibited in each of the counties of New York State (see Chapter 4).

The claimed savings can even disappear before the consolidation is enacted. For example, when former Indianapolis Mayor Bart Peterson sought to consolidate township fire departments into the city department, a report was produced claiming that \$21 million in annual savings would occur. A later report by the legislatively established Marion County Consolidation Study Commission found the savings to be greatly overstated, suggesting a more realistic number to be \$1.3 million.²¹ This did not deter the city,

¹⁰ Robert L. Bish and Vincent Ostrom, *Understanding Urban Government: Metropolitan Reform Reconsidered*, Washington: American Enterprise Institute, 1973, p. 74.

¹¹ Dagny Faulk, Suzanne M. Leland and D. Eric Shansberg, *The Effects of City-County Consolidation: A Review of the Recent Academic Literature*, <http://www.state.in.us/legislative/interim/committee/2005/committees/prelim/MCCC02.pdf>.

¹² G. Ross Stephens and Nelson Wickstrom, *Metropolitan Government and Governance: Theoretical Perspectives, Empirical Analyses, and the Future*, New York: Oxford University Press, 2000, p. 120.

¹³ J. Edward Benton and Darwin Gamble, “City/County Consolidation and Economies of Scale: Evidence from a Time Series Analysis in Jacksonville, Florida,” *Social Science Quarterly* 65, March 1984.

¹⁴ Stephens and Wickstrom, *Metropolitan Government and Governance: Theoretical Perspectives, Empirical Analyses, and the Future*, p. 75.

¹⁵ The municipal-regional consolidation in this case is the equivalent of a city-county consolidation.

¹⁶ Robert L. Bish, “Local Government Amalgamations, Discredited Nineteenth-Century Ideals Alive in the Twenty-First”, *The Urban Paper*, C.D. Howe Institute Commentary, No. 150, Toronto, March 2001. <http://www.cdhowe.org/pdf/bish.pdf>.

¹⁷ Calculated from data in Halifax Regional Municipality annual reports and budgets.

¹⁸ Bish, 2001.

¹⁹ Toronto City Summit Alliance, *Enough Talk: An Action Plan for the Toronto Region*, April 2003; http://www.torontoalliance.ca/docs/TCSA_report.pdf, accessed April 14, 2007.

²⁰ Barry Hertz, “Amalgamation: 10 years later,” *The National Post*, 28 December 2007.

²¹ *Final Report of the Marion County Consolidation Commission*, <http://www.in.gov/legislative/interim/committee/2005/committees/reports/MCCC8B1.pdf>.

²² “Firefighters Union Contract Approved – But with Conditions,” (March 13, 2007) *Indianapolis Star*.

which stood by its inflated estimate and proceeded to sign a labor contract with fire fighters that, by itself, would consume \$20 million more over the next three years.²² Ultimately, the proposed consolidation bill died in the Indiana legislature (2007).

As is discussed more fully in the next section, personnel costs are the largest expense in local government, and often by far. Yet, there is virtually no indication in any of the post-consolidation studies that material reductions in personnel costs have occurred. That, of course, would be most difficult, given the political influence of public employees and their resistance to the staff, wage and benefits reductions that would be required for material efficiencies to be gained.

The Reality of Government Consolidation

The bigger-is-better theory of government efficiency is generally invalid because existing barriers make material reduction of costs virtually impossible. A number of political, operational, organizational and accountability barriers minimize the effect that a local government consolidation will have on reducing costs and efficiency. In addition, unrealistic savings estimates typically mask the risk of establishing a tax-borrow-consolidate spending cycle.

Political Barriers

Municipal consolidations promoted on the basis of government efficiency are sometimes driven by political agendas that have nothing to do with reducing the costs of government. The Toronto consolidation has been characterized as a means to rid a right-wing provincial government of a left-wing administration in the former (smaller) city of Toronto.²³ The Indianapolis city-county merger has been characterized as an attempt to establish long term Republican domination over a central city that would otherwise be dominated by Democrats.²⁴ A research report on Jacksonville concluded that consolidation proponents were actually more interested in adding public services than in reducing taxes or expenditures.²⁵

Moreover, the consolidated governments that are created may not seek to fulfill the efficiency goals of those who proposed the consolidation. As a result, the consolidated government may spend more, violating the promises made to justify the consolidation. This appears to have occurred in Toronto and Halifax.

Operational Barriers

There are also significant operational barriers to improved efficiency, such as harmonization (“leveling up”) of services, harmonization of labor arrangements, resistance to reduction in staff levels and other transition costs.

Harmonization of Services: Municipalities undertaking consolidation will inevitably offer different levels of a particular service. Public service packages may also differ, with some

public services provided in one consolidating jurisdiction, but not in the other. It can be expected that service levels will be harmonized at the highest level, essentially forcing residents of a jurisdiction with lower service levels to finance and receive higher service levels, which they had not previously required. This means that higher levels of services are provided than are actually needed in some cases. All of this raises costs, as the Toronto Business Alliance reported in Toronto.

Harmonization of Labor Arrangements: There are costs to harmonizing the service levels and employee compensation packages. Employees and their unions can be expected to receive remuneration packages that reflect the most expensive pre-consolidation packages, both in wages and benefits. Similarly, the most liberal time-off allowances (holidays, vacations, personal and sick time allowances) are likely to become the norm in the consolidated municipality. Labor compensation is generally the largest item of municipal expenditure. This loss of efficiency may be thought of as a tendency toward the “highest and worst,” incorporating the highest costs and the worst (least efficient) labor practices into a labor agreement. As a Toronto city council member put it, “Organized labour demanded, and usually won, the highest wages and choicest benefits packages of the six municipalities.”²⁶ Consolidating labor arrangements raises personnel costs.

Personnel Costs: The largest share of local government operational expenditures is in payroll. As a result, any material savings from consolidations would have to come from personnel savings, both in terms of reduced staff sizes and lower wages and benefits. There is often considerable political resistance to personnel savings. With the second highest state and local government payroll costs in the nation, this is a particular problem in New York.

Transition Costs: Other transitional costs can be considerable. In the case of Toronto, one-time transition costs were estimated at the end of 2000 to be \$275 million. These costs include staff exit costs, retraining costs, business information systems, facility modifications and other costs including consulting studies and implementation of new collective agreements. As noted above, the Halifax transition costs far exceeded projections. All of these costs accrued *before* labor contract and service level harmonization costs.

Organizational Barriers

There are differences in the organizational cultures of governments. Government consolidations typically involve governments of differing ages and sizes. Often, the larger jurisdictions will have also been in existence for a longer period of time. Economist Mancur Olson developed a theory that economic growth tends to be less in nations that have had longer periods of stability, which has

²³ Andrew Sancton, “Why Municipal Amalgamations: Halifax, Toronto, Montreal,” p 13. <http://www.iigr.ca/conferences/archive/pdfs4/Sancton.pdf>.

²⁴ See William Bloomquist and Roger B. Parks, “Fiscal Service and Political Impacts of Indianapolis-Marion County’s Unigov,” *Publius*, Fall 1995.

²⁵ Stephens and Wickstrom, note 14, *supra*, p. 80.

²⁶ Barry Hertz, “Amalgamation: 10 years later,” *The National Post*, 28 December 2007.

²⁷ Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities* (1982).

permitted special interests to become more powerful in obtaining political considerations that restrict economic growth.²⁷ Olson also referred to analysis indicating the same tendency with respect to U.S. states and cities. It can therefore be expected that a consolidated local government will reflect the higher cost and organizational structure of the larger, older, more entrenched and more costly local government than the smaller more efficient local governments.

Accountability Barriers

Perhaps the most significant barrier to more efficient government through consolidation is that the constituency with the greatest stake in minimizing government expenditures, local taxpayers, finds their influence diminished. Larger governments provide greater access for larger special interests and reduce access by citizens. Larger governments are less able to resist the pressures of larger business organizations and larger government employee bargaining units than smaller governments.

Economies of Scale for Special Interests: Governments are under continual pressure by special interests and government departments to increase their spending. One of the most effective means of limiting this pressure is a shortage of funds. When taxing ability is significantly increased, as occurs in consolidation, special interests and government departments can be expected to seek even higher levels of spending. Larger governments are simpler to deal with for lobbying organizations and fewer governments are less costly to influence than more governments. Larger governments attract higher levels of lobbying activity because larger governments present lobbying organizations with economies of scale, both in terms of lobbying budgets and potential financial returns. Robert Bish notes that organized special interests have greater power in larger local governments under government consolidation. They tend to dominate public hearings, while citizens tend to participate less. The larger constituencies make political campaigns more expensive and candidates are more dependent upon political contributions from special interests.

Diluting Democracy: As governments get larger, elected officials and governments tend to become more distant from their electorates. On the other hand, in smaller municipalities, elected officials are likely to be known personally by a larger number of voters. Moreover, voters are likely to be able to gain direct access to their elected officials. As governments become larger, it becomes more difficult for individual citizens to have influence over their governments, creating disincentives for participation. This leads to smaller voter turnouts.²⁸ This dilution of democracy, in combination with the stronger role played by special interests, tends to retard government efficiency.

Electoral Incentives: In larger jurisdictions, elected officials and candidates rely on special interest contributions to a large degree to finance their political campaigns. This is less likely to occur in smaller jurisdictions.

While the voters make the ultimate choices in elections, a candidate without enough funding is unlikely to become sufficiently well known to have a chance of being elected. Thus, an elected official might thus face a more serious reaction from an important special interest whose desires are well known than by an electorate whose interests may be less well known. Moreover, rarely, if ever, do special interests seek to lower costs. Special interests invariably seek higher levels of funding. Thus, the impact is likely to be higher government costs and less efficiency, not greater efficiency.

Unrealistic Expectations & Misleading Cost Studies

Studies that estimate the cost savings resulting from consolidation can overstate the extent of the savings. Such studies are usually funded by interests advocating consolidation and have proven to be unreliable in their predictive capacity, not unlike the projection errors that often occur in major infrastructure projects. In infrastructure projects, research has identified occurrences of “strategic misrepresentation,” wherein project promoters overstate project benefits in an effort to obtain approval.²⁹ The routine overestimation of cost savings from consolidation could represent similar overselling, or “strategic misrepresentation.” It could also simply represent error. Unreliable, and possibly misleading, cost saving studies were produced in Halifax, Toronto and Indianapolis.

The Tax-Borrow-Consolidate Cycle

Because larger municipal governments can be more susceptible to efficiency-defeating initiatives of special interests, both taxes and spending tend to be higher. There are political and even legal limits to taxation, however. This can lead such governments to incur greater bonded indebtedness to provide additional funding for their higher cost structures. When it becomes difficult to continue to finance more costly government by taxes and debt, consolidation is the next obvious strategy for financing the out of control spending; the municipality will seek to socialize its high costs over a larger geographical tax base by combining with nearby jurisdictions. This tax-borrow-consolidate spending cycle cannot lead to lower overall spending levels.

Proponents of consolidation will typically claim that the larger jurisdiction has been starved of revenue. Invariably, however, the jurisdictions seeking mergers will have higher costs and debt per capita, which indicates a *spending* problem rather than a funding problem. As a result, such consolidations are likely to simply spread higher taxation and spending over a larger tax base rather than improve government efficiency. Typically, consolidation grants a larger tax base to a government that already spends, borrows and taxes more than necessary. The incentives are thus skewed toward higher spending and less efficiency, not greater government efficiency.

Unpopularity and Irrevocability

Government consolidations have been generally unpopular with electorates. In the case of Toronto, all six municipalities voted more than two-to-one against the consolidation; however the provincial government proceeded to force the merger. Unpopular government consolidations cannot be easily reversed. Once the

²⁸ Bish, 2001.

²⁹ See Bent Flyvbjerg, *Megaprojects and Risk: An Anatomy of Ambition*, Cambridge, UK: Cambridge University Press.

consolidation is implemented, it is nearly impossible to restore the previous organizational structure, even if there is strong opinion that it would be an improvement. In the one substantial consolidation in which a subsequent exit was permitted, Montreal, the overwhelming majority of former municipalities voted to withdraw from the consolidated city.³⁰

Bigger is Not Better

There appears to be little or no data to validate the bigger-is-better theory of local governance. After-the-fact studies of local government consolidations indicate that no relationship exists between local government size and taxation per capita. In addition, there is virtually no evidence that consolidation will improve *actual* government efficiency. Indeed, the evidence on consolidation seems generally to support the opposite conclusion — that smaller governments are more efficient. This is especially so in New York, as is indicated in the next section.

Conclusion #1

Government consolidation does not improve government efficiency.

Generally, the actual national and international experience provides no support for the bigger-is-better theory of government efficiency. Neither larger nor consolidated government is consistently more efficient. A number of post-consolidation reviews (after-the-fact reviews) indicate that consolidated, regional government tends to be less efficient.

- ◆ Consolidation often expands services and forces them upon those who may not want or need them, which increases spending.
- ◆ Consolidation leads to higher personnel costs because of the larger organized labor forces it produces and because differing labor contracts are routinely harmonized with the highest compensation rates and least productive work rules.
- ◆ Consolidation detaches people from their local governments, marginalizes their influence on their immediate surroundings and facilitates greater influence of interests such as labor unions, political contributors and the state.

³⁰ This occurred despite an onerous electoral process that required a large share of registered voters to participate and an unusually short petition process, neither of which is typical for referenda in Canada. See: Wendell Cox, “NOT SO GRANDE MONTREAL: DESPITE BARRIERS, VOTERS STRIKE A BLOW FOR DEMOCRACY” The Public Purpose (June 2004) <http://www.publicpurpose.com/pp-montreal.pdf>.

If valid, the bigger-is-better theory of government would tend to support the conclusion that states with larger governments are more efficient. This, however, is not the case. An evaluation of New York’s efficiency relative to other states shows that there is no material association between a larger average local government size and increased efficiency. Nationally, regionally, and among the 10 largest states, New York has an average local government population that is near the middle, yet its levels of taxation and spending are among the highest. This result is contrary to the result that is predicted by the bigger-is-better theory.

State & Local Distribution of Taxes and Expenditures

States vary considerably in the extent to which they rely upon units of local government to deliver services and raise revenues. Local governments are creations of the states. They operate under the laws and regulations required by state governments. Thus, the states control the share of state and local taxation and spending that occurs at the local government level (and conversely at the state government level). Moreover, state laws and regulations tend to impose important spending requirements on local governments, such as labor regulations and mandates.³¹

- ◆ From state to state, local government’s share of combined state and local taxation ranges from 13 percent (Vermont) to 55 percent (New York), with an average of 37 percent. Local taxes, as a share of state and local taxation, are higher in New York than in any other state, at 55 percent. This is one-third higher than the state average (Figure 2).

Local Share of State & Local Taxes
STATES

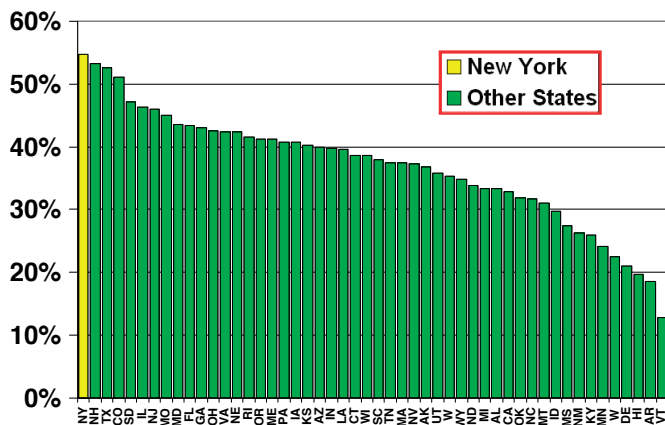


Figure 2

- ◆ Local government spending as a share of combined state and local expenditures also varies from state to state. The lowest share is 20 percent (Hawaii), and the highest is 68 percent (Nevada). New York State has the 4th highest share of local government spending, at 63 percent. This is one-fifth higher than the state average (Figure 3).

Local Share of State & Local Spending
STATES

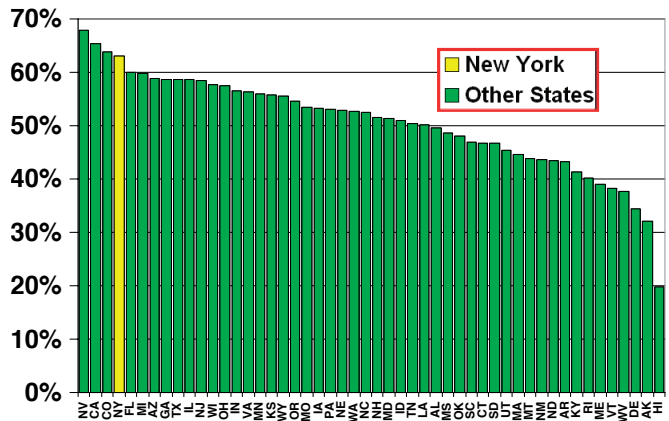


Figure 3

Because states vary in the degree to which they rely on their local governments to provide services, it is generally invalid to compare local government (or state government) tax or spending levels between states. Valid overall comparison is limited to combined state and local government’s taxation and spending.

Government Finance

A review of revenues, debt and taxation signifies that, by most indications, New York has less efficient government than nearly all other states. New York State has the highest combined state and local taxation per capita, and the highest real property tax per capita. Nationwide, on a per capita basis, New York ranks 3rd in both federal revenues received and general government debt. This indicates that New York’s competitiveness problem is not rooted in revenues, but in spending.

Taxation: New York has the highest state and local taxes per capita in the nation:

- ◆ New York’s state and local government taxation per capita is 63 percent higher than the average of the other 49 states (Figure 4).
- ◆ New York collects more state and local taxes per capita than any of its neighboring states. New York’s state and local taxation per capita is 27 percent higher than the average of its neighboring states. New York’s neighboring states generally have higher taxation per capita than the rest of the nation.
- ◆ New York collects the most state and local taxes per capita among the 10 largest states.³² New York’s state and local taxation per capita is 66 percent higher than the average of the nine other largest states (Figure 5). New York’s taxation is well above any of the other largest states and 42 percent higher than second-ranking California.

³¹ E.J. Mc Mahon and Terry O’Neil “Taylor Made; The Cost and Consequences of New York’s Public-Sector Labor Laws” Empire Center (October 2007); Joseph F. Zimmerman, “The Development of Local Discretionary Authority in New York” Publius: The Journal of Federalism 1983 13(1):89-103; Robert Ward, “The \$163 Lightbulb: How Albany’s Mandates Drive Up Your Local Taxes”, The Public Policy Institute of New York State, Inc. (November 1999).
³² North Carolina passed New Jersey to become the nation’s 10th largest state in 2005.

State & Local Taxes per Capita STATES

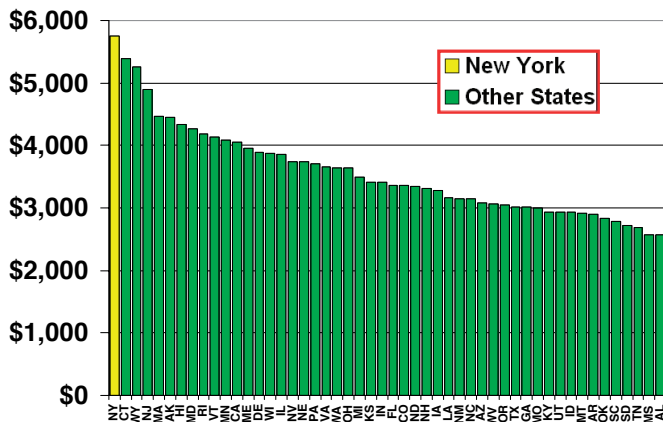


Figure 4

Federal Revenue per Capita STATES

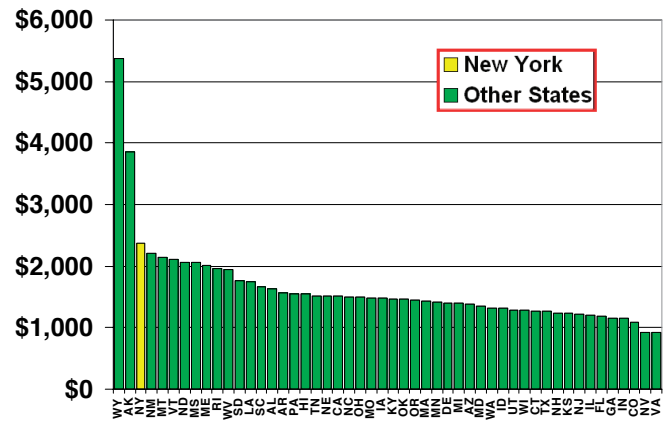


Figure 6

State & Local Taxes per Capita 10 LARGEST STATES

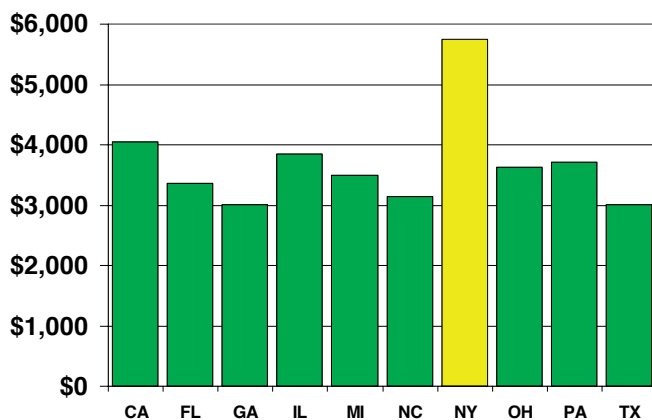


Figure 5

Federal Revenue per Capita 10 LARGEST STATES

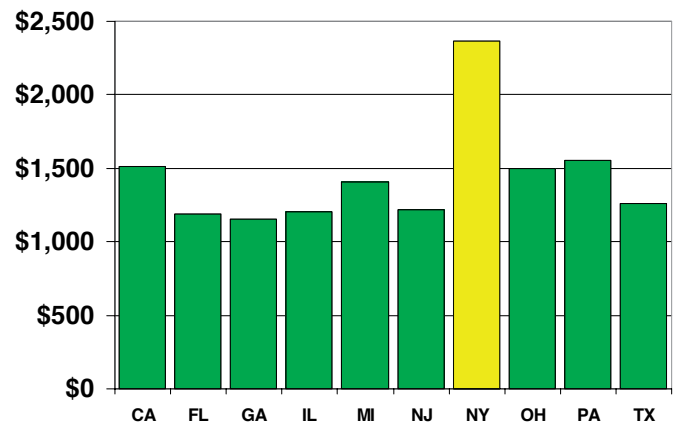


Figure 7

Federal Revenue: Despite its high state and local revenues, New York receives more federal revenue per capita than most other states:

- ◆ New York has the third highest federal revenue per capita of any state (Figure 6). New York's federal revenue per capita is 46 percent higher than the average of the other 49 states, though it is well below the levels of Alaska and Wyoming.
- ◆ New York receives the most federal revenue per capita compared to its neighboring states. New York's federal revenue per capita is 56 percent higher than the average of its neighboring states. New York's federal revenue is well above any of the other states, except for Vermont. New York's federal revenue per capita is 12 percent higher than second ranking Vermont and 52 percent higher than third ranking Pennsylvania.
- ◆ New York receives the most federal revenue per capita among the 10 largest states. New York's federal revenue per capita is 74 percent higher than the average of the nine other largest states (Figure 7).

- ◆ New York's federal revenue is well above any of the other states. Federal revenue per capita is 53 percent higher than Pennsylvania, which ranks second to New York.

General Government Debt: New York generally has higher general government debt per capita than other states:

- ◆ New York has the third highest per capita general government debt of any state (Figure 8). New York's general government debt per capita is 92 percent higher than the average of the other 49 states.
- ◆ New York has the second highest general government debt per capita compared to its neighboring states, ranking slightly (less than one percent) below Massachusetts. New York's general government debt per capita is 39 percent higher than the average of its neighboring states. New York's general government debt is 36 percent higher than third-ranking Connecticut. New York's neighboring states generally have higher debt per capita than the rest of the nation.

State & Local Govt. Debt per Capita
STATES

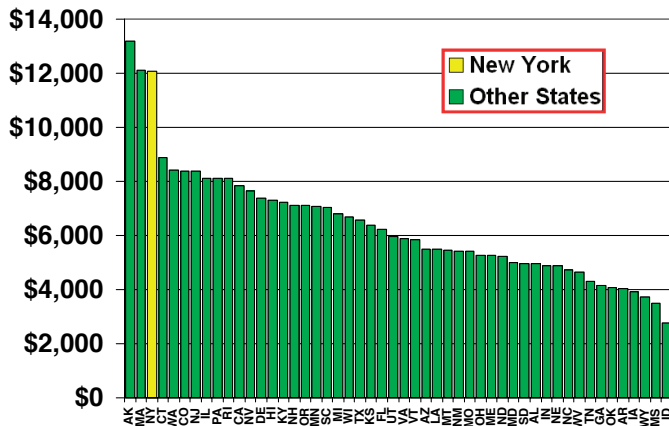


Figure 8

- ◆ New York has the highest general government debt per capita among the 10 largest states. New York's general government debt per capita is 88 percent higher than the average of the nine other largest states (Figure 9). New York's debt is well above any of the other states. General government debt per capita is 21 percent higher than Illinois, which ranks second to New York among the largest 10 states. The nine other largest states have slightly higher debt per capita than the rest of the nation.

Property Tax per Capita
STATES

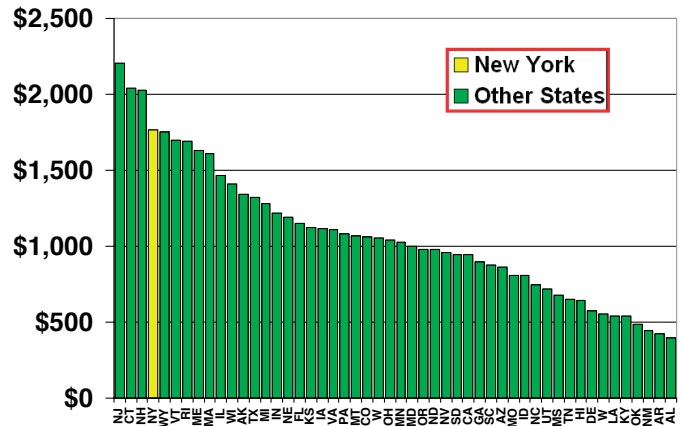


Figure 10

- ◆ In comparison to its neighboring states, New York's amount of property taxes per capita trails only New Jersey and Connecticut. New York's property taxes per capita are 2 percent higher than the average of its neighboring states, which generally have higher property taxes per capita than the rest of the nation.
- ◆ New York has the highest property taxes per capita among the 10 largest states. New York's property taxes per capita are 60 percent higher than the average of the nine other largest states (Figure 11), 21 percent above those of second ranking Illinois, and well above any of the other states.

State & Local Govt. Debt per Capita
10 LARGEST STATES

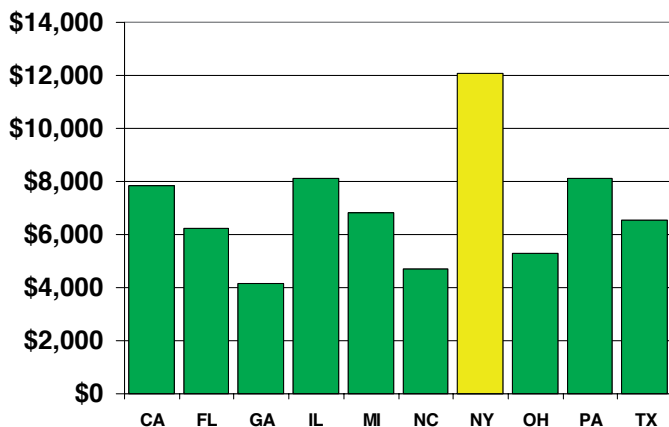


Figure 9

Property Tax per Capita
10 LARGEST STATES

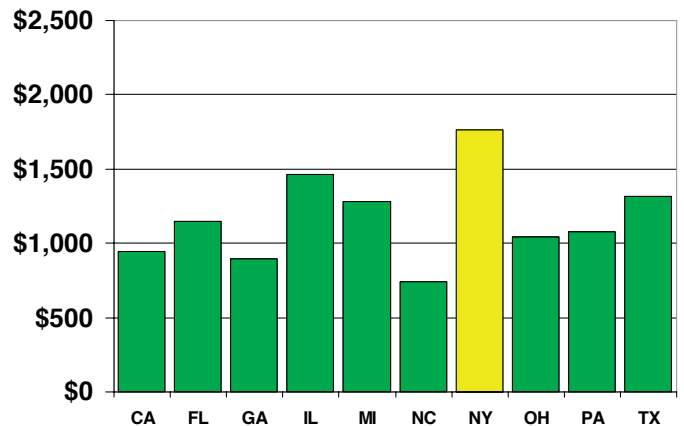


Figure 11

Property Tax: There is a widely shared concern that property taxes are excessively high in New York. New York generally has higher property taxes per capita than other states:

- ◆ New York has the fourth highest property taxes per capita of any state (Figure 10). New York's property taxes per capita are 64 percent higher than the average of the other 49 states.

New York's Spending Problem

As previously noted, New York has a spending problem. New York's strong federal, state and local revenues finance some of the highest spending levels in the nation:

State & Local Spending per Capita STATES

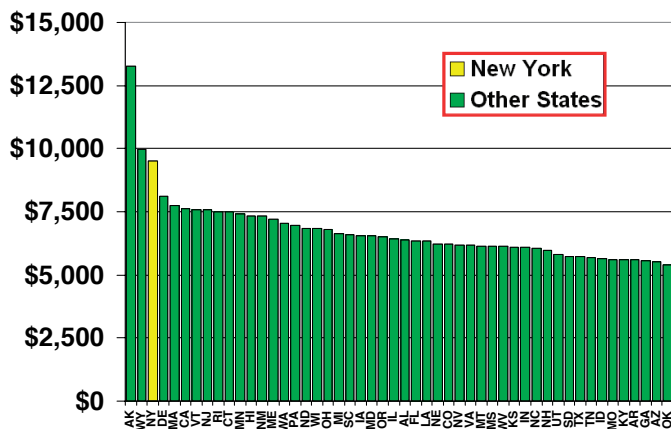


Figure 12

- ◆ New York ranks third among the states in direct general expenditures per capita, at 84 percent above the national average (Figure 12).
- ◆ New York has higher expenditures per capita than all of its neighboring states, 32 percent above the average.
- ◆ New York also has the highest spending per capita among the 10 largest states. New York's per capita spending is 50 percent above the average for the other nine largest states (Figure 13).

State & Local Spending per Capita 10 LARGEST STATES

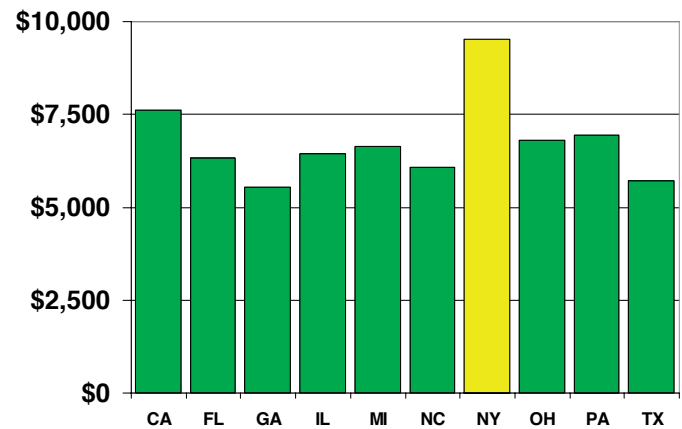


Figure 13

Personnel Expense

Employee wages, salaries and fringe benefits are by far the largest operating expenditure of government. More than 70 percent of current operations spending by New York local governments is in employee wages and salaries.³³ New York's personnel expense per capita is considerably higher than that of most states. A similar conclusion was reached in a recent report comparing suburban counties in the Long Island (New York City Area) and Suburban Virginia (Washington Area) metropolitan areas (Box 2).

- ◆ New York has the second highest government wages and salaries per capita of any state (Figure 14), trailing Alaska by 14 percent. New York's wages and salaries per capita are 44 percent higher than the average of the other 49 states.
- ◆ New York has higher government wages and salaries per capita than any of its neighboring states. New York's wages and salaries per capita are 26 percent higher than the average of its neighboring states. New York's neighboring states generally have higher wages and salaries per capita than the rest of the nation.
- ◆ New York has the highest wages and salaries per capita among the 10 largest states. New York's wages and salaries per capita are 48 percent higher than the average of the nine other largest states (Figure 15). New York's wages and salaries per capita are 16 percent higher than second ranking California and 45 percent

Virtually all of the difference between the spending of New York State and the average of that of the other 49 states can be attributed to four categories: personnel expenses, public welfare expenses, education expenses and interest on debt. Any attempt to improve the efficiency of government in New York must begin with addressing these high spending levels. Spending drives the demand for taxation and revenues, which, in turn, can only be reduced by better containing spending.

Accounting for the Differences

An analysis was undertaken to identify the functions most responsible for New York's higher spending levels. The largest differences were found in personnel expense (employee wage, salary and fringe benefits), primary and secondary education, public welfare and interest on debt. The data for each of these functions is discussed below.

Box 2: Comparing Long Island and Suburban Virginia

One notable attempt to gauge the efficiency of New York government compared Nassau and Suffolk Counties on Long Island to the Virginia counties of Fairfax and Loudon (suburban Washington, D.C.). The Center for Governmental Research found that spending per capita in the Virginia counties was considerably less for a standard set of government services than on Long Island. The report noted that more than 80 percent of the difference was attributable to the higher wages and salaries on Long Island.¹ In fact, all of the difference may be in employee compensation. New York generally has more expensive fringe benefit packages and if the Virginia counties have fringe benefit levels near the national average, all of the higher costs of Nassau and Suffolk would be attributable to personnel expense.

¹ http://www.longislandindex.org/fileadmin/pdf/pollreport/Long_Island_Index_Comparative_Analysis_of_Cost_of_Local_Govts.pdf.

³³ Calculated from US Bureau of the Census governments database for 2005.

Government Wages & Salaries per Capita STATES

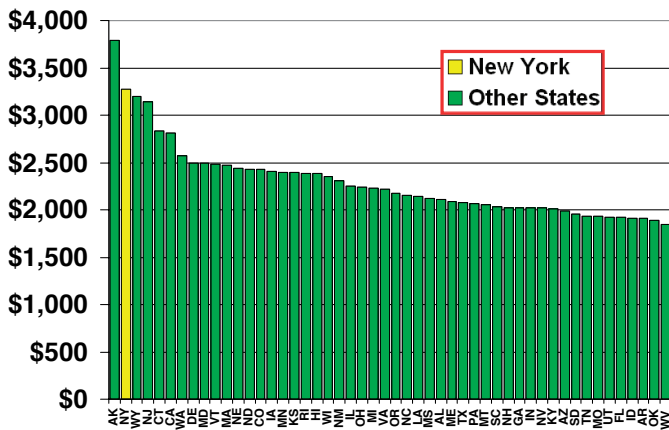


Figure 14

Education Expenditures per Pupil STATES

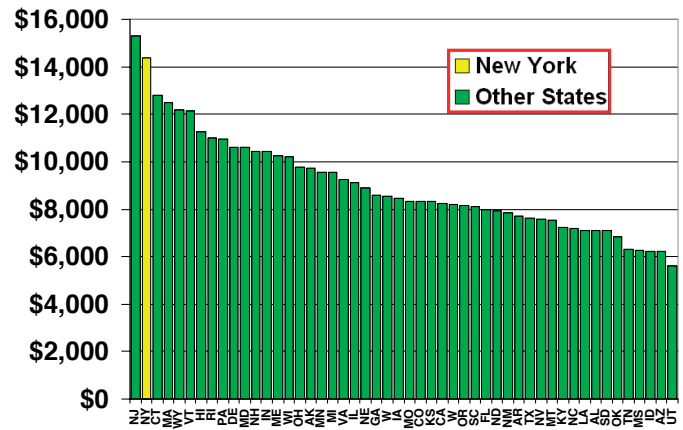


Figure 16

State & Local Spending per Capita STATES

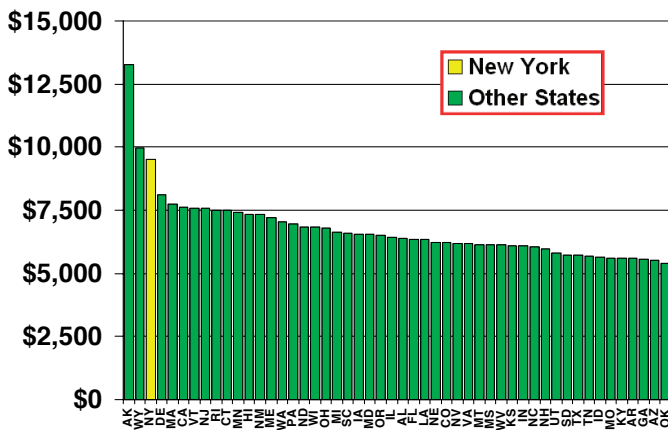


Figure 15

higher than third ranking Illinois. The nine other largest states have slightly lower wages and salaries per capita than the rest of the nation.

Education Expenditures per Pupil 10 LARGEST STATES

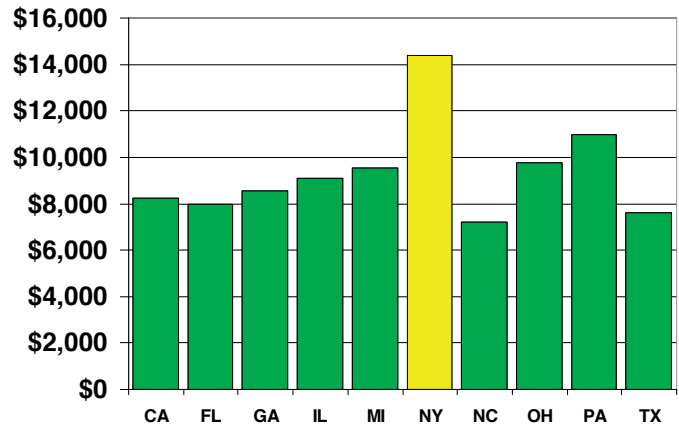


Figure 17

Primary and Secondary Education

New York has among the highest primary and secondary education expenditures per pupil.³⁷

At the same time, New York fringe benefit expense is generally higher than that of both other state and local governments and the private sector. It is estimated that fringe benefits account for a 43 percent add-on to wage and salary expense. This is one-third higher than the average of the other states and nearly double the private sector average.³⁵ New York's higher costs are principally in compensation per employee, which is estimated to be at least 40 percent higher than the average in other states. New York also has approximately 10 percent more state and local government employees per capita than the other states.³⁶

- ◆ New York has the second highest primary and secondary education expenditures per pupil of any state (Figure 16), trailing New Jersey by 6 percent. New York's education expenditures per capita are 61 percent higher than the average of the other 49 states.
- ◆ New York's education expense per pupil is 13 percent higher than the average of its neighboring states. New York's education expense per pupil is higher than all neighboring states except New Jersey. New York's neighboring states generally have education expenses per capita that are higher than the rest of the nation.

³⁴ Estimated from Office of the State Comptroller and New York City data.

³⁵ Estimated using US Bureau of Economic Analysis Gross Domestic Product employee benefits data.

³⁶ Estimated from US Bureau of the Census government employment database.

³⁷ This report does not analyze public education, except to the extent necessary to identify overall per capital spending differences between New York and other states.

- ◆ New York has the highest education expense per pupil among the 10 largest states. New York's education expense per pupil is 64 percent higher than the average of the nine other largest states (Figure 17). In addition, New York's education expense *per capita* is substantially higher than that of the nine other largest states. New York's education expense per capita is 31 percent higher than second ranking Pennsylvania. The nine other largest states have slightly lower education expenses than the rest of the nation.

Public Welfare Spending per Capita STATES

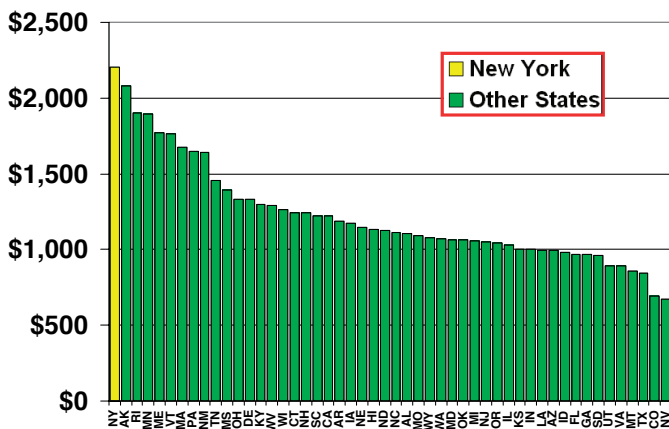


Figure 18

Public Welfare

New York's public welfare expenditures (including Medicaid) are also considerably higher than average.

- ◆ New York has the highest public welfare expenditures per capita of any state (Figure 18). New York's public welfare expenditures per capita are 83 percent higher than the average of the other 49 states.
- ◆ New York has a higher public welfare expense per capita than any of its neighboring states. New York's public welfare expense per capita is 49 percent higher than the average of its neighboring states. New York's margin in public welfare expense is substantial; its public welfare expense is 25 percent higher than second ranking Vermont. New York's neighboring states have generally higher public welfare expenses than the rest of the nation.
- ◆ New York has the highest public welfare expense per capita among the 10 largest states. New York's public welfare expense per capita is 95 percent higher than the average of the nine other largest states (Figure 19), and is substantially higher than that of the other largest states; its public welfare expense per capita is 34 percent higher than second ranking Pennsylvania.

Interest on Debt

New York has the fourth highest interest on state and local government debt of any state (following Alaska, Massachusetts and Connecticut). New York's interest on debt per capita is \$432, which is 68 percent above the state average of \$257.

Public Welfare Spending per Capita 10 LARGEST STATES

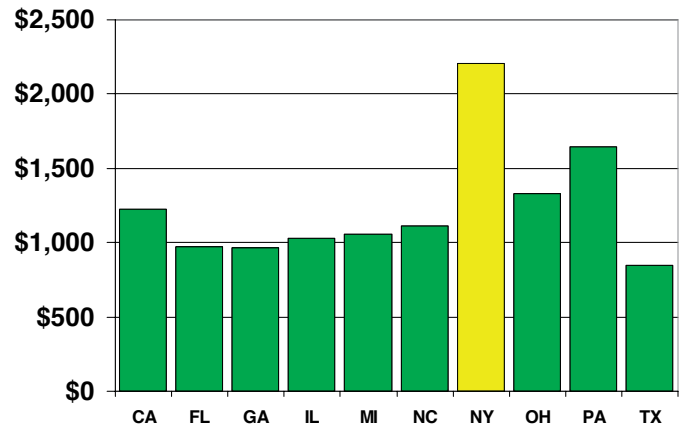


Figure 19

Calculating the Differences

These four categories — personnel, education, public welfare and interest on debt — account for nearly all of the difference in per capita spending between New York and the average of the states. New York's direct general expenditures per capita are \$9,532, which is \$2,830 more than the average of the other 49 states (\$6,702). The combined difference between New York's higher expenses in each of these functions and the average of the other 49 states is \$2,775 per capita. Thus, if New York expenditures simply equaled the state average in these functions, state and local government expenditures would be only slightly above (2 percent) the national average (Table 1).

Function	New York	Average of Other States	Difference Between NY and Avg of Other States	% of Total Difference
Personnel				
Wages (Excl. Education & Public Welfare)	\$ 2,000	\$ 1,487	\$ 513	18.1%
Fringe Benefits (Excl. Education & Public Welfare)	\$ 944	\$ 463	\$ 480	17.0%
Education	\$ 2,102	\$ 1,455	\$ 647	22.8%
Public Welfare	\$ 2,031	\$ 1,066	\$ 965	34.1%
Interest on Debt	\$ 432	\$ 261	\$ 171	6.0%
Subtotal	\$ 7,508	\$ 4,733	\$ 2,775	98.0%
Net (all other Direct General Expenditures)	\$ 2,024	\$ 1,969	\$ 55	
Total (Direct General Expenditures)	\$ 9,532	\$ 6,702	\$ 2,830	
Total if New York at National Average in Personnel, Education, Public Welfare & Debt	\$ 6,757	\$ 6,702	\$ 55	2.0%

- ◆ **Higher public welfare expenditures** account for \$965 per capita, which is 34 percent of the difference between New York and average state expenditures.³⁸

³⁸ Includes personnel expense.

- ◆ **Higher primary and secondary education** expenses account for \$647 per capita, which is 23 percent of the difference between New York and average state expenditures.³⁹
- ◆ **Higher personnel expense** in functions other than public welfare and primary and secondary education accounts for \$993 per capita, which is 35 percent of the difference between New York and average state expenditures. This expense is nearly evenly distributed between wages (\$513) and fringe benefits (\$480). It is estimated that total personnel expense, including public welfare and primary and secondary education, is more than \$1,750 per capita and more than 60 percent of the difference compared to the national average.
- ◆ **Higher interest on debt** accounts for \$171 per capita, which is 6 percent of the difference between New York and average state expenditures.

The purpose of this analysis is not to imply that New York has made unwise choices with respect to these functions. It is rather to suggest that any initiative intended to improve the efficiency and competitiveness of New York is unlikely to be successful without dealing with these issues.

The analysis above indicates that New York government generally has much higher taxes, spending and debt than other states. New York also tends to be less efficient than the governments of neighboring states, which tend themselves to be uncompetitive relative to other states in taxing, spending and debt. Finally, New York is considerably less efficient than most of the nation’s largest states, as the demand for its high taxing and debt levels is driven by its high spending levels. The imperative for improving New York’s government efficiency is thus clear.

Local Democracy, Taxes and Spending

As noted above, New York has the highest state and local taxes per capita in the nation, and has among the highest expenditures per capita in the nation. The bigger-is-better theory of government expenditure would suggest that New York must have the smallest government jurisdiction size in the nation. In fact, however, New York’s average jurisdiction population ranks 17th largest in the nation.

The bigger-is-better theory of government efficiency would suggest that New York’s near-average local government size results in near-average taxes and spending, rather than taxes and spending that are among the highest in the nation. Figure 20 illustrates that New York has the highest state and local taxes per capita in the nation although more states have smaller average government sizes.

Among its neighboring states, as is the case in the national comparison, New York’s average local jurisdiction population is near the middle. The bigger-is-better theory of government efficiency would predict that New York have average tax and spending levels based upon its jurisdiction size. The reality is

that New York generally has higher taxes and spending than its neighboring states.

Per Capita Taxation & Jurisdiction Size STATES

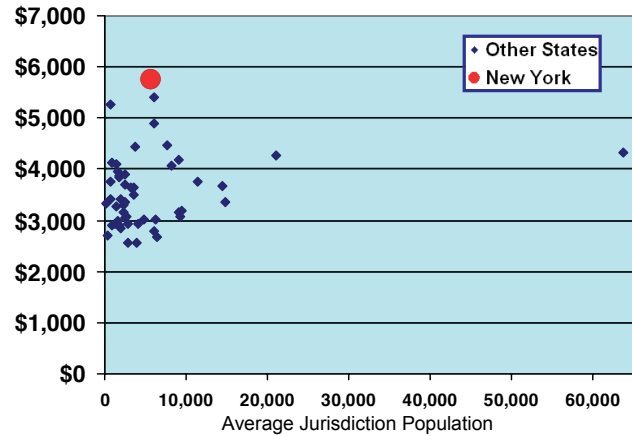


Figure 20

New York’s average local jurisdiction population is also near the middle when compared to that of the 10 largest states. The bigger-is-better theory of government efficiency would predict average tax and spending levels for New York based upon its jurisdiction size. Again, the reality is that New York has higher state and local taxes and expenditures per capita than any of the other 10 largest states.

Figure 21 illustrates that New York has the highest state and local taxes per capita while five of the nine other largest states have smaller average government sizes.

At the national level, the regional level and among the largest states, New York’s high levels of taxation and spending cannot be explained by the bigger-is-better theory of government efficiency. Thus, the “sheer number” of governments is not the cause of New York’s high taxes and expenditures per capita.

Per Capita Taxation & Jurisdiction Size 10 LARGEST STATES

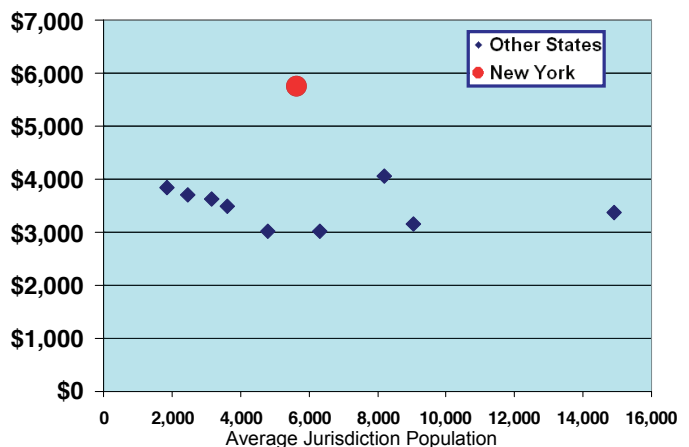


Figure 21

³⁹ Includes personnel expense.

Conclusion #2

Nationally, states with larger governments are not more efficient.

An examination of state and local government efficiency demonstrates that there is no material association between government efficiency and the size of government.

- ◆ Tax and spending competitiveness must be evaluated at the state and local level, not just at the local level. States vary significantly in their reliance on local governments for service delivery and taxation. New York relies on local governments to a very high degree (first in taxation, fourth in spending).
- ◆ New York is a high tax and spending state. No state has higher state and local taxes per capita, while New York ranks third in spending. New York ranks third in federal revenue per capita and receives far more federal revenue per capita than any of the other 10 largest states.
- ◆ Virtually all of the difference between New York and the national average of state and local spending is in four functions - personnel expense, primary and secondary education, public welfare and interest on debt.
- ◆ If the bigger-is-better theory of government efficiency were valid, New York would be among the lowest spending and taxing states, since its average jurisdictions are larger than two-thirds of other states.
- ◆ As the nation's highest taxing state, New York has a serious competitiveness problem with respect to government efficiency. New York's problem is not revenues; rather, it is spending.

An analysis of government financial data within New York State further demonstrates that there is no association between larger units of local government and increased governmental efficiency. A number of tests were conducted with respect to financial data within New York State to identify any relationship between government size and efficiency. These tests analyze government spending for a core set of services at different levels of governance, and compare government spending within each level across the different population sizes. This examination provides further indication that the bigger-is-better theory of government efficiency is not reflective of reality.

Background

General governance at the local level in New York can be divided into four categories:

Cities: Excluding New York City, there are 61 cities in the state, with a combined population of under 2.3 million. These cities account for 12 percent of the state's population.

Towns: There are 932 towns, which comprise all land area not in New York City or the other cities. The towns have 8.7 million residents (including the villages) and account for 46 percent of the state's population.

Villages: There are 553 villages in the states. Each of these is located within one town or across multiple towns. The villages have approximately 1.9 million residents (which is included in the town population, above).

New York City: The City of New York combines all municipal and county functions for its constituent five counties (boroughs). New York City, with more than 8 million residents represents 42 percent of the state's population.

The Analysis

Data for local governments is analyzed to determine any relationship between the size of governments (jurisdiction populations) and per capita spending levels. This analysis is performed for a core set of local government services at the following levels:⁴⁰

- ♦ **Combined County-Local Government Spending Comparison:** County and local (or municipal) governments in New York are separate except in New York City, which has a combined city-

county (5 county or borough) government. As a result, it is only at the combined county-local level that New York City can be included. Analyses of New York government often exclude New York City. However, New York City represents a large consolidated government. Any examination of government size or the potential impacts of government consolidation would be incomplete if it excluded New York City.

- ♦ **Combined City, Town and Village Spending Comparison:** All of the geography of New York is divided into cities and towns. Villages are within towns and are, in some cases, in more than one town. The combined city, town and village spending analysis combines all spending on the core of services by cities, towns, villages and fire districts at the city or town level, which is referred to as the "local government area" level (Box 3).
- ♦ **Combined City, Town and Village Spending Comparison in Metropolitan Areas:** A separate metropolitan area analysis was conducted to identify the differences in spending between jurisdictions in the principal areas of urbanization in the state. There is also a parallel analysis by each of the state's metropolitan areas, as designated by the United States Bureau of the Census.
- ♦ **Combined City, Town and Village Debt Comparison:** All of the geography of New York is divided into cities and towns. Villages are within towns and are, in some cases, in more than one town.
- ♦ **Fire Service Spending by Local Government Area:** Fire service spending is examined because of substantial differences in service delivery that could be materially impacted by local government consolidations. In many smaller towns and villages, fire services are provided by volunteer arrangements, which is significantly less costly than fire services that employ full-time fire fighters.

Lastly, New York's average government size (local jurisdiction population) is compared to those of other states.

Combined County-Local Government Spending Comparison

A set of core local general and county government functions were combined at the county and New York City level to examine the relationship between average jurisdiction population and expenditures per capita.⁴¹

Box 3: Local Government Areas

For the purposes of this report, a local government area is a city or a town (including any villages). It is necessary to combine villages into their towns because of the lack of consistency of public services provided at the town and village level. Overall, a complete array of public services (as required by state law or the community) is provided at the city level and at the combined town and village level.

⁴⁰ Includes general government, police, fire, other public safety, health, transportation and culture-recreation for all fully reporting cities, towns, villages and fire districts for 2005 (data from the Office of the State Comptroller). 2005 city of Ithaca data not available. Instead, the 2004 data was used and scaled using the general rate of inflation. Fire districts are included because fire services are examined in the core service analysis of cities, towns and villages. Statistical outliers were excluded (local government areas with less than \$200 per capita in spending per capita or more than \$3,000). This approach accounts for 90 percent of city non-utility expenditures and 94 percent of combined town and village non-utility expenditures.

⁴¹ The average jurisdiction population for a county is the total population divided by the number of general government units (county, city, town and village) and fire districts. New York City is a single jurisdiction (Table 2).

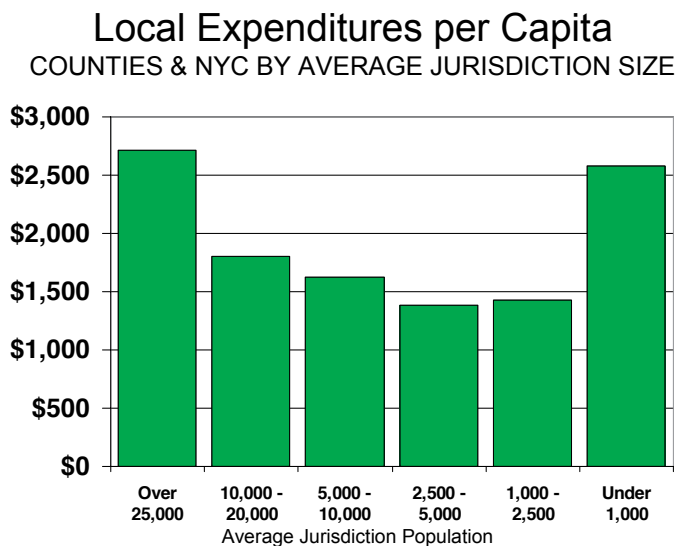


Figure 22

State analyses often exclude New York City because of its significant differences compared to the rest of the state. However, in an examination of the bigger-is-better theory of government efficiency, it is important to include New York City, which is itself the largest municipal government (and consolidated municipal government) in the western world.⁴²

All city, town, village and fire district expenditures in the subject functions were combined for this analysis. Because New York City combines all of the functions that would be provided by county, city, town and village governments in counties outside the City, it is only at the county and New York City level that all of expenditures per capita can be compared across the entire state.

The bigger-is-better theory of government efficiency would predict that the counties with larger average jurisdiction populations would have lower expenditures per capita. The data shows no such association. The highest expenditures per capita are in the counties with larger average jurisdiction populations, while lower expenditures per capita are generally associated with counties with smaller jurisdictions. The lowest expenditures per capita were in counties with average jurisdiction populations from 1,000 to 5,000 (Figure 22 and Table 2).

Average Jurisdiction Population Over 25,000:

With a population of more than 8,000,000 and a single jurisdiction, New York City is the only county or city-county area of the state with an average jurisdiction population exceeding 25,000. The highest combined expenditures per capital are in New York City. New York City's annual expenditures on the core functions are estimated at \$2,711 per capita. This is 75 percent higher than the statewide average of \$1,547.

Average Jurisdiction Population from 10,000 to 25,000: Expenditures per capita were \$1,807 in counties with average jurisdiction populations from 10,000 to 25,000. This is 16 percent higher than the average.

Average Jurisdiction Population from 5,000 to 10,000: Expenditures per capita were \$1,627 in counties with average jurisdiction populations from 5,000 to 10,000. This is 5 percent higher than the average.

Average Jurisdiction Population from 2,500 to 5,000: Expenditures per capita were \$1,382 in counties with average jurisdiction populations from 2,500 to 5,000. This is 11 percent below the average. These counties exhibited the lowest expenditures per capita of any jurisdiction population class.

Average Jurisdiction Population from 1,000 to 2,500: Expenditures per capita were \$1,425 in counties with average jurisdiction populations from 1,000 to 2,500. This is 8 percent below the average.

Average Jurisdiction Population under 1,000: Expenditures per capita were \$2,582 in counties with average jurisdiction populations from 5,000 to 10,000. This is 66 percent higher than the average. The higher spending is at least partly related to resort oriented counties, where large seasonal population increase the per capita data.

The Ultimate Consolidated Government: New York City

New York provides the ultimate test of the bigger-is-better theory of government efficiency. New York City is perhaps the premier

County	Population Surveyed	Jurisdictions	Average Jurisdiction population	County	Population Surveyed	Jurisdictions	Average Jurisdiction Size
Albany	294,565	40	7,364	Oneida	235,469	67	3,514
Allegany	49,927	48	1,040	Onondaga	458,336	56	8,185
Broome	200,536	33	6,077	Ontario	100,224	34	2,948
Cattaraugus	83,955	73	1,150	Orange	341,367	79	4,321
Cayuga	81,963	47	1,744	Orleans	44,171	18	2,454
Chautauqua	139,750	63	2,218	Oswego	122,377	41	2,985
Chemung	91,070	28	3,253	Otsego	61,676	52	1,186
Chenango	51,401	41	1,254	Putnam	95,745	14	6,839
Clinton	79,894	36	2,219	Rensselaer	152,538	49	3,113
Columbia	63,094	40	1,577	Rockland	286,753	46	6,234
Cortland	48,599	30	1,620	Saratoga	200,635	51	3,934
Delaware	48,055	55	874	Schenectady	146,555	26	5,637
Dutchess	280,150	57	4,915	Schoharie	31,582	32	987
Erie	950,265	76	12,503	Schuyler	19,224	13	1,479
Essex	38,851	38	1,022	Seneca	33,342	19	1,755
Franklin	51,134	28	1,826	St Lawrence	111,931	62	1,805
Fulton	55,073	18	3,060	Steuben	98,726	62	1,592
Genesee	60,370	26	2,322	Suffolk	1,419,369	135	10,514
Greene	48,195	32	1,506	Sullivan	73,966	56	1,321
Hamilton	5,379	16	336	Tioga	51,784	25	2,071
Herkimer	64,427	37	1,741	Tompkins	96,501	22	4,386
Jefferson	111,738	60	1,862	Ulster	177,749	66	2,693
Lewis	26,944	30	898	Warren	63,303	20	3,165
Livingston	64,328	34	1,892	Washington	61,042	28	2,180
Madison	69,441	36	1,929	Wayne	93,765	39	2,404
Monroe	735,343	55	13,370	Westchester	923,459	77	11,993
Montgomery	49,708	24	2,071	Wyoming	43,424	30	1,447
Nassau	1,334,544	109	12,244	Yates	24,621	16	1,539
Niagara	219,846	23	9,559	New York City	8,008,278	1	8,008,278

Jurisdictions included: counties, cities, towns, villages and fire districts.

⁴² The western world includes Western Europe, Australia, New Zealand, Canada and the United States.

Municipal Expenditures per Capita BY AVERAGE JURISDICTION SIZE

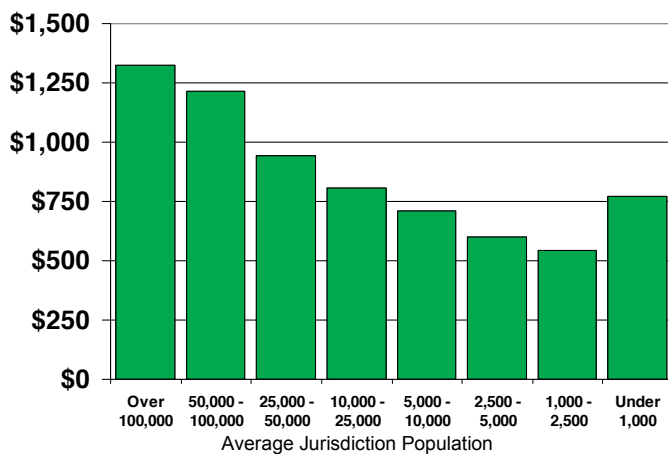


Figure 23

consolidated local government in the world and is the largest municipal government in the western world, as noted above. The single jurisdiction of New York City spent \$2,711 per capita in 2005 on the core services, considerably higher than the average of the \$2,300 per capita spent by cities, towns, villages and fire districts examined outside New York City. New York City provides compelling evidence that the bigger-is-better theory of government efficiency is not valid.

Combined City, Town and Village Spending Comparison

The same core categories of municipal expenditure were reviewed at the city and town (including village) level, or local government areas. New York City is excluded from this analysis because it combines municipal and county functions.⁴³ All of the core spending is totaled by local government area (cities and towns, the latter including village and fire district).

Again, the bigger-is-better theory of government efficiency would predict that the local government areas with larger average jurisdiction populations would have lower expenditures per capita. No such association is indicated. The highest expenditures per capita are in the local government areas with larger average jurisdiction populations, while lower expenditures per capita are generally associated with local government areas that have smaller average jurisdiction populations. The lowest expenditures per capita were in local government areas with average jurisdiction populations from 1,000 to 2,500 (Figure 23).

Average Jurisdiction Population over 100,000: Expenditures per capita were \$1,323 in local government areas with average jurisdiction populations above 100,000. This is 98 percent higher than the local government area average.

Average Jurisdiction Population from 50,000 to 100,000: Expenditures per capita were \$1,213 in local government areas with average jurisdiction populations from 50,000 to 100,000. This is 82 percent higher than the local government area average.

Average Jurisdiction Population from 25,000 to 50,000: Expenditures per capita were \$944 in local government areas with average jurisdiction populations from 25,000 to 50,000. This is 41 percent higher than the local government area average.

Average Jurisdiction Population from 10,000 to 25,000: Expenditures per capita were \$806 in local government areas with average jurisdiction populations from 10,000 to 25,000. This is 21 percent higher than the local government area average.

Average Jurisdiction Population from 5,000 to 10,000: Expenditures per capita were \$709 in local government areas with average jurisdiction populations from 5,000 to 10,000. This is 6 percent higher than the local government area average.

Average Jurisdiction Population from 2,500 to 5,000: Expenditures per capita were \$602 in local government areas with average jurisdiction populations from 2,500 to 5,000. This is 10 percent below the local government area average.

Average Jurisdiction Population from 1,000 to 2,500: Expenditures per capita were \$545 in local government areas with average jurisdiction populations from 1,000 to 2,500. This is 18 percent below the local government area average. These local government areas exhibited the lowest expenditures per capita of any jurisdiction population class.

Average Jurisdiction Population under 1,000: Expenditures per capita were \$773 in local government areas with average jurisdiction populations under 1,000. This is 15 percent higher than the local government area average.

The local government areas with average jurisdiction populations above 50,000 comprise 12 percent of the state's population (outside New York City) and 19 percent of spending on core services. The local government areas with average jurisdiction populations of less than 2,500 have 15 percent of the population and 11 percent of the spending.

Combined City, Town and Village Spending Comparison in Metropolitan Areas

An analysis of metropolitan area data was undertaken to determine whether the relationships identified in the city, town and village spending analysis were unduly influenced by smaller urban and rural jurisdictions. Similar relationships exist within metropolitan areas. The same core spending data was examined for the same functions at the city and town (including village) level within metropolitan areas. As in the case of the overall analysis, there is a general association between lower spending per capita and smaller jurisdiction populations, which is at odds with the bigger-is-better theory of government efficiency. The lowest spending per capita overall in metropolitan areas was in local government areas with an average population between 1,000 and 2,500 (Figure 24).

⁴³ The expenditures of villages located in more than one town were allocated to towns based upon population.

Municipal Expenditures per Capita METROPOLITAN AREA BY AVERAGE JURISDICTION SIZE

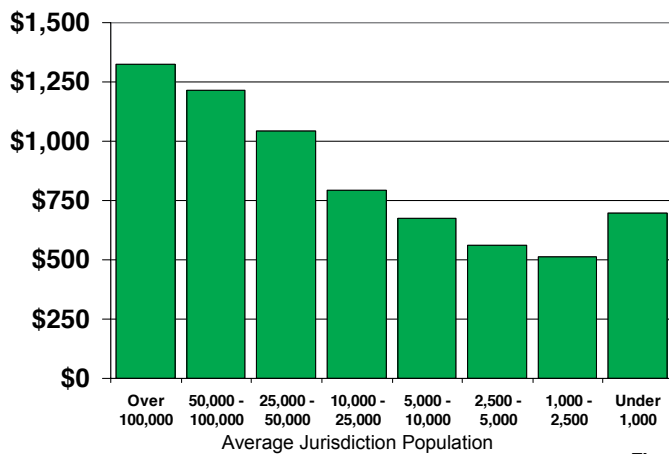


Figure 24

Average Metropolitan Jurisdiction Population over 100,000:

Expenditures per capita were \$1,323 in local government areas with average jurisdiction populations above 100,000. This is 96 percent higher than the metropolitan spending per capita average.

Average Metropolitan Jurisdiction Population from 50,000 to 100,000:

Expenditures per capita were \$1,213 in local government areas with average jurisdiction populations from 50,000 to 100,000. This is 80 percent higher than the average.

Average Metropolitan Jurisdiction Population from 25,000 to 50,000:

Expenditures per capita were \$889 in local government areas with average jurisdiction populations from 25,000 to 50,000. This is 32 percent higher than the average.

Average Metropolitan Jurisdiction Population from 10,000 to 25,000:

Expenditures per capita were \$754 in local government areas with average jurisdiction populations from 10,000 to 25,000. This is 12 percent higher than the average.

Average Metropolitan Jurisdiction Population from 5,000 to 10,000:

Expenditures per capita were \$703 in local government areas with average jurisdiction populations from 5,000 to 10,000. This is 4 percent higher than the average.

Average Metropolitan Jurisdiction Population from 2,500 to 5,000:

Expenditures per capita were \$622 in local government areas with average jurisdiction populations from 2,500 to 5,000. This is 8 percent below the average.

Average Metropolitan Jurisdiction Population from 1,000 to 2,500:

Expenditures per capita were \$567 in local government areas with average jurisdiction populations from 1,000 to 2,500.

This is 16 percent below the average. These local government areas exhibited the lowest expenditures per capita of any jurisdiction population class.

Average Metropolitan Jurisdiction Population under 1,000:

Expenditures per capita were \$775 in local government areas with average jurisdiction populations under 1,000. This is 15 percent higher than the average.

Spending in Individual Metropolitan Areas

City and town spending per capita was examined in each of the state's metropolitan areas as designated by the United States Bureau of the Census. The purpose of this examination was to determine whether the lower spending levels of local government areas with smaller average jurisdiction populations masked regional patterns in which the bigger-is-better theory of government efficiency might be operative. In fact, however, the association between higher spending per capita and larger jurisdiction populations holds in each of the state's metropolitan areas as defined by the United States Bureau of the Census (Table 3).⁴⁴ On average, cities with larger average jurisdiction populations in each of the metropolitan areas spent more per capita than towns and villages. This ranged from an excess of 58 percent in the New York City metropolitan area to 207 percent in Ithaca.

Combined City, Town & Village Debt Comparison

Similarly, local government areas with larger average jurisdiction populations have generally incurred greater debt than smaller units of local government. As in the spending, the highest debt levels per capita were in the local government areas with the *largest* average jurisdiction populations (Figure 25). The lowest debt levels were in the local government areas with the *smallest* average jurisdiction population (under 1,000 residents).

Total Debt per Capita BY AVERAGE JURISDICTION SIZE

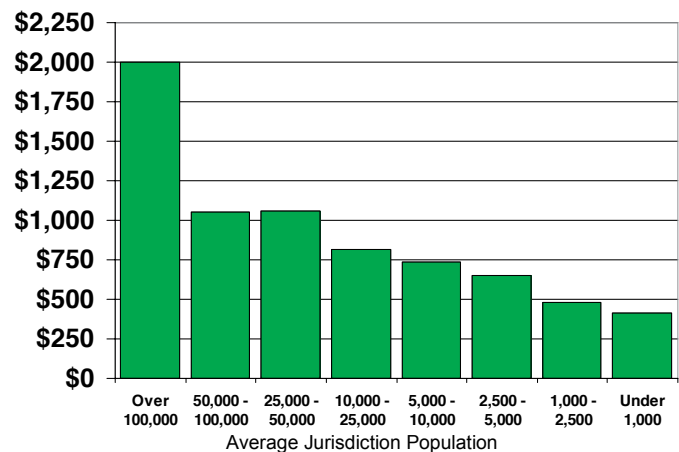


Figure 25

⁴⁴ The first city names of the official Bureau of the Census metropolitan area names are used.

**Table 3
City and Town/Village Spending per Capita: 2005**

Metropolitan Area	Metro Area Population	Cities			Towns			Cities Compared to Towns: Spending
		# of Cities	Avg Juris. Pop.	City Per Capita Spending	# of Towns	Avg Juris. Population	Town Per Capita Spending	
New York City*	4,025,000	8	61,151	\$1,371	373	9,480	\$866	58%
Buffalo	1,167,000	6	73,164	\$1,050	96	7,583	\$591	78%
Rochester	1,026,000	3	81,551	\$1,362	174	4,488	\$517	163%
Albany	810,000	8	33,918	\$1,095	176	3,060	\$647	69%
Syracuse	644,000	4	47,026	\$1,301	126	3,617	\$466	179%
Poughkeepsie	602,000	5	21,237	\$1,130	128	3,877	\$697	62%
Utica	290,000	4	25,984	\$ 922	99	1,877	\$534	73%
Binghamton	252,000	1	47,380	\$ 973	55	3,726	\$524	86%
Kingston	168,000	1	23,456	\$1,180	63	2,289	\$595	98%
Glens Falls	124,000	1	14,354	\$1,330	46	2,391	\$589	126%
Ithaca	97,000	1	29,287	\$1,518	20	3,361	\$494	207%
Elmira	90,000	1	30,940	\$1,032	25	2,371	\$446	131%
Average City to Town Spending								111%

* New York City excluded. It seems likely that inclusion of New York City would make this gap larger, given its higher expenditure levels. However its county level expenditures in New York City cannot be readily separated out to make a valid comparison (above).

Average Jurisdiction Population over 100,000: Total debt per capita was \$2,001 in local government areas with average jurisdiction populations above 100,000. This is 3.6 times the local government area average of \$555.

Average Jurisdiction Population from 50,000 to 100,000: Total debt per capita was \$1,054 in local government areas with average jurisdiction populations from 50,000 to 100,000. This is nearly double the local government area average.

Average Jurisdiction Population from 25,000 to 50,000: Total debt per capita was \$1,158 in local government areas with average jurisdiction populations from 25,000 to 50,000. This is nearly double the local government area average.

Average Jurisdiction Population from 10,000 to 25,000: Total debt per capita was \$815 in local government areas with average jurisdiction populations from 10,000 to 25,000. This is 47 percent above the local government area average.

Average Jurisdiction Population from 5,000 to 10,000: Total debt per capita was \$736 in local government areas with average jurisdiction populations from 5,000 to 10,000. This is 33 percent higher than the local government area average.

Average Jurisdiction Population from 2,500 to 5,000: Total debt per capita was \$652 in local government areas with average jurisdiction populations from 2,500 to 5,000. This is 18 percent above the local government area average.

Average Jurisdiction Population from 1,000 to 2,500: Total debt per capita was \$483 in local government areas with average jurisdiction populations from 1,000 to 2,500. This is 13 percent below the local government area average.

Average Jurisdiction Population under 1,000: Total debt per capita was \$416 in local government areas with average jurisdiction populations under 1,000. This is 25 percent lower than the local government area average. These local government areas exhibited the lowest debt per capita of any jurisdiction population class.

Fire Service Spending by Local Government Area

Fire protection provides a useful example of how differing service delivery options meet the needs and desires of differing communities. Fire protection is provided under the auspices of local government throughout the entire state.

In many towns, fire protection is provided under contract with volunteer fire organizations. Volunteer fire organizations generally provide effective service at costs that are typically low. This cost performance makes local government in New York *more* efficient and makes the state more competitive. On the other hand, other jurisdictions, including cities, some villages and some towns provide fire protection with paid employees. In each case, the electorates of the jurisdiction determine which is the most appropriate service model.

As in general government operations, fire protection services are generally less costly per capita in local government areas with smaller jurisdictions. Again, the lowest cost per capita was in the jurisdictions with average populations between 1,000 and 2,500 (Figure 26).

**Fire Expenditures per Capita
BY AVERAGE JURISDICTION SIZE**

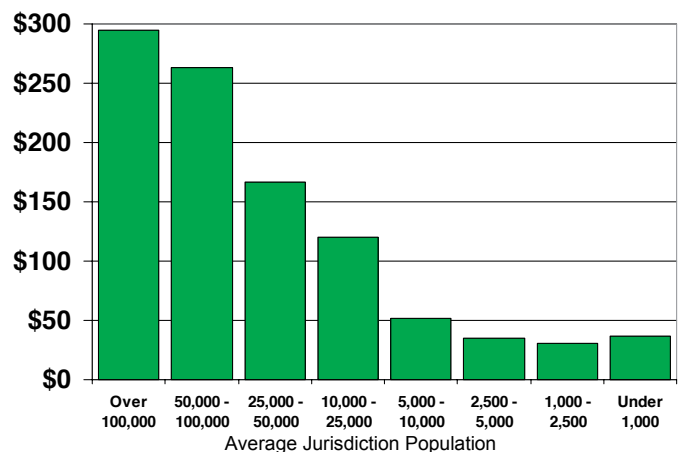


Figure 26

Average Jurisdiction Population over 100,000: Fire expenditures per capita were \$295 in local government areas with average jurisdiction populations above 100,000. This is 6.4 times the local government area average.

Average Jurisdiction Population from 50,000 to 100,000: Fire expenditures per capita were \$263 in local government areas with average jurisdiction populations from 50,000 to 100,000. This is 5.7 times the local government area average.

Average Jurisdiction Population from 25,000 to 50,000: Fire expenditures per capita were \$167 in local government areas with average jurisdiction populations from 25,000 to 50,000. This is 3.8 times the local government area average.

Average Jurisdiction Population from 10,000 to 25,000: Fire expenditures per capita were \$120 in local government areas with average jurisdiction populations from 10,000 to 25,000. This is 2.6 times the local government area average.

Average Jurisdiction Population from 5,000 to 10,000: Fire expenditures per capita were \$52 in local government areas with average jurisdiction populations from 5,000 to 10,000. This is 13 percent higher than the local government area average.

Average Jurisdiction Population from 2,500 to 5,000: Fire expenditures per capita were \$35 in local government areas with average jurisdiction populations from 2,500 to 5,000. This is 24 percent below the local government area average.

Average Jurisdiction Population from 1,000 to 2,500: Fire expenditures per capita were \$31 in local government areas with average jurisdiction populations from 1,000 to 2,500. This is 33 percent below the local government area average. These local government areas exhibited the lowest fire expenditures per capita of any jurisdiction population class.

Average Jurisdiction Population under 1,000: Expenditures per capita were \$37 in local government areas with average jurisdiction populations under 1,000. This is 20 percent lower than the local government area average.

Local government consolidations would likely lead to replacement of volunteer fire services with fire services using full time paid government employees, rather than expanding the less costly volunteer service model throughout the newly merged jurisdiction.

It seems, for example, inconceivable that volunteer fire services would replace the paid services of cities such as Buffalo if the proposed Erie County-Buffalo consolidation were to occur. It is thus likely that any consolidation of the lower cost town or village volunteer fire services with higher cost systems would increase costs and make local government *less* efficient.

Town Special Districts

There can be some confusion about the operation of town special districts in the state. The State Comptroller has indicated that there are 6,900 town special districts in New York.⁴⁵ This is in addition to the 3,400 reported government jurisdictions in the United States Census of Governments. The State Comptroller notes that town special districts rely to a large degree on property taxes.⁴⁶

Despite their “district” name, town special districts are not separate units of government. Because of name similarities they can be confused with special districts that are independent of general purpose government, such as school districts and fire districts.

In fact, town special districts are internal organizations that make it possible for towns to provide higher levels of service to more urban sections of their geography. The towns, not the special districts, may levy higher taxes or fees in the district areas. Examples of town special districts include such services as solid waste disposal, water, street lighting and sewers.

The vast majority of town special districts are governed by town boards, which must establish their budgets and operating procedures just like they establish budgets and operating procedures for departments not referred to as districts.⁴⁷ Town special districts are not authorized to collect taxes. This, again, is reserved for the town boards, which are in complete control of town special districts. This situation is no different than in cities, except that the special district model is not an organizational form used in cities.

As a result, town special districts are not a unique cause of higher property taxes. For example, a town with a town special district for street lighting may finance that service with property taxes, special assessments or other revenues. A city might do the same.

Thus, it is inappropriate to consider town special districts as separate jurisdictions. Town special districts are simply a form of government organization or control within the towns and materially no different than departments of towns, cities or villages in their operations and administration. They are not separate governmental entities.⁴⁸

Property Taxes

Property taxes are a particular concern because of their apparent unpopularity with the electorate. Some of the most notable “tax revolts” have been over property taxes, such as Proposition 13 in California, Proposition 2½ in Massachusetts and Measure 5 in Oregon. There are rising indications that New Yorkers are concerned about high property taxes. A recent poll in Dutchess and Ulster Counties indicates that approximately two-thirds of respondents do not consider property taxes a good way to finance education.⁴⁹

⁴⁵ Office of the New York State Comptroller, “Town Special Districts in New York: Background, Trends and Issues,” (March 2007), <http://www.osc.state.ny.us/localgov/pubs/research/townspecialdistricts.pdf>.

⁴⁶ Id.

⁴⁷ Those special districts that are not governed by the town board are governed by separately elected Commissioners. The overwhelming majority of Commissioner run special districts are located in Nassau County. See generally, Office of the New York State Comptroller, “Town Special Districts in New York: Background, Trends and Issues,” (March 2007), <http://www.osc.state.ny.us/localgov/pubs/research/townspecialdistricts.pdf>.

⁴⁸ Although not technically separate local governments, Commissioner run districts do have, in some instances, the authority to levy taxes and issue debt - see OSC, “Town Special Districts in New York: Background, Trends and Issues”, (March 2007), page 10. <http://www.osc.state.ny.us/localgov/pubs/research/townspecialdistricts.pdf>.

⁴⁹ Marist Poll “Inside Public Education How Dutchess and Ulster County Residents View Their Public Schools” (2007) www.maristpoll.marist.edu/dyson/Inside%20the%20Public%20Schools_2007.pdf.

New York’s high property taxes are to be expected in light of state policies. For example:

- ◆ As noted above, New York local governments collect a larger share of state and local taxes than in any other state. Local governments tend to rely to a large degree on property taxes. New York local governments are responsible for spending the fourth highest share of state and local expenditures among the states. This greater reliance on local government is the result of various factors. Perhaps the most important are state mandates and state policies, all of which are under the direct control of the Governor and the State Legislature.
- ◆ The state requires an unusually large share of public welfare spending at the local (principally county) level. New York has the highest local spending in the nation on public welfare, at \$513 per capita. This is nearly eight times the national average for the states. It is thus to be expected that county property taxes are high (Figure 27).
- ◆ New York has the second highest primary and secondary expenses per pupil in the nation. Property taxes are a principal financing mechanism for schools. Thus, again, it is to be expected that school property taxes will be high.
- ◆ Government employee expense is high in New York, representing the second highest per capita level in the nation. Personnel expense represents more than 70 percent of local government current expenditures in New York. There is some analysis that suggests New York’s high government employee cost is the result

Local Public Welfare Spending PER CAPITA BY STATE

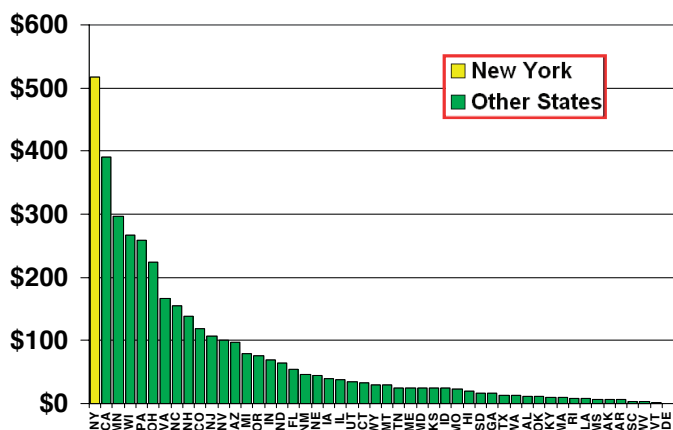


Figure 27

of expensive provision required under the Taylor Law.⁵⁰ Indeed, the increase in average state and local government employee wages and salaries has been 36 percent higher in New York than the national average since before the Taylor Law was enacted.⁵¹ This report does not provide the extent of analysis necessary to attribute New York’s higher personnel cost increase to the Taylor Law. However, it is clear that personnel expense in New York has been growing at an inordinate rate compared to other states since the Taylor Law was enacted (Figure 28).

Government Employee Compensation NEW YORK & OTHER STATES: CHANGE 1965-2005

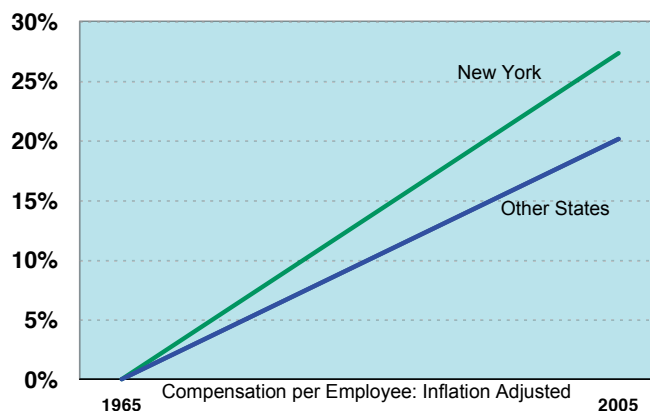


Figure 28

- ◆ The State of New York mandates various activities on the part of local governments. These increase taxes and can reduce the tax base. A 1999 report published by the Public Policy Institute of New York State, Inc. estimated that a \$5 billion reduction in state mandates can create 225,000 jobs in the state.⁵²

Moreover, despite spending considerably less per capita than cities, New York’s towns and villages rely to a greater degree on property taxes. This is, again the result of state policy. Cities and counties have additional revenue raising mechanisms and are thus not as heavily dependent upon property taxes.

As discussed previously in Chapter 3, New York’s high property taxes are a contributing factor to a combined state and local tax burden that is the highest in the nation.

⁵⁰ See for example E.J. McMahon and Terry O’Neil “Taylor Made; The Cost and Consequences of New York’s Public-Sector Labor Laws” Empire Center (October 2007); http://www.empirecenter.org/Documents/PDF/TaylorLaw_report_v21.pdf and Citizen Budget Commission “Local Taxes In New York State: Easing The Burden”, (December 6, 2007) <http://www.cbcny.org/CBC%20%20Local%20Taxes%20in%20NY%20%20FINAL1.pdf>.

⁵¹ The Taylor Law was enacted in 1965. This calculation compares 1965 and 2005 data. Over the same period, state and local government employment per capita in New York rose at a slightly lower rate than in the rest of the nation (46 percent compared to 49 percent). If total New York state and local government employee compensation had grown at the same percentage rate as in the rest of the nation, it is estimated that \$11.5 million less would have been spent in 2005. This is approximately the same amount the total revenue collected by all of the state’s cities, towns and villages (outside New York City). Calculated from U.S. Bureau of the Census government employment data (all figures in 2005).

⁵² Robert B. Ward, \$163 Lightbulb: How Albany’s Mandates Drive Up Your Local Taxes, (1999) <http://www.bcny.org/whatsnew/1999/1128mndt.htm>.

Implications

Despite these funding challenges, New York's towns and villages exhibit superior efficiency in the provision of government services. Among the core services, towns and villages spend less than cities per household in all of the counties that have cities outside of New York City. The towns and villages spend less per household than the statewide city average (excluding New York City) in all but one of the counties that do not have cities.⁵³

Overall, town and village spending is 41 percent less than city spending. If the state's towns and villages spent at the same rate as the cities, nearly \$4 billion in additional taxation would be required (Table 4 and Table 5).

There is no indication that New York's smaller jurisdiction based local governance system would be more efficient if consolidations were forced. Towns and villages, the most numerous forms of general purpose local governments, are generally more efficient than the cities, despite the theories to the contrary.

- ◆ Statewide, towns and villages spend 40 percent less per capita than cities on the core services.
- ◆ In metropolitan areas, towns and villages spend 43 percent less than cities per capita.
- ◆ Towns and villages have 57 percent less debt per capita than cities.
- ◆ Towns and villages spend 83 percent less per capita on fire services than cities.

	Cities	Towns & Villages	Difference
Expenditures per Capita	\$1,075	\$640	-40%
Expenditures per Capita: Metropolitan Areas	\$1,104	\$633	-43%
Debt per Capita	\$1,196	\$511	-57%
Fire Expenditures per Capita	\$ 207	\$35	-83%
Average Jurisdiction Population-All	\$37,146	3,639	-90%
Average Jurisdiction Population-Metropolitan	\$46,229	5,291	-89%

New York's smaller governments are more efficient, despite the fact that the average jurisdiction population in town and village areas is approximately one-tenth that of the cities.

Towns and Villages in the National Context

New York's towns and villages are remarkably efficient in their delivery of core public services compared to jurisdictions in other states. Despite New York's high government employee labor costs, New York town and village governments are competitive in their fiscal performance with local governments nationally. It is estimated that, for the sampled core of municipal services, New York towns spend \$637 per capita on an annual basis. This is only

⁵³ The higher spending in Hamilton County may be the result of the large seasonal (resort) population, which tends to increase per capita spending measures.

⁵⁴ 2005. Includes police, fire, natural resources, administration and parks and recreation. Estimated from US Bureau of the Census governments database.

**Table 5
Additional Spending at City Per Capita Rates Compared to Towns & Villages (By County)**

County	Difference	Per Capita	Per Household	Town/Village Spending Relative to Cities		Notes
				Per Household	Relative to Cities	
Albany	\$75,500,000	\$436	\$1,009	-35%		
Allegany	\$30,100,000	\$645	\$1,631	-54%		Based Upon Statewide City Average
Broome	\$61,400,000	\$401	\$951	-41%		
Cattaraugus	\$24,400,000	\$407	\$1,026	-45%		
Cayuga	\$30,400,000	\$569	\$1,439	-55%		
Chautauqua	\$58,300,000	\$615	\$1,504	-53%		
Chemung	\$34,700,000	\$585	\$1,430	-57%		
Chenango	\$20,100,000	\$521	\$1,309	-53%		
Clinton	\$56,400,000	\$923	\$2,284	-65%		
Columbia	\$24,800,000	\$446	\$1,086	-45%		
Cortland	\$7,200,000	\$328	\$823	-42%		
Delaware	\$4,700,000	\$117	\$281	-10%		Based Upon Statewide City Average
Dutchess	\$152,400,000	\$644	\$1,696	-51%		
Erie	\$281,800,000	\$454	\$1,096	-42%		
Essex	\$5,700,000	\$157	\$379	-13%		Based Upon Statewide City Average
Franklin	\$26,400,000	\$624	\$1,541	-53%		Based Upon Statewide City Average
Fulton	\$14,400,000	\$490	\$1,188	-57%		
Genesee	\$52,000,000	\$1,193	\$3,088	-71%		
Greene	\$19,400,000	\$494	\$1,195	-42%		Based Upon Statewide City Average
Hamilton	(\$3,100,000)	(\$684)	(\$1,555)	59%		
Herkimer	\$17,700,000	\$299	\$734	-31%		
Jefferson	\$52,000,000	\$798	\$2,060	-58%		Based Upon Statewide City Average
Lewis	\$16,800,000	\$664	\$1,768	-56%		Based Upon Statewide City Average
Livingston	\$44,300,000	\$689	\$1,788	-58%		
Madison	\$21,000,000	\$377	\$962	-47%		
Monroe	\$454,700,000	\$882	\$2,182	-63%		
Montgomery	\$6,200,000	\$206	\$497	-31%		
Nassau	\$330,800,000	\$260	\$763	-25%		
Niagara	\$58,400,000	\$543	\$1,332	-55%		
Oneida	\$56,300,000	\$445	\$1,081	-48%		
Onondaga	\$263,000,000	\$850	\$2,086	-63%		
Ontario	\$25,800,000	\$342	\$866	-36%		
Orange	\$69,000,000	\$266	\$759	-26%		
Orleans	\$25,600,000	\$803	\$2,125	-68%		Based Upon Statewide City Average
Oswego	\$78,800,000	\$871	\$2,264	-69%		
Otsego	\$28,800,000	\$608	\$1,476	-53%		
Putnam	\$41,600,000	\$509	\$1,456	-43%		Based Upon Statewide City Average
Rensselaer	\$34,500,000	\$389	\$957	-41%		
Rockland	\$28,200,000	\$98	\$296	-8%		Based Upon Statewide City Average
St Lawrence	\$19,800,000	\$231	\$576	-30%		
Saratoga	\$109,100,000	\$664	\$1,688	-53%		
Schenectady	\$25,300,000	\$299	\$710	-34%		
Schoharie	\$17,600,000	\$635	\$1,584	-54%		Based Upon Statewide City Average
Schuyler	\$11,700,000	\$609	\$1,532	-51%		Based Upon Statewide City Average
Seneca	\$18,700,000	\$779	\$1,959	-66%		Based Upon Statewide City Average
Steuben	\$34,400,000	\$444	\$1,105	-47%		
Suffolk	\$658,200,000	\$471	\$1,394	-40%		Based Upon Statewide City Average
Sullivan	\$20,400,000	\$276	\$690	-23%		Based Upon Statewide City Average
Tioga	\$41,700,000	\$805	\$2,096	-68%		
Tompkins	\$68,800,000	\$1,024	\$2,377	-67%		
Ulster	\$84,300,000	\$585	\$1,442	-50%		
Warren	\$27,400,000	\$560	\$1,349	-42%		
Washington	\$45,500,000	\$745	\$1,900	-63%		Based Upon Statewide City Average
Wayne	\$69,100,000	\$737	\$1,942	-62%		Based Upon Statewide City Average
Westchester	\$15,100,000	\$30	\$81	-2%		
Wyoming	\$31,600,000	\$728	\$1,905	-61%		Based Upon Statewide City Average
Yates	\$12,900,000	\$524	\$1,356	-44%		Based Upon Statewide City Average
Total	\$3,941,900,000	\$464	\$1,230	-41%		

7 percent above the average for other states (\$594 per capita).⁵⁴ By comparison, overall state and local spending in New York is 84 percent above the average of the other states.

Consolidation Proposals

Higher cost structures associated with consolidations are likely to force the cost of proposed government consolidations even higher than the existing combined levels of spending, making local government less efficient. For example:

- ◆ **Buffalo:** At city spending levels, a consolidated Erie County government would spend \$282,000,000 more annually than at the town and village spending levels. This is nearly \$1,100 per household.
- ◆ **Syracuse:** At city spending levels, a consolidated Onondaga County government would spend \$263,000,000 more annually than at the town and village spending levels. This is nearly \$2,100 per household.
- ◆ **Binghamton:** At city spending levels, a consolidated Broome County government would spend \$61,000,000 more annually than at the town and village spending levels. This is nearly \$950 per household.

Summary

In general, the New York data shows that smaller units of government are more efficient than larger units in New York. In each of the four measures examined above, the highest spending per capita was in the largest categories of local government units - those with over 100,000 populations. In all four measures, the lowest spending levels per capita were in some of the smallest categories of local government units. In three cases, the most efficient had average populations per jurisdiction of 1,000 to 2,500. In one case, the most efficient category was the local government units with average jurisdiction populations under 1,000 (Table 6). The bigger-is-better theory of government efficiency is thus unsupported by the performance of local governments in New York.

Factor	Average Jurisdiction Population							
	Over 100,000	50,000 - 100,000	25,000 - 50,000	10,000 - 25,000	5,000 - 10,000	2,500 - 5,000	1,000 - 2,500	Under 1,000
Expenditures per Capita	\$1,323	\$1,213	\$944	\$806	\$709	\$602	\$545	\$773
Expenditures per Capita: Metropolitan Areas	\$1,323	\$1,213	\$1,044	\$794	\$677	\$562	\$514	\$697
Debt per Capita	\$2,001	\$1,054	\$1,060	\$815	\$736	\$652	\$483	\$416
Fire Expenditures per Capita	\$295	\$263	\$167	\$120	\$52	\$35	\$31	\$37

Shaded areas indicate maximum and minimum expenditure levels.

Conclusion #3

There is a strong association between smaller units of local government and greater government efficiency in New York.

Forced local government consolidation would likely lead to higher taxes and spending levels, reduced government efficiency, and a less competitive New York.

- ◆ There is a strong association in New York between greater government efficiency and smaller units of local government.
- ◆ The association between greater government efficiency and smaller units of local government is evident both in metropolitan and non-metropolitan areas.
- ◆ Any move to consolidate fire and emergency services would likely lead to the elimination of the volunteer services, necessitating large property tax increases.
- ◆ As a result, local government consolidation is likely to lead to less government efficiency and a less competitive New York.

Governor Spitzer's Executive order also presumes that "smart growth" is a means to enhanced government efficiency and competitiveness, and a better quality of life. As with the case of local government consolidation, the disadvantages of smart growth can outweigh any advantages.

Despite the assumption in the Executive order that smart growth would aid New York's competitiveness, there is a considerable body of opinion that the opposite is true.⁵⁵ Smart growth is only evaluated here to the extent of its elements that impact the cost of living, which is a principal factor in state competitiveness.⁵⁶ Other aspects of smart growth are not evaluated in this report. To that end, smart growth is associated with materially higher housing prices and, as a result, a higher cost of living.

Smart Growth (Prescriptive Planning)

In recent years there has been a trend away from historic, responsive land use planning systems to the more controlled or "prescriptive" planning systems, which are called "smart growth." Smart growth is a set of urban land use policies that seek to control the suburbanization or physical expansion of urban areas (suburbanization is often called "urban sprawl").⁵⁷ It employs such strategies as urban growth boundaries, limits on building permits, development moratoria, large lot zoning (rural zoning), large areas made off-limits to development and overly exorbitant development impact fees. Part of the purpose of smart growth is to direct (or force) growth to urban cores and away from suburban areas. This is particularly true in markets that also employ regional planning, where land use is controlled at the county, multi-county, or metropolitan area level.

Cost of Living, Housing Affordability and Smart Growth

There are few factors of state competitiveness more important to the quality of life than the cost of living. Central to the cost of living is housing affordability.

The United States is a large consumer market that has had generally modest cost of living differentials between regions with respect to most goods and services. The one substantial exception is the cost

of housing, which represents the most significant cost of living difference between metropolitan areas. Data from ACCRA, the leading source for comparative cost of living information, indicates that two-thirds of the variation in large US metropolitan area costs of living is attributable to housing cost differentials.⁵⁸

House prices have increased substantially compared to incomes in the United States since 2000. However, the increases have not occurred in all markets. A "two-speed" housing economy has developed, with some metropolitan areas experiencing huge increases, while others have experienced little increase at all.⁵⁹ The "housing bubble," as it has been frequently called, is not a national trend, but has rather been limited to metropolitan areas with overly prescriptive land use policies.

Liberal economist Paul Krugman of *The New York Times* and conservative economist Thomas Sowell of the Hoover Institution both attribute prices in the higher cost markets to more restrictive land use regulation.⁶⁰ Moreover, the causal relationship between smart growth policies and excessive house price escalation has been cited by some of the world's top economists (Box 5).

Land Rationing Raises House Prices

Smart growth rations land for development by severely restricting where development can occur, especially on the urban fringe. The principal land rationing mechanisms are urban growth boundaries and large lot zoning, which drive up the price of lots for development on the urban fringe. The inevitable result is to raise housing prices and reduce housing affordability. A report by the Canadian Mortgage and Housing Corporation (a Canadian federal government corporation) summarizes the issue:⁶¹

It is a fundamental law of economics that prices rise when supply is scarce. This law is true regardless of whether the scarcity is intrinsic or the result of government policies such as zoning. Zoning rules can artificially constrain the supply of developable land and available lots in various ways. Minimum lot sizes—which are extremely common throughout much of the United States—effectively reduce the number of lots available

⁵⁵ A comprehensive inventory of proponent arguments can be found in Robert W. Burchell, George Lowenstein, William R. Dolphin, Catherine C. Galley, Anthony Downs, Samuel Seskin, and Terry Moore, *Costs of Sprawl—2000*. Washington, DC: Transportation Research Board, 2002. Critiques of the anti-suburban perspective can be found in Shlomo Angel, *Housing Policy Matters: A Global Analysis*; Oxford University Press, 2000; Robert Bruegmann, *Sprawl: A Compact History* (Chicago: University of Chicago Press, 2005); William T. Bogart, *Don't Call It Sprawl: Metropolitan Structure in the 21st Century* and Wendell Cox, *War on the Dream: How Anti-Sprawl Policy Threatens the Quality of Life* (New York: Iuniverse, 2006). Generally proponents claim various benefits from smart growth policies, such as reduced traffic congestion and less intense air pollution. On the other hand, critics claim that smart growth increases traffic congestion, makes air pollution more intense, increases housing prices and reduces low-income and minority home ownership.

⁵⁶ There is a perception that urbanization is consuming agricultural land and farmland. In fact, since 1950, six times as much farmland has been retired as has been consumed to house the nation's 125,000,000 new urban residents (<http://www.demographia.com/db-agtxok.htm>). Nonetheless, agricultural production has doubled in the same period of time. The US Bureau of the Census reports that 2.6 percent of the nation is under urban development (2000). The state of New York was 8.3 percent developed in 2000. Calculated from U.S. Department of Agriculture and U.S. Bureau of the Census data.

⁵⁷ "Urban sprawl" or "sprawl" is a pejorative term. An objective definition is provided by Merriam-Webster as "the spreading of urban developments (as houses and shopping centers) on undeveloped land near a city." This describes the process (suburbanization) that has accounted for virtually all urban growth throughout the high income world for decades (summarized at www.demographia.com/db-highmetro.htm) and in much of the developing world as well. "Urban sprawl" is often associated with lower urban population densities, however, the world's most dense urban areas (Hong Kong and Mumbai, see: *Demographia World Urban Areas*, <http://www.demographia.com/db-worldua.pdf>) have been referred to as "sprawling," which indicates the looseness associated with the term.

⁵⁸ Data from www.accra.org. Housing costs are estimated by ACCRA to be 28 percent of overall household costs.

⁵⁹ There have been recent price decreases in some markets. However, the price decreases have far from nullified the inordinate price escalation that has occurred in recent years.

⁶⁰ <http://www.nytimes.com/2005/08/08/opinion/08krugman.html>. See also <http://article.nationalreview.com/print/q=YjgwYzI4Njg3OWMxOGUzYmY0ZDMwYzYwNzkzYjc1NDI>

⁶¹ Canadian Mortgage and Housing Corporation, *The Impact of Zoning and Building Restrictions on Housing Affordability* (Ottawa, ON: CMHC, 2005), <https://www03.cmhc-schl.gc.ca/b2c/b2c/init.do?language=en&shop=Z01EN&areaID=0000000044&productID=00000000440000000007>

for residential construction. Growth boundaries and greenbelts can do the same. Furthermore, a variety of other non-zoning building restrictions can have the same ultimate effect as reducing land supply and thus can also increase housing prices.

Qualified Denials and Failed Forecasts

Smart growth proponents generally deny the economic evidence associating smart growth policies with housing cost escalation. However, the denials are undermined by the proponents own research. *The Costs of Sprawl-2000*, perhaps the leading smart growth volume, notes that housing cost increases can result from seven of its ten recommended policies (Table 7).

A study by the Brookings Institution has been frequently cited to prove that house prices are not increased by prescriptive planning.⁶² However, the same study indicates that “The housing price effects of growth management policies depend heavily on how they are designed and implemented. If the policies tend to restrict land supplies, then housing price increases are expected.” In fact, consistent with the Brookings prediction, smart growth policies have restricted the supply of land and unprecedented housing cost escalation has been the result in many urban areas of the United States and other countries.⁶³

Smart growth advocates have even claimed that their strategies would improve housing affordability. *The Costs of Sprawl-2000* predicted

Box 5: Research Shows Prescriptive Planning Associated with House Price Escalation

There is general agreement among top world economists that prescriptive planning (smart growth) is associated with severe housing cost escalation. The situation is summarized by New York University Professor Shlomo Angel, a co-author of the United Nations and World Bank housing indicators program: *Enabling mortgage finance and subsidy policies, for example, can increase the demand for housing, while heavy-handed regulations and infrastructure shortages can constrain supply. The overall result can be a shortage of housing, accompanied by high prices and low affordability for all. If, on the other hand, supply-side policies are enabling, then housing supply may be able to expand quickly to meet demand, with the result that higher demand will result in more housing at affordable prices.* The economic literature echoes Dr. Angel and confirms that housing cost escalation is associated with prescriptive planning policies:^{II}

- A United Kingdom government report by Kate Barker, a member of the Monetary Policy Committee of the Bank of England, blamed that nation’s loss of housing affordability on its prescriptive land use policies under the Town and Country Planning Act of 1947.^{III}
- A New Zealand government report by Arthur Grimes, Chairman of the Board of the Reserve Bank of New Zealand blamed the loss of housing affordability in the nation’s largest urban area, Auckland, on prescriptive land use policies.^{IV}
- Reserve Bank of Australia Governor Glenn Stevens told a parliamentary committee that “An increase in state government zoning regulations is a significant factor driving up the cost of housing.” He also noted the increase in local and state government levies on new developments as a driver of higher housing prices.^V
- Former Reserve Bank of New Zealand Governor Donald Brash wrote that the affordability of housing is overwhelmingly a function of just one thing, the extent to which governments place artificial restrictions on the supply of residential land.^{VI}
- An Organization for Economic Cooperation and Development (OECD) report noted an association between strongly regulated land markets and higher housing prices.^{VII}
- Research by Harvard University’s Edward Glaeser, the University of Pennsylvania Wharton School’s Joseph Gyourko and others shows a strong relationship between prescriptive land use policies and higher housing prices.^{VIII}
- Glaeser et al further show that Boston’s house prices had been inflated 60 percent by scarcity created by prescriptive planning that relies heavily on large lot zoning (rural zoning).^{IX}

^{II} Shlomo Angel, *Housing Policy Matters: A Global Analysis*, Oxford University Press, 2000, p. 19.

^{III} Kate Barker (2004 and 2006). *Review of Housing Supply: Delivering Stability: Securing Our Future Housing Needs: Final Report—Recommendations*. Norwich, England: Her Majesty’s Stationery Office. www.hm-treasury.gov.uk/consultations_and_legislation/barker/consult_barker_index.cfm, and *Barker Review of Land Use Planning*, http://www.hm-treasury.gov.uk/media/4EB/AF/barker_finalreport051206.pdf.

^{IV} Arthur C. Grimes, *Housing Supply in the Auckland Region*, Centre for Housing Research Aotearoa New Zealand (2007). <http://www.hnzc.co.nz/chr/pdfs/housing-supply-in-the-auckland-region-2000-2005.pdf>.

^V “RBA says land shortage driving house prices,” *Adelaide Now*, 17 August 2007, <http://www.news.com.au/adelaidenow/story/0,22606,22260763-5005962,00.html>.

^{VI} Donald Brash, *Introduction to the 4th Annual Demographia International Housing Affordability Survey*, <http://www.demographia.com/dhi.pdf>.

^{VII} “Recent House Price Developments: The Role of Fundamentals,” *OECD Economic Outlook* #78 (2005), <http://www.oecd.org/dataoecd/41/56/35756053.pdf>.

^{VIII} Edward L. Glaeser and Joseph Gyourko, *The Impact of Zoning on Housing Affordability*, (Cambridge, MA: Harvard Institute of Economic Research, 2002).

^{IX} Edward L. Glaeser, Jenny Schuetz, and Bryce Ward, *Regulation and the Rise of Housing Prices in Greater Boston*, Pioneer Institute for Public Policy Research and Rappaport Institute for Greater Boston, Kennedy School of Government, Harvard University (2005).

⁶² Arthur C. Nelson, Rolf Pendall, Casey J. Dawkins and Gerrit J. Knaap. *The Link Between Growth Management and Housing Affordability: The Academic Evidence*, Washington: Brookings Institution, 2002.

⁶³ See *4th Annual Demographia International Housing Affordability Survey*, <http://www.demographia.com/dhi.pdf>.

⁶⁴ Robert W. Burchell, George Lowenstein, William R. Dolphin, Catherine C. Galley, Anthony Downs, Samuel Seskin, and Terry Moore, *Costs of Sprawl—2000*. Washington, DC: Transportation Research Board, 2002. The *Costs of Sprawl—2000* projection related to new housing. This analysis refers to existing housing, which typically exhibits similar cost increase trends and is closely related to the price of new housing. Thus, the increase in existing house prices is associated with similar increases in new house prices.

Strategy	Potential to Increase Housing Prices
1 Regional Urban Growth Boundaries	YES
2 Local Urban Growth Boundaries	YES
3 Regional Urban Service Districts	YES
4 Local Urban Service Districts	YES
5 Large-Lot Zoning in Rural Areas	YES
6 High Development Fees & Exactions	YES
7 Restrictions on Physically Developable Land	YES
8 State Aid Contingent on Local Growth Zones	
9 Transferable Development Rights	
10 Adequacy of Facilities Requirements	

From Table 15.4, "Costs of Sprawl---2000"
Potential to Increase Housing Prices from "Costs of Sprawl---2000"

Smart Growth Prices: Predicted & Actual
PRESCRIPTIVE V. RESPONSIVE MARKETS

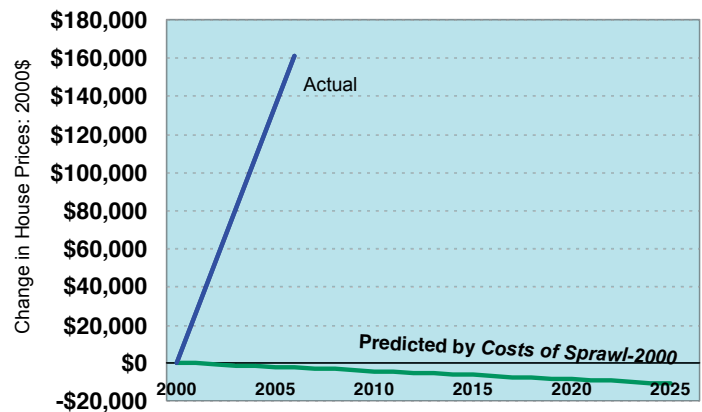


Figure 29

that smart growth (prescriptive planning policies) would reduce average new house costs \$11,000 (inflation adjusted) per unit between 2000 and 2025 relative to areas under responsive planning policies.⁶⁴

incomes. In the responsive planning markets, house prices remained virtually constant relative to household incomes (Figure 31).

At this rate, a reduction in costs of more than \$3,000 per unit would have occurred between 2000 and 2006.

The reality was starkly different. In just six years (from 2000 to 2006), median house prices rose more than \$160,000 in prescriptive planning areas relative to prices in markets with responsive planning (Figure 29). Including mortgage payments and interest, the cost of the median priced house has risen approximately six times the 2000 median household income.

Housing Affordability: Trends in the Largest Markets

Housing affordability is measured by the "Median Multiple" (Box 6), which is the median house price divided by the median household income.⁶⁵ The Median Multiple has historically averaged under 3.0 in the nation's largest responsive planning markets between 1980 and 2000.

A review of the nation's top ten housing markets (metropolitan areas) reflects the association between smart growth and the price of housing. Four of the markets have widespread smart growth policies and four can be classified as having little or no smart growth policies (responsive planning). The smart growth markets experienced extraordinary house price inflation relative to incomes between 2000 and 2006, more than doubling relative to household

Median Multiple
10 LARGEST US MARKETS: 2000 & 2006

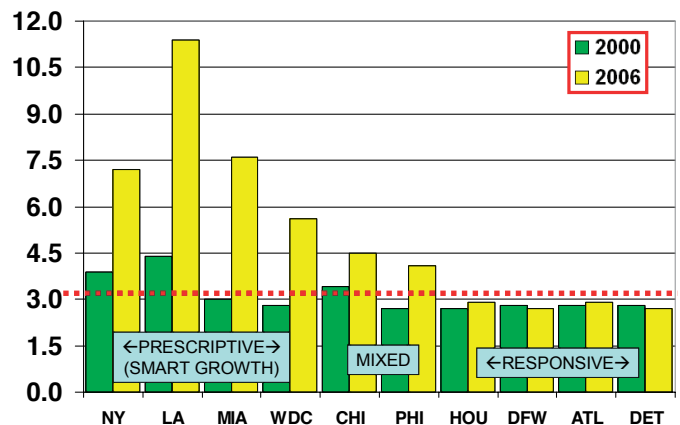


Figure 31

A substantial house price gap has emerged between prescriptive (smart growth) markets and more responsive planning markets. The four smart growth markets in Figure 31 had an average Median Multiple of 3.5 in 2000, which expanded to 8.0 by 2006. The more traditional metropolitan markets had a Median Multiple of

Box 6: Median Multiple: Measuring Housing Affordability

The Median Multiple is the median house price divided by the median household income. The Median Multiple is a widely used indicator of housing affordability in urban markets. It is recommended by the World Bank and the United Nations.^X More elaborate indicators, which may include mortgage interest rates and other factors, mask the structural elements of house pricing. They tend to be not well understood outside the financial sector, though are important to industry analysts. The Median Multiple provides an easily understood indicator of the structural health of residential markets and facilitates meaningful housing affordability comparisons, both between national and international markets and over time. Historically, most markets have exhibited Median Multiples of 3.0 or below.

^X Promoting Sustainable Human Development, United Nations, <http://www.un.org/esa/sustdev/natlinfo/indicators/worklist.htm> and http://esl.jrc.it/envind/un_meths/UN_ME050.htm and Sectoral Indicators, The World Bank, <http://www.worldbank.org/html/opr/pmi/urban/urban006.html>.

⁶⁵ Medians are used rather than means (averages). The median is the "middle" value. Means tend to be skewed upward by the most expensive houses and the highest incomes. As a result, medians tend to be more reflective of the experience of more households.

2.8 in 2000 and remained at 2.8 in 2006. Housing affordability was virtually destroyed in the prescriptive markets, but remained virtually unchanged in the responsive markets.

The result has been serious increases in purchase and mortgage costs in the prescriptive markets, compared to the responsive markets (Figure 32). This leads to a lower standard of living in the smart growth markets, as residents have less to spend on consumer goods other than housing.

- ◆ The first problem is that the same easier credit arrangements have been available in all of the markets. If the credit-induced demand were the cause of higher housing prices, then all markets, rather than just some, would have experienced the price escalation.
- ◆ The second problem is that demand, in and of itself, does not raise prices. Demand raises prices only where there are material supply constraints. Generally, responsive markets have only modest supply constraints, while prescriptive markets are typified by substantial supply constraints.

House Price & Financing

SMART GROWTH & RESPONSIVE MARKETS: 2000-2006

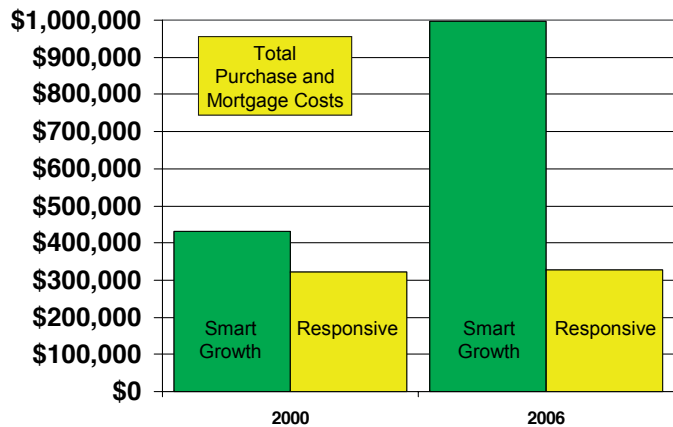


Figure 32

Smart Growth and Household Budgets

The impact of smart growth on household budgets varies widely by metropolitan market. In 1996, mortgage payments on the median priced house equaled 24 percent of median household income in the prescriptive markets (New York, Los Angeles, Miami and Washington). By 2006, mortgage payments on the median priced house had risen to 54 percent of median household income. In contrast, in the four responsive markets, mortgage payments equaled 19 percent of median household income in both 2000 and 2006 (Figure 33).

Middle income households will be increasingly less able to afford today's median house prices. Future households may have to accept less value in housing. For example, new house sizes are already declining in Portland, which has some of the most comprehensive smart growth policies.⁶⁶ Where house prices rise materially in relation to income, the quality of life necessarily declines, at a minimum because there is less income left over after paying the mortgage to purchase other goods and services.

Demand and Housing Affordability

It has been suggested that recent house price increases are the result of stronger demand, which has been driven by the availability of more liberal credit. This explanation fails for two reasons:

Mortgage/Income Ratio
MEDIAN HOUSE MORTGAGE/MEDIAN HOUSEHOLD INCOME

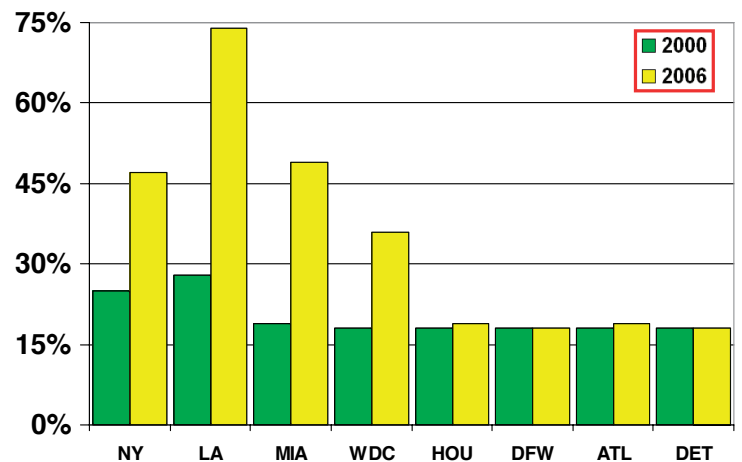


Figure 33

The markets with *less* house price inflation have had *greater* demand, not less. The population growth rates in the four markets with little housing cost increase relative to incomes has been nearly 2.5 times that of the markets with substantial housing cost inflation. The population growth rates of Dallas-Fort Worth, Houston and Atlanta were all at least 50 percent more than the highest growth rate among the metropolitan areas with substantial house price inflation (Washington).⁶⁷

The responsive planning markets have been able to supply the needed new housing to accommodate demand without an inordinate increase in house prices relative to household incomes. In prescriptive or smart growth areas, however, the planning systems have been overwhelmed and have failed to permit sufficient new housing to be provided to supply the demand. The result, consistent with economic theory, is higher house prices relative to household incomes.

Housing Affordability: Trends in New York

New York is a microcosm of the national situation. In the New York City metropolitan area, housing costs have escalated significantly. Smart growth strategies of large lot zoning and large geographical development prohibitions are widely used in this area (Figure 36).⁶⁸

⁶⁶ Sonny Conder and Karen Larson, Metro Single Family Home Price Trends: Donuts without Holes and Turnips without Blood, Portland: Metropolitan Regional Government; http://www.metro-region.org/library_docs/maps_data/sfrpricestudy1999_2000.pdf.

⁶⁷ Atlanta, Houston and Dallas-Fort Worth have the highest demand among metropolitan areas with more than 5,000,000 population.

These are the three fastest growing large metropolitan areas in the high-income world (see: <http://www.demographia.com/db-5metrogrowth.pdf>).

⁶⁸ Especially in northwestern New Jersey.

Median Multiple

MAJOR NEW YORK MARKETS: 2000-2006

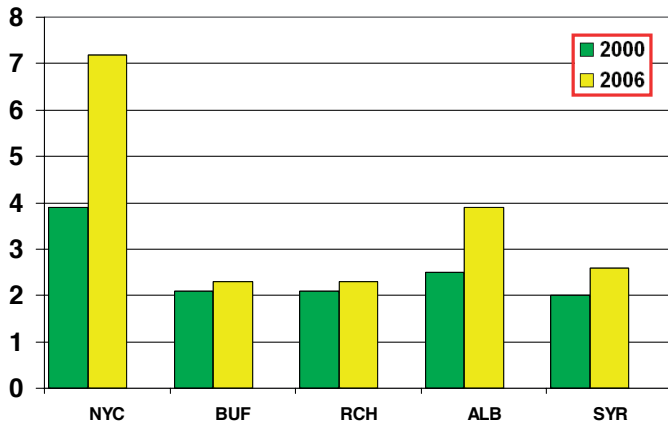


Figure 36

House Cost & Financing Trend

MAJOR NEW YORK MARKETS: 2000-2006

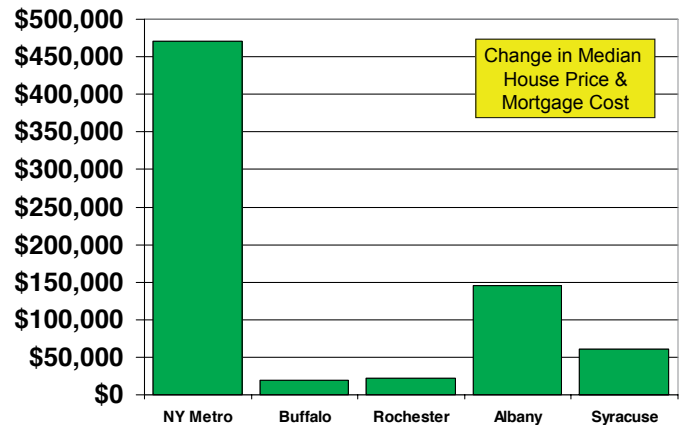


Figure 37

As a result, the Median Multiple for this area rose more than 3 points (3 years of median income) from 2000 to 2006.⁶⁹ During the same time frame, the cost of purchasing and financing the median price house increased substantially (\$470,000).⁷⁰ Thus, the New York City area is already paying a heavy price for its smart growth strategies. Not only are home buyers paying more than they would have before, but the metropolitan area also suffered a net domestic migration loss of 1,400,000 residents between 2000 and 2006.⁷¹

By contrast, housing costs have remained relatively stable or have increased moderately in major upstate markets. Purchase and mortgage costs have risen a more modest \$145,000 in Albany and \$60,000 in Syracuse. Rochester and Buffalo costs have risen approximately \$20,000 (Figure 37).⁷²

The impact of smart growth on household budgets in the New York City metropolitan area is substantial. In 2000, mortgage payments on the median priced house equaled 27 percent of median household income. By 2006, mortgage payments on the median priced house had risen to 49 percent of median household income. In contrast, in the major upstate metropolitan markets, mortgage payments rose from 15 percent to 19 percent of median household income from 2000 to 2006 (Figure 38).

The evidence indicates that smart growth's principal policies substantially raise the price of housing. This means that they increase the cost of living and diminish the quality of life. A household that spends more on housing will have less to spend on other goods. In the longer run, this is likely to lead not only to lower rates of home ownership but also generally lower quality housing for middle income households.

Mortgage/Income Ratio: New York

MEDIAN HOUSE MORTGAGE/MEDIAN HOUSEHOLD INCOME

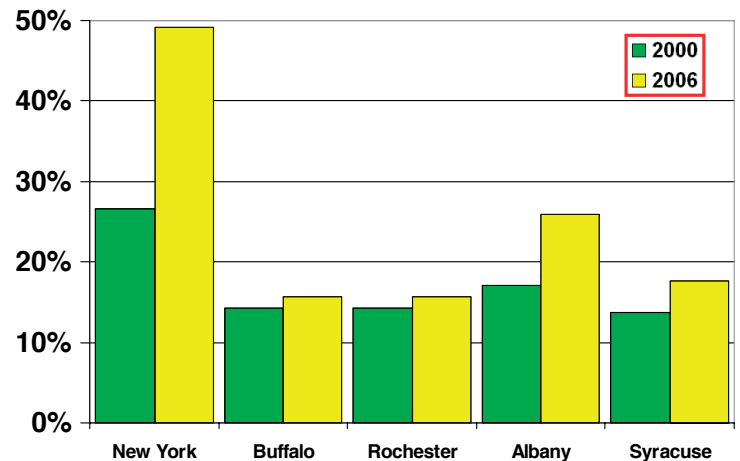


Figure 38

⁶⁹ Includes suburban areas in the metropolitan area outside the state of New York.

⁷⁰ Assumes a 10 percent down payment and a 30 year fixed rate mortgage at 6.5 percent. All figures adjusted for inflation and income changes since 1996.

⁷¹ US Bureau of the Census data. The issue of housing affordability and domestic migration is discussed in greater detail in Section 6.

⁷² Low housing prices can be found in rapidly growing markets (such as Atlanta, Dallas-Fort Worth, Houston and Austin) and slower growing areas, such as Buffalo, Rochester and Syracuse. At the same time high housing prices relative to income can be found in fast growing areas, such as Phoenix and Las Vegas and in slow growing areas, such as Liverpool, Manchester and Birmingham in the United Kingdom and Adelaide in Australia (see *Demographia International Housing Affordability Survey*, <http://www.demographia.com/dhi-ix2005q3.pdf>).

Conclusion #4

There is a strong association between regional planning, smart growth and the loss of housing affordability. Imposition of regional planning and smart growth would be likely to raise the cost of living, making New York less competitive.

Enormous housing affordability losses have been associated with regional planning and smart growth land use strategies. In smart growth markets with more than 1,000,000 population, median house prices have risen \$160,000 relative to non-smart growth markets, just between 2000 and 2006.

- ◆ The resulting higher housing costs translate into a higher cost of living and make an area less competitive. This is illustrated by dramatic shifts in domestic migration patterns that have occurred as housing prices have escalated in some markets around the nation.
- ◆ There is an emerging consensus that regional planning and smart growth seriously retard housing affordability. Donald Brash, former Governor of the Reserve Bank of New Zealand has urged that many of smart growth's policies, including urban growth boundaries be outlawed because of the damage they do to households and economies.

During the latter half of the 20th century, New York transitioned from being one of the nation's most competitive states to one of the least competitive. Because of its world class status, New York City and its suburbs have remained more competitive than the rest of the state. However, even with New York City's pre-eminence in world financial markets, concerns have been expressed that its competitiveness is threatened.⁷³ Using population and net domestic migration trends as measures, the impacts of consolidation and smart growth on New York's competitiveness can be compared on a national, regional and intra-state basis. This analysis shows no association between economic competitiveness and either government consolidation or smart growth policies.

Population Trends

For most of the nation's history, New York ranked first among the states in population. However, by the late 1960s, New York had been passed by California. In the 1990s, Texas displaced New York. At current growth rates, Florida is likely to become the third largest state early in the next decade, with New York falling to fourth.

- ◆ New York's share of national population growth fell from 11 percent between 1900 and 1935 to 7 percent between 1935 and 1970 and finally to 1 percent between 1970 and 2005. New York accounted for 9.5 percent of the nation's population in 1900 and 10.2 percent in 1935. In 1970, New York still accounted for 9.0 percent of the population. By 2005, New York's population share had dropped to 6.5 percent of the national total.
- ◆ New York's slow population growth has continued into the 2000s. From 2000 to 2007, New York grew 1.6 percent, which is less than one-quarter of the national average (7.1 percent). New York ranked 42nd in growth out of the 50 states (Figure 39).
- ◆ New York's population growth of 1.6 percent from 2000 to 2007 is below the 2.0 percent average of neighboring states. Three neighboring states grew faster than New York (New Jersey, Vermont and Connecticut), while two states grew more slowly (Massachusetts and Pennsylvania). However, New York's growth rate dropped substantially during this period. Between 2005 and 2007, New York grew more slowly than all of its neighbors, while Pennsylvania emerged as the fastest growing neighbor over the same period (Figure 40).
- ◆ Among the ten largest states, New York ranked 7th in population growth between 2000 and 2007, at approximately one-fifth the average growth rate of 7.8 percent for these states (Figure 41). New York experienced a substantial drop in its growth rate during this period. In 2000-2001, New York grew 0.4 percent. By 2006-2007, the growth rate had fallen to under 0.1 percent (over the same period, California's growth rate was cut nearly in half).

Population Growth STATES: 2000-2007

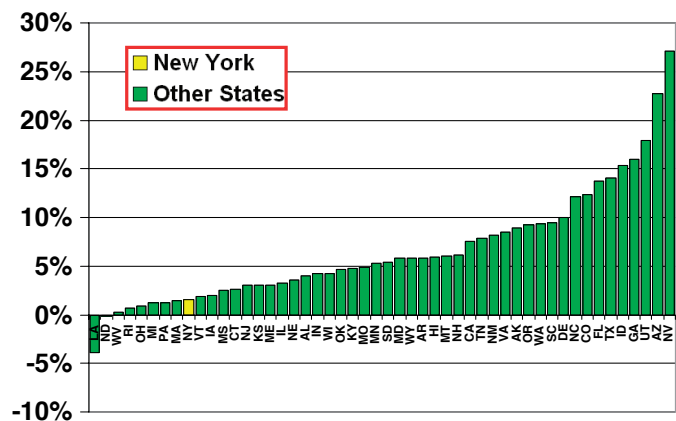


Figure 39

Population Growth: Annual Rate NEW YORK & NEIGHBORING STATES: 2000-2007

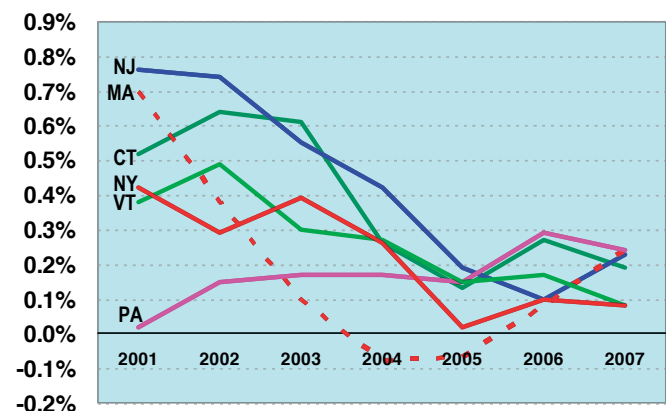


Figure 40

Domestic Migration

Net domestic migration is probably the best indicator of a state's competitiveness. Domestic migration is the movement of people between areas within the United States.⁷⁴ Net domestic migration indicates the attractiveness to people of a state or area relative to other states or areas. Generally, if there are significant net domestic migration gains, it can be expected that there is greater employment than where domestic migration rates are lower.

Domestic migration — movement within the nation — may be thought of as a “leading indicator” (predicting indicator) of population growth. Given the close relationship between population growth and job creation, domestic migration is also a leading indicator of economic growth.⁷⁵ This is because households that move within the nation generally have higher incomes and greater wealth than immigrant households or people added to the population by birth.

⁷³ Charles Schumer and Michael Bloomberg, “to Save New York Learn from London,” *The Wall Street Journal*, November 1, 1996

(http://www.mikebloomberg.com/en/news/wall_street_journal_to_save_new_york_learn_from_london_by_charles_schumer_and_michael_bloomberg).

⁷⁴ Domestic migration is different than population growth. It does not include the natural increase in population (births minus deaths) and it excludes international migration.

⁷⁵ Population growth tends to lead to economic growth.

Population Growth
TOP TEN STATES: 2000-2007

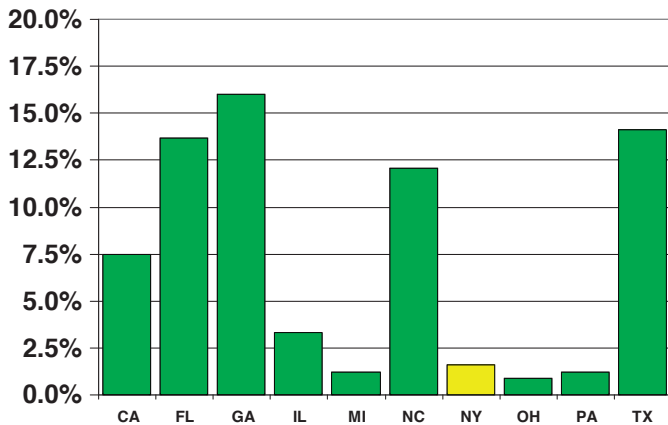


Figure 41

In New York, a huge net domestic migration loss rate suggests that the state is becoming *less* competitive. New York’s net rate of out-migration exceeds that of all states, including Louisiana, which lost more than 250,000 domestic migrants in the year following Hurricane Katrina. New York’s net domestic migration loss rate is more than 50 percent greater than Massachusetts, which ranked third in loss rate (Figure 42). New York’s domestic migration loss of 1.2 million was well above that of California, which had the second largest net domestic migration loss, at 0.9 million.⁷⁶

Net Domestic Migration
STATES: 2000-2007

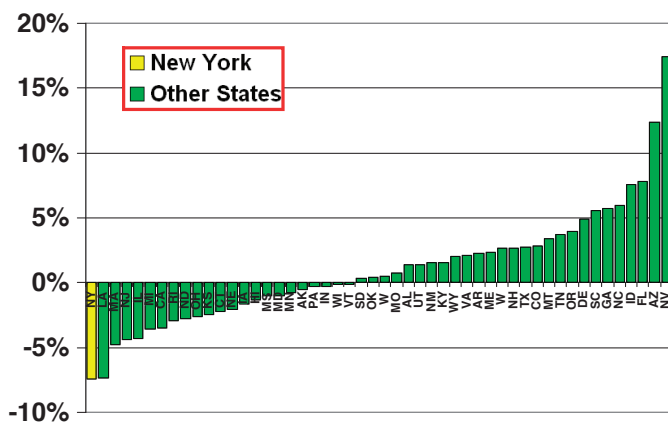


Figure 42

This high rate of domestic migration *loss* has been costly to the economy. Between 2000 and 2006, the per capita income of people who moved out of the state was slightly higher than that of those who moved in (4 percent higher). The total loss in personal income is estimated at more than \$27 billion, or nearly 7 percent of total personal income in 2006.⁷⁷

Overall, New York and its neighboring states had a combined net domestic migration loss of 2.2 million between 2000 and 2007. More than 1.4 million of this loss was in New York State. Generally, New York’s neighboring states experienced significant domestic out-migration from 2000 to 2007. All neighboring states except Vermont and Pennsylvania lost more than one percent of their residents to other states. New York’s 7.4 percent net domestic migration loss was well above that of Massachusetts and New Jersey, which had net domestic migration losses exceeding 4 percent. New York and all of its neighboring states generally experienced rising out-migration rates during the period, with the exception of Pennsylvania, which has experienced an improvement (Figure 43).

Net Domestic Migration
NEW YORK & NEIGHBORING STATES: 2000-2007

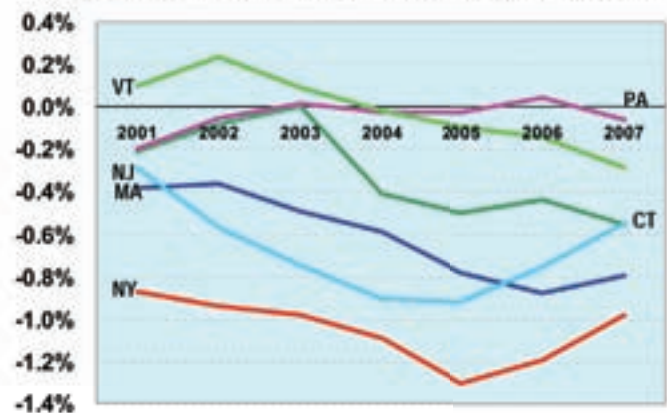


Figure 43

The 10 largest states had a net domestic migration loss of 1,060,000 between 2000 and 2007, though when New York is excluded there is a net gain of nearly 800,000. New York experienced the highest net domestic migration loss rate among the largest states. New York’s net domestic migration loss of 7.4 percent was substantially greater than that of Illinois, which had the second highest rate, at 4.3 percent. Michigan and California also had large domestic migration losses, at 3.6 percent and 3.5 percent respectively (Figure 44).

Domestic Migration within New York

Net domestic migration rates have not been level within the state. The historically faster growing New York City has lost domestic migrants at a much higher rate than Upstate New York between 2000 and 2006 (Figures 45 and 46).

- ◆ New York City had a net domestic migration loss of 946,000, or 11.8 percent of the 2000 population. The New York City suburbs had a net domestic migration loss of 170,800 or 4.2 percent of the 2000 population. Overall, that portion of the New York City metropolitan area within New York State had a net domestic migration loss of 1,116,000, or 9.2 percent of the 2000 population.⁷⁸

⁷⁶ California has been one of the nation’s fastest growing states since World War II. The recent reversal in domestic migration trends has been associated with the state’s expensive housing, which is the highest in the nation relative to incomes.

⁷⁷ Based upon Internal Revenue Service data (latest) for adjusted gross incomes of domestic migrants.

⁷⁸ This 9.2 percent loss is greater than the 7.7 percent net domestic migration loss for the overall New York City metropolitan area, which includes parts of Connecticut, New Jersey and Pennsylvania. Net domestic migration losses were smaller in the areas of the New York City metropolitan area in New Jersey and Pennsylvania. The total New York City metropolitan area domestic migration loss, including outside New York state, was 1,400,000.

Net Domestic Migration
TOP TEN STATES: 2000-2007

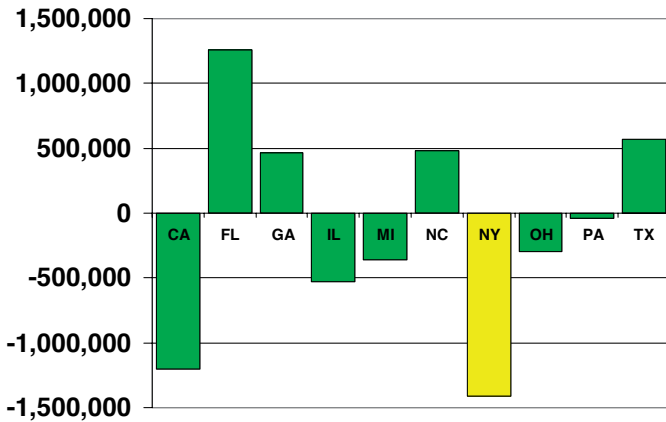


Figure 44

Net Domestic Migration: New York
BY AREA

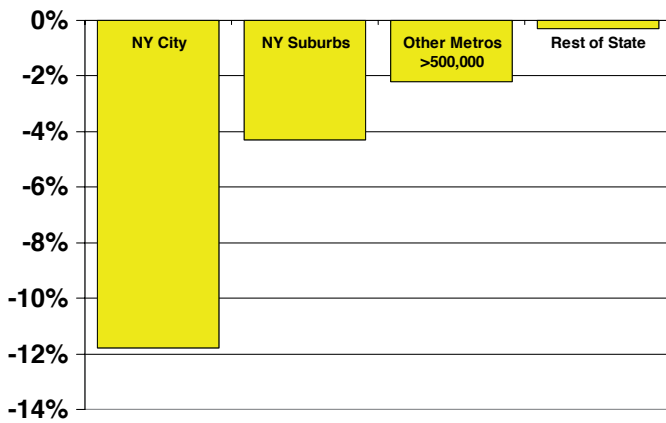


Figure 45

Net Domestic Migration: New York
MAJOR METROPOLITAN AREAS

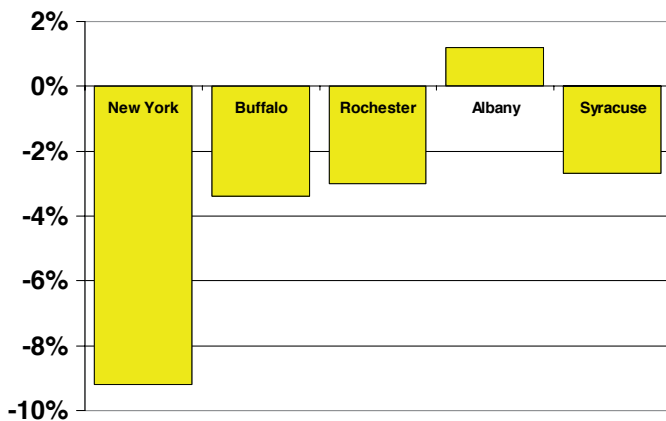


Figure 46

- ◆ The other metropolitan areas exceeding 500,000 populations (Buffalo, Rochester, Albany and Syracuse) had a net domestic migration loss of 81,000, or 2.2 percent of the 2000 population. This is one-fifth the domestic migration loss rate of New York City and less than one-half the domestic migration loss rate of the New York City suburbs. Even the suburbs of New York City are losing domestic migrants at a greater rate than Buffalo, Rochester and Syracuse. Albany is gaining domestic migration.

- ◆ Areas outside these major metropolitan areas had a net domestic migration loss of 9,000, or 0.3 percent of the 2000 population, well below the metropolitan rates.

New York in the Regional Context

It can be misleading to assess New York’s competitiveness outside of the regional context. The Northeast region, of which New York is a part, has experienced virtually the same competitive decline over virtually the same period of time.

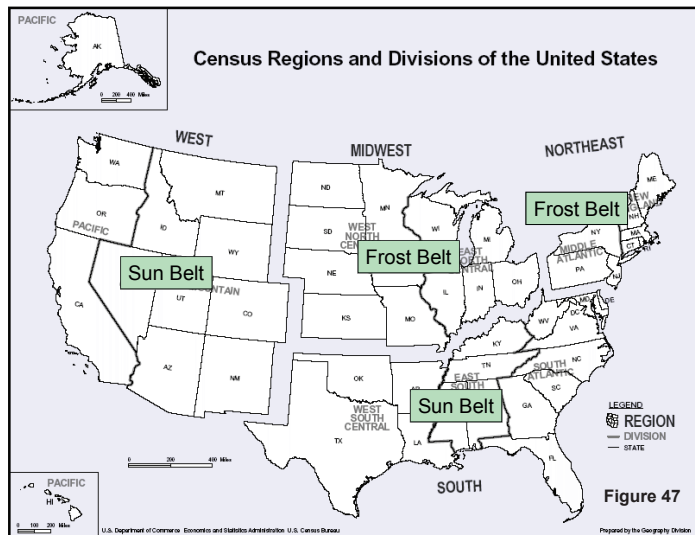
Population growth has been uneven in the United States for decades. Most of the nation’s population growth has been in the U.S. Census regions of the South and West, which is often called the “Sun Belt.” At the same time, growth has lagged considerably in the Northeast and Midwest, which is often called the “Frost Belt” (Figure 47).⁷⁹ New York’s population and economic growth has been typical for a Northeastern state.

This is illustrated by an analysis of population growth trends from 1900 to 2005 (Table 8).

- ◆ Between 1900 and 1935, the Frost Belt accounted for 53 percent of the nation’s growth, while the Sun Belt accounted for 47 percent.
- ◆ Between 1935 and 1970, the Frost Belt accounted for 41 percent of the nation’s growth, while the Sun Belt accounted for 59 percent.
- ◆ Frost Belt growth dropped substantially between 1970 and 2005. The Frost Belt accounted for only 16 percent of national growth, compared to 84 percent in the Sun Belt. Virtually the same distribution of growth occurred between 2000 and 2006.

As a result, the share of the national population living in the Frost Belt fell from 62 percent in 1900 to 41 percent in 2005. The greatest decline in the Frost Belt share of national population occurred between 1970 and 2005. It appears that the first cause of slow growth in both the Frost Belt and New York is regional. People and businesses have been moving from the Frost Belt to the Sun Belt in large numbers. That movement continues today. Thus, any examination of competitiveness in New York must begin with the recognition that the state is in a region that has been characterized with similar lagging growth for decades.

⁷⁹ These popular terms are not entirely accurate. Some “Sun Belt” states, such as Montana and Wyoming, have colder winter weather, on average, than the Frost Belt states. And, generally, “Frost Belt” states have considerably more days of sunshine than the “Sun Belt” states of Oregon and Washington.



- ◆ Metropolitan areas with average local jurisdiction populations under 10,000 experienced a 38 percent growth in employment.⁸²
- ◆ Metropolitan areas with average local jurisdiction populations between 10,000 and 20,000 experienced a 20 percent growth in employment.
- ◆ Metropolitan areas with average local jurisdiction populations over 20,000 experienced a 17 percent growth in employment. This is not to suggest that smaller local jurisdictions are the cause of greater employment growth. It is rather to note the fallacy of contending that government consolidation and less local democracy (larger jurisdictions) cause greater employment growth. The data indicates no relationship between the size of local governments and economic growth.

Table 8
Share of Population Growth: United States

	1900-1935	1935-1970	1970-2005
Northeast	27.3%	18.1%	5.7%
Midwest	25.6%	23.0%	10.4%
South	29.6%	30.5%	48.0%
West	17.6%	28.4%	35.9%
Total	100.0%	100.0%	100.0%

Smart Growth and Competitiveness

Proponents of smart growth claim that responsive planning (as opposed to prescriptive or smart growth planning) leads to less economic growth. Again, however, the Frost Belt data does not support this view. The less dense (more sprawling) urban areas in Frost Belt metropolitan areas have had *stronger* employment growth than those that are more dense (Figure 49 and Table 10).⁸³

The metropolitan areas with employment growth above 40 percent had an average population density of 2,398 per square mile. This is 11 percent *below* the average density of the Frost Belt metropolitan areas. The metropolitan areas with greater employment growth are also less dense than those with 20 percent to 40 percent growth (2,764) and those with less than 20 percent growth (2,683). The New York City metropolitan area, with by far the highest core urban area population density (and thus, the least “sprawling”), ranked 18th out of 21 in employment growth.

Government Size and Competitiveness in the Frost Belt

Proponents of the bigger-is-better theory of government efficiency claim that areas with larger units of government achieve better economic results. For example, David Rusk has presented “big box” and “little box” characterizations of local government in presentations and reports around the state, concluding generally that larger governments improve competitiveness.⁸⁰

Rusk cites the work of Dr. Jerry Paytas at the Carnegie Mellon Center for Economic Development to support the view that metropolitan areas with larger government units achieve greater employment growth. Dr. Paytas finds an association between lower employment growth rates in metropolitan areas and the greater degrees of local democracy, noting that “a significant amount of the variation in (metropolitan) competitiveness can be attributed to governance.”⁸¹

However, the purported association does not exist in the Frost Belt. Within the Frost Belt, there is a strong association between local democracy (smaller units of government) and greater job growth. This is evident in major metropolitan job growth rates between 1980 and 2005 (Figure 48 and Table 9):

Employment Growth & Jurisdiction Size
FROST BELT METROPOLITAN AREAS

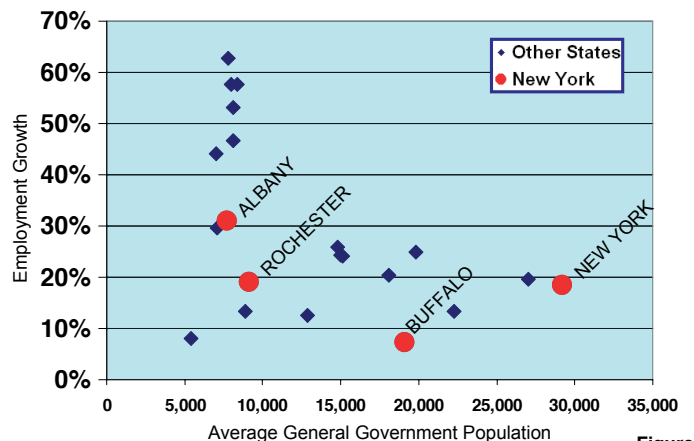


Figure 48

⁸⁰ For example, see <http://www.gamaliel.org/DavidRusk/Thruway%20Alliance%20report.pdf>.

⁸¹ Jerry Paytas, “Does Governance Matter: The Dynamics of Metropolitan Governance and Competitiveness.” <http://www.smartpolicy.org/pdf/governancematter.pdf>.

⁸² General purpose local governments (excludes school districts and special districts).

⁸³ Core urban areas of the corresponding metropolitan areas.

At the national level, research indicates a negative relationship between smart growth and economic growth. A Federal Reserve Board study concluded that “metropolitan areas with stringent development regulations generate less employment growth than expected given their industrial bases.”⁸⁴ This lower level of employment growth and higher cost of housing could lead to a widening of the gap between rich and poor in the nation.

Employment Growth & Suburbanization
FROST BELT METROPOLITAN AREAS

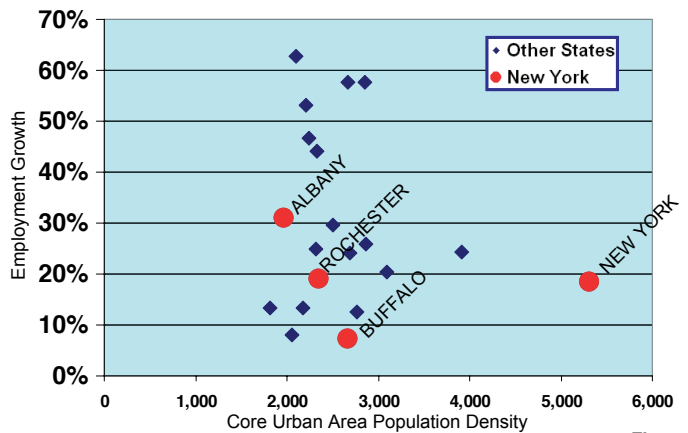


Figure 49

Table 9
Employment Growth & Average jurisdiction population
Major Frost Belt Metropolitan Areas

Rank	Metropolitan Area	Employment Growth: 1980-2005	Average General Government Jurisdiction Population
1	Grand Rapids	62.7%	7,800
2	Minneapolis-St. Paul	57.6%	7,977
3	Columbus	57.6%	8,372
4	Indianapolis	53.2%	8,104
5	Cincinnati	46.6%	8,129
6	Kansas City	44.1%	7,043
7	Albany	31.0%	7,723
8	St. Louis	29.6%	7,073
9	Philadelphia	25.8%	14,806
10	Boston	24.9%	19,847
11	Chicago	24.3%	15,014
12	Milwaukee	24.1%	15,103
13	Detroit	20.3%	18,051
14	Providence	19.7%	27,053
15	Rochester	19.1%	9,165
16	New York	18.5%	29,178
17	Hartford	13.3%	22,251
18	Dayton	13.3%	8,868
19	Cleveland	12.5%	12,857
20	Pittsburgh	8.0%	5,396
21	Buffalo	7.2%	19,120

Consolidated statistical areas with more than 1,000,000 population.

Table 10
Employment Growth and Suburbanization in Large Frost Belt Metropolitan Areas

Rank	Metropolitan Area	Employment Growth: 1980-2005	Population per Square Mile: Core Urban Area
1	Grand Rapids	62.7%	2,095
2	Minneapolis-St. Paul	57.6%	2,671
3	Columbus	57.6%	2,849
4	Indianapolis	53.2%	2,205
5	Cincinnati	46.6%	2,237
6	Kansas City	44.1%	2,330
7	Albany	31.0%	1,966
8	St. Louis	29.6%	2,506
9	Philadelphia	25.8%	2,861
10	Boston	24.9%	2,322
11	Chicago	24.3%	3,914
12	Milwaukee	24.1%	2,688
13	Detroit	20.3%	3,094
14	Providence	19.7%	2,332
15	Rochester	19.1%	2,353
16	New York	18.5%	5,309
17	Hartford	13.3%	1,814
18	Dayton	13.3%	2,174
19	Cleveland	12.5%	2,761
20	Pittsburgh	8.0%	2,057
21	Buffalo	7.2%	2,664

Consolidated statistical areas with more than 1,000,000 population.

Smart Growth and Domestic Migration

There is a strong relationship between net domestic migration losses and housing affordability losses in metropolitan areas relying on smart growth. There was net domestic migration loss of nearly 2.5 million residents between 2000 and 2006 in the four markets among the top 10 with significant housing affordability loss (New York, Los Angeles, Miami and Washington, above). In the markets where housing affordability has been maintained, there has been a net domestic migration gain of 375,000 (Atlanta, Dallas-Fort Worth, Houston and Detroit).⁸⁵

This unprecedented difference in housing costs between smart growth and responsive markets has produced what might be called a “relocation bonus,” favoring the less costly areas over more costly areas. On average, the median income household can save nearly

\$670,000 in housing costs over the life of a mortgage by moving from one of the smart growth markets to one of the responsive markets (Table 11).⁸⁶ This is more than 11 years of median household income. As prescriptive markets have become so much more unaffordable than responsive markets, the incentives for moving to less expensive areas have increased substantially. For example, in the state of New York (which is one of the nation’s most unaffordable states),

⁸⁴ Raven E. Saks, *Job Creation and Housing Construction: Constraints on Metropolitan Area Employment Growth*, <http://www.federalreserve.gov/pubs/feds/2005/200549/200549pap.pdf>.

⁸⁵ Calculated from US Bureau of the Census data. This is the latest data available for metropolitan areas.

⁸⁶ Assumes 30 year fixed rate mortgage at 6.5 percent, and 10 percent down payment.

Table 11
Relocation Bonus: Moving from Prescriptive to Responsive Markets

Move to-->	RESPONSIVE MARKETS				Average Bonus
	Dallas-Fort Worth	Houston	Atlanta	Detroit	
PRESCRIPTIVE MARKETS					
New York	\$697,000	\$698,000	\$648,000	\$695,000	\$684,000
Los Angeles	\$921,000	\$922,000	\$872,000	\$919,000	\$908,000
Miami	\$455,000	\$456,000	\$406,000	\$453,000	\$443,000
Washington	\$598,000	\$599,000	\$549,000	\$597,000	\$586,000
Average Bonus	\$668,000	\$669,000	\$619,000	\$666,000	\$655,000

Includes purchase and financing.

approximately 95 percent of net domestic out-migration between 2000 and 2006 was to states with *more* affordable housing.⁸⁷

The smart growth objective of forcing growth to urban cores and away from suburban areas is failing. It is true that there has been a strong revitalization of core areas in virtually all of the nation’s large metropolitan areas. However, the greatest share of urban growth remains in suburban areas, and migration patterns are strongly away from metropolitan areas that are placing strong restrictions on suburban growth (smart growth policies). There is generally no net household movement from suburbs to urban cores; rather, households are moving away. All of this illustrates a maxim of planning and human behavior: *Government can tell people where they cannot live but cannot tell them where they must live.* This, in part, is behind the unprecedented movement away from coastal metropolitan centers to smaller metropolitan areas and non-metropolitan areas.

Table 12
Competitiveness Factors

Factor	Employment Growth Quintile					Average
	1 (Lowest)	2	3 (Middle)	4	5 (Highest)	
Total Metro Areas	10	11	11	11	10	
Metro Areas in Frost Belt	9	6	4	2	0	
Metro Areas in Sun Belt	1	5	7	9	10	
Job Growth 1980-2005	13%	32%	48%	73%	142%	62%
1980 Taxes per Capita	\$1,106	\$974	\$855	\$928	\$849	\$942
Annual Snowfall (Inches)	47	23	16	18	7	22
Manufacturing Union Members/Private Employment	8.2%	6.9%	6.1%	4.3%	2.6%	5.6%
1980 Average Pay Compared to Highest Quintile	1.00	0.95	0.95	0.94	0.89	0.95
Census Year Core City Reached 100,000 Population	1880	1890	1900	1918	1942	1906

Consolidated Statistical Areas over 1,000,000 population.
Sources: Derived from data from the U.S. Department of Commerce, www.unionstats.com, *Statistical Abstract of the United States*.

⁸⁷ Calculated from Internal Revenue Service data.

⁸⁸ Paytas, note 81, *supra*.

⁸⁹ For example, a recent report by Stephen Moore and Arthur Laffer found that Northeastern states had done relatively poorly in economic growth and that principal factors included higher taxes, high expenditures, regulation, debt, labor costs and other factors. http://www.alec.org/fileadmin/newPDF/ALEC_Competitiveness_Index.pdf.

⁹⁰ Consolidated statistical areas and metropolitan statistical areas with more than 1 million population in 2005.

⁹¹ New Orleans had the least job growth of any major metropolitan area even before Hurricane Katrina.

Suffice it to say that domestic migration trends are changing. The strong movement away from formerly fast growing smart growth metropolitan areas may represent the most significant geographical mobility trend in the nation since the migration from the Frost Belt to the Sun Belt became dominant following World War II. Housing affordability is emerging as a competitive issue between metropolitan areas.

Thus, smart growth is generally associated with *diminished* competitiveness and its widespread adoption would leave New York even less competitive relative to other states.

Other Competitiveness Factors

The previously cited Paytas econometric analysis principally focused on governance.⁸⁸ Other quantifiable drivers of job market growth were not included in the econometric analysis, such as measures of taxation, the business climate and geographical location.⁸⁹ The relationship with such indicators is illustrated in a quintile analysis of employment growth from 1980 to 2005 by major metropolitan area.⁹⁰

The data shows that employment growth has been greater in the Sun Belt than the Frost Belt. In fact, Sun Belt metropolitan areas have had a virtual monopoly on rapid economic growth. All of the top 19 employment-growth metropolitan areas are in the Sun Belt, and all but one (New Orleans) of the 16 metropolitan areas with the lowest growth are in the Frost Belt.⁹¹ The New York, Buffalo and Rochester metropolitan areas rank in the lowest job growth quintile, while the Albany metropolitan area ranks in the second lowest job

growth quintile. At least the following factors are important drivers of economic growth (Table 12):

Weather – Areas with less inclement winter weather have tended to achieve greater employment growth. The average annual snowfall in the bottom economic-growth quintile metropolitan areas is 47 inches, compared to 6.9 inches in the quintile with the greatest employment growth. Job growth has generally been greater in areas with shorter and less severe winters. The metropolitan areas with the more inclement weather are concentrated in the Frost Belt.

Taxes – Taxes are an important contributor to the business climate. The quintile of metropolitan areas with the fastest job

growth had the lowest taxes. The slowest growth quintile of metropolitan areas had the highest taxes at the beginning of the period, in 1980.⁹² Higher taxes tend to discourage business expansion and location. The metropolitan areas with the highest taxes per capita are concentrated in the Frost Belt.

Labor Costs — In many industries, the most significant factor of cost is employee compensation. Generally, the metropolitan areas that had lower average wages and salaries in 1980 have added jobs at a greater rate than those that had higher average wages. At the beginning of the period (1980), the quintile with the slowest economic growth had the highest average wages, while the quintile with the highest growth rate had the lowest average wages. Labor costs are an important element of the business climate and higher labor costs tend to discourage business expansion and location. The metropolitan areas with the highest wages are concentrated in the Frost Belt.

Manufacturing Unionization — The extent of unionization is an important business climate indicator. Generally, businesses seek to expand where there is little union influence. The Frost Belt has experienced an unprecedented loss of comparatively unionized manufacturing jobs in recent decades. The metropolitan areas with the slowest job growth had the highest share of private

employment in union manufacturing jobs in 1983.⁹³ The lowest economic-growth quintile had nearly four times as much of its work force in unionized manufacturing employment as the highest economic growth quintile. Higher rates of unionization generally discourage business expansion and location. The metropolitan areas with the highest rates of manufacturing unionization are concentrated in the Frost Belt.

Political Entrenchment — The previously cited Mancur Olson “entrenchment” theory is also supported by the comparative age of the core cities in metropolitan areas.⁹⁴ Entrenchment occurs as a result of longer standing special interest influence on governments, which can lead to more restrictive regulation and higher operating costs for businesses. This can be illustrated using the number of years since the core city reached 100,000 residents. Generally, the metropolitan areas with slower job growth had older core cities than those with the greatest job growth. In the lowest job growth quintile, the core cities reached 100,000 population by 1880. The threshold date becomes later in each job growth, with the highest growth quintile core cities reaching 100,000 residents on average in 1942. The oldest central (and thus theoretically more entrenched) cities are concentrated in the Frost Belt.

Conclusion #5

Claims that local government consolidation would improve New York’s competitiveness are not supported by the experience.

New York has serious competitiveness difficulties and proposals to consolidate government would be likely to retard the state’s competitiveness even more. This is illustrated by an examination of major metropolitan trends in the Frost Belt, of which New York is a part.

- ◆ In the Frost Belt, higher employment growth has been associated with smaller units of local government.
- ◆ Metropolitan areas with employment growth rates since 1980 of more than 40 percent have average jurisdiction populations less than one-half that of metropolitan areas with employment growth rates less than 20 percent.

⁹² State and local taxes per capita in the state of the largest city in the metropolitan area.

⁹³ Earliest data available from www.unionstats.com. Manufacturing union market share based upon state with the core city in multi-state metropolitan areas.

⁹⁴ Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities* (1982).

In the Frost Belt, *higher* employment growth has been associated with *smaller* units of local government. This is not to suggest that smaller local jurisdictions are the cause of greater employment growth, but rather to rebut the contention that government consolidation and less local democracy cause greater employment growth. Within New York State, local government areas with smaller average jurisdiction populations are generally more efficient than those with larger average jurisdiction populations. New York's towns and villages are competitive with the rest of the nation in terms of efficiency, despite serious challenges and expensive state mandates.

Cost of Living: The Developing Upstate Advantage

There is a powerful dimension of state and metropolitan competitiveness that exists in upstate New York. The unprecedented differences between comparative housing costs are making previously competitive metropolitan areas uncompetitive because of high housing prices. At the same time, less expensive metropolitan areas that have been less competitive are becoming more competitive due to their lower housing costs. This situation has principally developed since 2000.

Upstate New York is in an advantageous position with respect to this trend. Housing is generally affordable in the larger upstate metropolitan areas. Moreover, smaller urban areas are gaining domestic migrants to a far greater degree than before. New York's upstate smaller urban areas are also particularly competitive. The financial advantages of upstate New York are considerable. The median priced house can be purchased and financed, for example, for \$1,050,000 less in the Buffalo area than in San Diego.⁹⁵ In just six years, from 2000 to 2006, the relocation bonus from San Diego to Buffalo has risen by \$670,000. Virtually none of this difference is due to construction or normal land costs.⁹⁶

The Buffalo relocation bonus relative to San Diego is now the equivalent of 23 years of median household income in Buffalo (19 years in San Diego, where incomes are somewhat higher). Material cost differences are available to households willing to live in upstate New York rather than in the metropolitan areas where house prices have been driven up by smart growth.

Substantial relocation bonuses are also available within New York State. As a result of this recent cost escalation in the New York City area, other markets have become far more competitive in price. Just between 2000 and 2006, the average relocation bonus for moving from the New York City metropolitan area to major upstate metropolitan areas has risen from \$323,000 to \$731,000 (Figure 51). This \$408,000 increase exceeds the gross median household income over the same six years.

- ◆ In 2000, the cost, including financing, of the median priced house was \$348,000 higher in New York than in Buffalo. By 2006, New York housing costs rose to \$798,000 more than Buffalo.
- ◆ In 2000, the cost, including financing, of the median priced house was \$317,000 higher in New York than in Rochester. By 2006, New York housing costs rose to \$764,000 more than Rochester.
- ◆ In 2000, the cost, including financing, of the median priced house was \$277,000 higher in New York than in Albany. By 2006, New York housing costs rose to \$602,000 more than Albany.
- ◆ In 2000, the cost, including financing, of the median priced house was \$351,000 higher in New York than in Syracuse. By 2006, New York housing costs rose to \$759,000 more than Syracuse.

For the first time since before World War II, upstate New York has a significant competitive advantage that could neutralize other factors that have made New York less competitive. Already, as noted above, colder weather metropolitan areas, such as Albany, Kansas City, Indianapolis and Columbus are attracting new domestic migrants, even as warmer climate metropolitan areas lose domestic migrants at Rust Belt rates.

Smaller Governments, Towns and Competitiveness

The weight of the evidence shows the bigger-is-better theory of government efficiency to be invalid. New York cannot hope to become more efficient — to reduce its public expenditures per capita — by strategies that replace smaller governments with larger governments.

Smaller units of government, such as towns and villages, are crucial to the competitiveness of the state. Towns and villages spend considerably less than cities, both inside and outside metropolitan areas. Towns and villages incur less debt. This is principally because town and village officials are inherently closer to the electorate, because of the smaller jurisdiction populations.

In addition, the town and village structure offers the best hope for retaining the upstate housing affordability advantage. Their local control over land use planning and zoning precludes the ability of ideologically driven regional plans to force housing prices up, whether or not intended (or admitted).

On the other hand, were the state to force municipal consolidations, it is likely that local government would become less efficient. If the state were to mandate regional planning or smart growth, the home price increases that have occurred elsewhere could be expected in upstate New York. This would make New York less competitive and discourage people and businesses from remaining, rather than attracting new residents.

⁹⁵ Assumes 30 year fixed rate mortgage at 6.5 percent, and 10 percent down payment.

⁹⁶ A 2,000 square foot house on a one-quarter acre urban fringe lot would cost only \$1,000 more in San Diego than in Buffalo (based upon R. S. Means, Means Residential Square Foot Costs: Contractors Pricing Guide and agricultural land values from the U.S. Census of Agriculture, 2002). This includes a representative sales premium for the agricultural land seller and excludes the impact of smart growth regulations.

A More Competitive New York

Government consolidation and smart growth are not inherently good, nor are they ends in themselves. Indeed, the above analysis shows that government consolidation and smart growth are likely to lead to an *even less* competitive New York. A more efficient New York requires governance structures that spend no more than necessary in reality, not theoretically. A more competitive New York requires lower taxes, less onerous regulation and an affordable cost of living. Only through such means will the quality of life be sufficiently attractive to stop the outflow of domestic residents and even to attract new residents from other states. This means that:

- ◆ Any mergers or consolidations between local governments should be the result of voluntary actions in which representatives improve the overall good of the community based upon careful research, not a predisposed, top-down predilection for larger units of government.
- ◆ State incentives to encourage consolidation or smart growth are likely to *retard* New York's competitiveness, because consolidation raises costs and smart growth destroys housing affordability.

Thus, any program that would improve New York's competitiveness will need to:

- ◆ Make New York competitive in state and local taxation. This is not likely to be accomplished without dealing with the principal issues that have driven New York's taxes so high relative to other states. Forcing government consolidations would only make things worse.
- ◆ Make New York competitive by restoring the competitive cost of living that has been lost in recent years in the New York City metropolitan area as a result of the unprecedented increases in housing prices relative to incomes. Moreover, upstate New York's cost of living competitiveness needs to be retained. Smart growth would work against both objectives.

In the final analysis, efforts to improve government efficiency and state competitiveness must begin with questions, not answers; objectives rather than means.

Conclusion #6

New York's upstate housing affordability and its system of smaller local governments are principal competitive assets.

Mandated local government consolidation is likely to lead to less government efficiency and a higher cost of living. This would mean a less competitive New York.

- ◆ Upstate New York, which has experienced little growth in recent decades, is now experiencing net domestic migration losses far below those of downstate. This appears to be attributable to its much improved housing affordability relative to downstate and other unaffordable areas.
- ◆ New York local government areas with smaller average jurisdiction populations are generally more efficient than those with larger average jurisdiction populations. New York's towns and villages are competitive in efficiency with the rest of the nation, despite serious challenges and expensive state mandates.

**EXECUTIVE ORDER No 11:
ESTABLISHING THE NEW YORK STATE COMMISSION ON
LOCAL GOVERNMENT EFFICIENCY AND COMPETITIVENESS**

WHEREAS, New York's local governments are established and operate under New York's Constitution, statutes and regulations and receive financial and governance support from the State; and

WHEREAS, local governments, including counties, towns, cities, villages and special purpose districts, such as school and fire districts, provide many of the public services which determine whether New York's residents and businesses live and conduct commerce safely, healthily, productively and happily; and

WHEREAS, New York's local governments, including more than 4200 taxing jurisdictions, have evolved over centuries, and in many cases reflect circumstances, population concentrations and needs which have changed significantly or no longer exist; and

WHEREAS, the sheer number of such taxing jurisdictions and their overlapping and multi-layered nature cause public services to be excessively expensive, and provided in a manner that is inefficient and reduces the competitiveness of New York's localities and the job and business opportunities for New Yorkers; and

WHEREAS, many New Yorkers are unaware of the boundaries and very existence of many taxing jurisdictions and special districts, and this results in an extraordinarily low level of participation in many local government elections; and

WHEREAS, the opportunities for smart growth and regionalization of the delivery of certain public services such as public transportation, waste management, information technology and water supply are often inhibited by New York's fragmented local government structure; and

WHEREAS, New York's local tax burden is the highest in the United States and negatively impacts competitiveness and the quality of life; and

WHEREAS, New York's laws, regulations and programs have been only minimally effective in assisting local governments to partner in the efficient delivery of public services, to merge, consolidate or regionalize local government, to adopt smart growth practices, and otherwise improve the living environment for New Yorkers; and

WHEREAS, a comprehensive analysis is needed:

1. to identify the barriers which inhibit more efficient local government, the merger, consolidation or regionalization of local government, partnering among local governments to more efficiently provide public services, adoption of smart growth practices, and the procurement and construction of regional transportation and other infrastructure which improves the efficiency, competitiveness and quality of life of New York's localities; and
2. to guide the formulation and development of tools to assist local governments to pursue and achieve these objectives;

NOW THEREFORE, I, Eliot Spitzer, Governor of the State Of New York, by virtue of the authority vested in me by the Constitution and Laws of the State of New York do hereby order as follows:

1. There is hereby established the New York State Commission on Local Government Efficiency and Competitiveness ("Commission").
2. The Commission shall consist of fifteen members appointed by the Governor, including one member appointed upon the recommendation of the Comptroller, one upon the recommendation of the Speaker of the Assembly, one upon the recommendation of the Majority Leader of the Senate, one upon the recommendation of the Minority Leader of the Assembly, one upon the recommendation of the Minority Leader of the Senate, at least one individual representing a member of the New York State Association of Counties, at least one individual representing a member of the New York State Association of Towns, and at least one individual representing a member of the New York Conference of Mayors and Municipal Officials.
3. The Governor shall select a chair of the Commission from among the members. A majority of the members of the Commission shall constitute a quorum, and all recommendations of the Commission shall require approval of a majority of the total members of the Commission.
4. The Governor shall appoint an Executive Director of the Commission, who shall be an employee of one of the executive branch agencies herein directed by the Governor to render assistance to the Commission.
5. The Commission shall conduct a review and analysis of New York's local government structure and operations, and to the maximum extent possible shall consider, and where appropriate incorporate, the expertise and learning of prior commissions, studies and academic institutions engaged in local government studies, and state agencies with responsibility for assisting local government, including but not limited to the Department of State, the Office of Real Property Services, the Urban Development Corporation, the Department of Economic Development, the Division of the Budget, the Governor's Office of Regulatory Reform, the Office of State Comptroller and the State Education Department.
6. The Commission shall make recommendations on ways to consolidate and eliminate taxing jurisdictions, special districts, and other local government entities where doing so would improve the effectiveness and efficiency of local government.
7. The Commission's review shall include an analysis of:
 - (a) the number and types of local government jurisdictions in New York State, the basis for their creation, and the opportunities and barriers to their restructuring, merger, consolidation or partnership to deliver public services;

- (b) the nature and extent of services delivered by various types of local governments;
 - (c) the services which lend themselves most logically, efficiently and easily to merger, consolidation or partnership initiatives;
 - (d) opportunities and barriers to the regionalization of local government functions and services and the extent to which "smart growth" practices can improve the performance of local government and the delivery of public services and enhance New York's competitiveness;
 - (e) the procedures for and effectiveness of local government elections, including the percentage of eligible and registered voters who participate in such elections, and the utilization of common election dates and procedures by local governments which serve a substantially common electorate;
 - (f) the degree to which local government electorates are presented periodically with the option of dissolving the local government or reaffirming the local government's continuation; and
 - (g) the effectiveness of existing state laws and programs designed to assist local government efficiency, consolidation, merger, partnership in government operations and service delivery, smart growth, and the procurement and construction of regional transportation and other instrumentalities and infrastructure.
8. In undertaking this review and analysis the Commission may request documents, conduct public hearings, take the testimony of witnesses in the form and manner which it deems most efficient, and take all other actions necessary to carry out its functions.
9. The Commission shall make recommendations which it deems necessary or advisable for:
- (a) strengthening and streamlining the structure and operations of local governments;
 - (b) reducing the costs of and improving the effectiveness of local government operations and services;
 - (c) facilitating the merger, consolidation and partnering in the delivery of services by and between local governments;
 - (d) promoting and facilitating regional government and the regionalized delivery of public services; and
 - (e) reforming election laws and procedures to increase and maximize the awareness of local governments among the electorate and maximize participation in local government elections and proceedings.
10. The Commission shall issue a report of its findings and recommendations on or before April 15, 2008. The report shall be submitted to the Governor, the Comptroller, the Majority Leader of the Senate, the Speaker of the Assembly, the Minority Leader of the Senate, and the Minority Leader of the Assembly.
11. No member of the Commission shall be disqualified from holding any public office or employment, nor shall he or she forfeit any such office or employment by virtue of his or her appointment hereunder. Members of the Commission shall receive no compensation for their services but shall be allowed their actual and necessary expenses incurred in the performance of their functions hereunder. All members of the Commission shall serve at the pleasure of the Governor and vacancies shall be filled in the same manner as original appointments.
12. Every agency department, office, division or public authority of this state shall cooperate with the Commission and furnish such information and assistance as the Commission determines is reasonably necessary to accomplish its purpose.
- G I V E N under my hand and the Privy Seal of the State in the City of Albany this twenty third day of April in the year two thousand seven.

Eliot Spitzer, Governor
Richard Baum, Secretary to the Governor

Average Jurisdiction Population – The average population of jurisdictions within a particular area, such as a state, county or town.

Economies of Scale – A term that refers to the reduction of per-unit costs through an increase in production volume. There can be similar economies of scale in marketing or distribution of a product or service too. The term may apply only to certain ranges of output quantity. This idea is also referred to as diminishing marginal cost.

Efficiency – a measure of cost effectiveness. When less is spent to provide a particular quantity and quality of a good or service, there is greater efficiency. Efficiency is not a measure of service level or service quality.

Fringe Benefit Expense – Non-salary compensation paid by an employer on behalf of an employee in addition to regular taxable wages provided in connection with the performance of services. Examples of such compensation are health care and pension program payments by the employer.

Harmonization of Labor Services - Adjustment of differences and inconsistencies in employee compensation, work rules and paid time off to make them uniform or mutually compatible within consolidating governments.

Local Government Areas - For the purposes of this report, a local government area is a city or a town (including any villages). It is necessary to combine villages into their towns because of the lack of consistency of public services provided at the town and village level. Overall, a complete array of public services (as required by state law or the community) is provided at the city level and at the combined town and village level.

Median Multiple - The Median Multiple is the median house price divided by the median household income. The Median Multiple is a widely used indicator of housing affordability in urban markets.

Municipal-Regional Consolidation – Equivalent of a city-county consolidation.

Net Domestic Migration – The movement of people within the United States determined by variables such as the attractiveness of one area over another. This measurement does not take into consideration birth and death rates or international migration whereas the term population growth does.

Per Capita – Per person; (average).

Regionalism – Political division of an area resulting in less autonomous regions and separate administrative areas. A belief in regional government.

Regional Planning – Planning for an area at the county, multi-county, or metropolitan level of government.

Transition Costs – One-time or non-recurring costs associated with consolidating or restructuring governments.

Urban Sprawl - Urban sprawl or “sprawl” is a pejorative term. An objective definition is provided by Merriam-Webster as “the spreading of urban developments (as houses and shopping centers) on undeveloped land near a city.”

Wendell Cox is principal of Wendell Cox Consultancy in metropolitan St. Louis, which also does business as Demographia, an international demographic and urban policy firm. He has served since 2002 as a visiting professor at the Conservatoire National des Arts et Metiers, a French national university in Paris. He has completed professional assignments in the United States, Canada, Australia, New Zealand, western Europe, and Japan.

Mayor Tom Bradley appointed him to represent the city of Los Angeles on the Los Angeles County Transportation Commission and reappointed him to two additional terms (1977-1985). U.S. Speaker of the House Newt Gingrich appointed Wendell Cox to the Amtrak Reform Council to replace Gov. Christine Todd Whitman of New Jersey upon her resignation (1999-2002).

He is vice president of the CODATU association (Lyon, France), an international organization dedicated to improving urban transportation in emerging economies.

He has conducted extensive work on governance and urban issues, especially demographics, housing affordability, land use policy and transport.

Wendell Cox Consultancy sponsors three Web sites:

www.demographia.com, which is principally dedicated to issues of urban policy and demographics.

www.publicpurpose.com, principally dedicated to transportation. TheNational Journalhas twice honoredpublicpurpose.comas one of the nation's top transport Web sites.

www.rentalcartours.com, which includes travelogues of urban areas around the world.

