

2025 Municipal Revenues Committee Members

Name	Title	Organization
Graeme Allen	Councilmember	New Brighton
Daniel Buchholtz	City Administrator	Spring Lake Park
Amelia Cruver	Finance Director	St. Louis Park
Lori Economy-Scholler	Chief Financial Officer	Bloomington
Greg Evansky	Councilmember	Victoria
Inderia Falana	Government Relations Representative	Minneapolis
Ryan Garcia	City Administrator	South St. Paul
LaTonia Green	Finance Director	Brooklyn Park
Kelly Grinnell	Finance Director	Chanhassen
Dana Hardie	City Manager	Victoria
Laurie Hokkanen	City Manager	Chanhassen
Steven Huser	Government Relations Representative	Minneapolis
**Beth Johnston	IGR Representative	League of MN Cities
Brad Larson	City Administrator	Savage
Tom Lawell	City Administrator	Apple Valley
**Daniel Lightfoot	IGR Representative	League of MN Cities
Kristi Luger	City Manager	Excelsior
Devin Massopust	City Manager	New Brighton
Madeline Mitchell	Senior Budget Analyst	St. Paul
Darin Nelson	Finance Director	Minnetonka
Justin Olsen	Councilmember	Cottage Grove
Loren Olson	Senior Government Relations Representative	Minneapolis
**Hannah Pallmeyer	Government Affairs Liaison	Metropolitan Council
Eric Petersen	IGR Associate	St. Paul
Paula Ramaley	Councilmember	Minnetonka
Jennifer Rhode	Deputy City Manager	Burnsville
Gillian Rosenquist	Councilmember	Golden Valley
Michael Sable	City Manager	Maplewood
Cara Schulz	Councilmember	Burnsville
*Steven Stahmer	City Administrator	Rogers
Katie Topinka	IGR Director	Minneapolis
Christina Volkers	City Administrator	Oakdale
Brad Wiersum	Mayor	Minnetonka
**Pierre Willette	Senior Government Relations Representative	League of MN Cities
**Owen Wirth	IGR Representative	League of MN Cities
Nyle Zikmund	City Administrator	Mounds View

*Committee Chair

**Guest/Non-City Official

August 19, 2025

TO: Municipal Revenues Policy Committee Members
FROM: Steven Stahmer, City Administrator, City of Rogers
SUBJECT: Meeting Notice and Agenda

Tuesday, August 26, 2025
9:00 am – 11:30 am
Virtual Meeting: Zoom
Join Zoom Meeting:

♦ Thank you for agreeing to be a policy committee member!

Attached are the materials for the second Municipal Revenues Policy Committee meeting. Please take the time to read through the policies in advance of the meeting and come with your ideas and suggestions.

AGENDA

1. Call to order. (Steven Stahmer, Chair)
2. Approval of minutes for the July 29, 2025 meeting.
3. Presentation: ***Johann Benson, Research Analyst/Property Tax Research, MN Department of Revenue***
4. Review committee memo. (Patricia Nauman, Executive Director)
5. Discussion of policies and suggested modifications.
 - a. Policies with suggested changes.
 - b. Policies with no recommended changes at this time.
6. Discuss additional suggestions for policies and any issues for future consideration.
7. Other business
8. Adjourn. (11:30 a.m.)

Future Committee Meetings:
Tuesday, September 23, 2025

Municipal Revenues Policy Committee

Minutes for Meeting of July 29th, 2025

Present: Steve Stahmer, Steve Huser, Paula Ramaley, Pierre Willette, Laurie Hokkanen, Lori Kee, Lori Economy-Scholler, Tom Lawell, Kristi Luger, Graeme Allen, Kelly Grinnell, Kris Amundson, Brad Larson, Dana Hardie, Beth Johnston, Eric Petersen, Loren Olson, Katie Topinka, Brad Wiersum, Gillian Rosenquist, Nyle Zikmund, Patricia Nauman, Ania McDonnell, Mike Lund, Jennifer Dorn.

Chair Stahmer called the meeting to order at 9:03 am, and members made introductions. Ms. Nauman reviewed policy committee processes, and Chair Stahmer moved to agenda item #4, with Ms. Nauman providing an overall legislative update and memo review. Chair Stahmer then moved to agenda item #5. Ms. Nauman and Metro Cities staff provided specific policy updates.

Chair Stahmer moved to agenda item 6. Ms. Economy-Scholler asked about a policy to support cities implementing tourism districts. Ms. Topinka discussed Minneapolis' actions following adoption of the new law in 2023. Further discussion. Ms. Topinka clarified that the law is permissive for any municipality wishing to adopt a tourism district.

Mr. Lawell asked about a policy to oppose the repeal of the cannabis aid, and support for restoring it. Ms. Nauman stated there is a policy under General Government, and that we could include language in the Municipal Revenues section, which also addresses state aids. Mr. Lawell stated he is fine going in either direction. Mr. Peterson agreed with a policy in support of restoring cannabis aid and noted the need for permanent public safety aid. Mr. Lund clarified that public safety aid does reside in General Government policies.

Mr. Wiersum noted challenges for cities and how they play into larger city governance issues and asked whether the Legislature has ever looked at local government consolidations. Ms. Nauman stated that the Legislative Auditor conducted a study of this kind in 2012 and that the study was presented to the Municipal Revenues Committee. Ms. Nauman said her recollection was that the study did not directly recommend consolidations per se but looked at whether there were cost savings and other benefits or detriments. Mr. Wiersum acknowledged this as a challenging issue, and stated his interest is in the larger question of what cities can do to drive more efficiency. Chair Stahmer added that Rogers went through a major annexation and that finding balance with services and costs was challenging. Ms. Ramaley stated she agrees regarding the quickly rising cost of public safety, and its impact on levies, and looking at solutions to these issues.

Ms. Kee with the League of MN Cities provided an update on public duty disability law changes. Mr. Allen noted the concerns with levy increases and thought he recalled a previous legislative study to address property taxes and effects on people on fixed incomes. Ms. Nauman stated that the state regularly analyzes property tax trends, and that several years ago some studies were done to review the state's property tax system for complexity and streamlining.

Chair Stahmer adjourned at 10:28 am.

August 19, 2025

TO: Municipal Revenues Policy Committee
FROM: Patricia Nauman, Executive Director
RE: August Municipal Revenues Policy Committee Meeting

The second meeting of the Municipal Revenues Policy Committee is next Tuesday, August 26th at 9:00 a.m. The meeting will be held virtually via Zoom. Legislative policies, a few with suggested modifications, are enclosed. We will start with hearing from ***Johann Benson, Research Analyst, Department of Revenue***, who will present on the Department's most recent Homestead Property Tax Burden Report that analyzes property values and property taxes by income and region.

Policies with no suggested changes at this time:

MR-2	Revenue Diversification and Access
MR-3	Restrictions on Local Government Budgets
MR-5	Local Government Aid
MR-6	State Property Tax Relief Programs
MR-7	Property Valuation Limits/Limited Market Value
MR-8	Market Value Homestead Program
MR-9	Metropolitan Fiscal Disparities Program
MR-10	State Property Tax
MR-11	Class Rate Tax System
MR-12	Regional Facility Host Communities
MR-13	Sales Tax on Local Government Purchases
MR-14	City Revenue Stability and Fund Balance
MR-17	Post Employment Benefits
MR-18	Health Care Insurance Programs
MR-19	State Budget Stability
MR-20	Taxation of Electronic Commerce
MR-21	Payments for Services to Tax Exempt Property
MR-22	Proceeds from Tax Forfeited Property
MR-24	Special Assessments

Policies with suggested changes:

MR-1	State and Local Fiscal Relationship (<i>suggested based on committee discussion</i>)
MR-4	Reporting and Budget Requirements (<i>suggested changes by staff</i>)
MR-15	Public Employees Retirement Association (<i>suggested changes by staff</i>)
MR-16	State Program Revenue Sources (<i>suggested changes by staff</i>)
MR-23	Deputy Registrars (<i>suggested changes by staff</i>)

Staff will provide more information next week. For your information, enclosed is information on new laws for local tourism districts, and a 2012 legislative auditor's report on local consolidation, following discussions at our first meeting.

We look forward to seeing you!

MR-1 STATE AND LOCAL FISCAL RELATIONSHIP

A functional state and local fiscal relationship must emphasize adequacy, equitability, sustainability and accountability for public resources and communication among the state, cities, and public. A functional partnership also emphasizes collaboration and partnership between the state and local units of government. City services are traditionally funded through property taxes, fees, and state aids. Increasingly, cities are bearing more costs for services that have historically been the responsibility of the state.

Metro Cities supports a state and local fiscal partnership that emphasizes the following:

- Financial stewardship and accountability for public resources that emphasizes efficiencies in service delivery and effective communication among the state, local units of government, and the public.
- Reliable and adequate revenue sources including the property tax and local government aids, and dedicated funds to meet specific local needs. Metro Cities opposes diverting dedicated funds or local aids to balance state budgets.
- Sufficient revenue sources available to cities that allow cities to address local needs and citizens to receive adequate services at relatively similar levels of taxation, and that maintain local, regional, and state economic vitality and competitiveness.
- Adequate state funding to cities to address mandates enacted by the state, and flexibility for local governments in implementing state mandates to minimize local costs. Metro Cities supports a reinstatement of the cannabis aid enacted when adult-use cannabis was legalized in 2023 but repealed in 2025, to assist cities with costs associated with local implementation of the new law. (recommended by staff based on committee input)
- Adequate and timely notification regarding new legislative programs or modifications to existing programs or policies to allow cities time to plan for implementation and manage any effects on local budgeting processes.
- Support for cooperative purchasing arrangements between the state and local units of government. Such arrangements must be structured to be able to address unexpected delays or other challenges in the procurement of goods, so that any disruptions to local government operations and services that may result from such delays are minimized.

State officials should seek local feedback in the vetting of product vendors.

- The concept of performance measuring, but opposition to using state established measurements to determine the allocation of state aids to local governments or restrict the ability of local governments in establishing local budgets and levies

MR-2 REVENUE DIVERSIFICATION AND ACCESS

Metro Cities supports a balanced and diversified revenue system that acknowledges diverse city characteristics, needs and capacities and allows for greater stability in revenues.

Metro Cities supports the ability of a city to impose a local sales tax for public improvements and capital replacement costs, including but not limited to public libraries, parks and trails, community, convention and civic centers, transportation infrastructure, municipal buildings, and public safety facilities without the need for special legislation. Metro Cities supports changes to state laws governing local taxes to include the following:

- A statutory clarification to allow a referendum to occur at any November election or special election.
- A clarification of laws governing separate ballot questions for each proposed local project or allowing a city to combine projects into a single question, to avoid voter confusion.
- A repeal of the prohibition on imposing a local sales tax for one year from the expiration of an existing local sales tax.
- Changes to laws on the local sales tax process to allow a city flexibility to modify a ballot question to increase the amount of the collected tax and extend the duration of tax to cover unanticipated cost increases.

The Legislature should recognize equity considerations involved with local sales taxes and continue to provide local government aid to cities that have high needs, overburdens and/or low fiscal capacity.

Metro Cities supports a modification to laws governing local lodging taxes to allow cities to impose up to a five percent lodging tax, and the ability of cities to modify the uses of revenues to meet local needs. Metro Cities supports current laws providing for municipal franchise fee authority and opposes statutory changes such as reverse referendum requirements or other constraints that would reduce local flexibility for establishing, amending, or renewing franchise fees and interfere with local public processes and goals for establishing such fees.

71 **MR-3 RESTRICTIONS ON LOCAL GOVERNMENT BUDGETS**

72 Metro Cities opposes levy limits, reverse referenda, super majority requirements for levy and
73 valuation freezes, or other restrictions on local government budgeting and taxing processes.
74 Such restrictions undermine local budgeting and taxing processes, planned growth, and the
75 relationship between locally elected officials and their residents by allowing the state to decide
76 the appropriate level of local taxation and services, despite varying local conditions and
77 circumstances.

78 **MR-4 BUDGET AND FINANCIAL REPORTING REQUIREMENTS**

79 State laws require cities to prepare and submit or publish numerous budget and financial
80 reports. These requirements often create significant costs to cities, and some requirements
81 result in duplication. Additional reporting requirements should have a clearly defined statement
82 of public purpose and need that is not covered under existing requirements and should balance
83 needs for additional information with the costs of compiling and submitting the information.
84 ~~New requirements enacted in 2022 are expansive and have resulted in significant administrative~~
85 ~~costs for cities. (change suggested by staff)~~

86 Considering the number of existing reporting requirements, Metro Cities supports reducing the
87 number of mandated reports. Metro Cities supports efforts to consolidate municipal
88 government financial reporting requirements in the Office of the State Auditor, including an
89 electronic submission alternative to any remaining paper filing requirements, and to authorize
90 the use of web publication where newspaper publication is currently required.

91 **MR-5 LOCAL GOVERNMENT AID (LGA)**

92 The state's prosperity and vitality depend significantly upon the economic strength of the
93 metropolitan region, and cities within the region play critical roles in fostering the economic
94 development, job creation and business expansion that underpin the state's economic health.
95 Metro Cities supports the city Local Government Aid (LGA) program as a means of ensuring
96 cities remain affordable places to live and work while meeting the public service needs of
97 residents and businesses.

98 Metro Cities supports updates to the LGA formula factors and an increase in the program
99 appropriation consistent with recommendations by a work group of city associations.
100 Recommended updates will ensure the LGA program adequately addresses city needs.

101 To ensure appropriation levels are adequate to meet program objectives, Metro Cities supports
102 increasing the LGA appropriation to address cities' unmet need as defined by the LGA formula
103 as well as increases in the LGA appropriation to account for inflation.

Metro Cities supported the appropriation increase and updates to the LGA program passed by the 2023 Legislature. Many metropolitan cities do not receive LGA. Future reviews of the LGA program should be conducted every five years or earlier and should consider the needs and capacities of cities not receiving aid under the existing LGA program and formula.

Metro Cities supports formula-based allocations for increases to the LGA appropriation, and opposes freezes of the LGA appropriation, reductions of LGA for balancing state budget deficits, and diversions of the LGA appropriation to other purposes or entities.

Metro Cities opposes artificial limits or reductions that single out specific cities and further opposes using LGA as financial leverage to influence activities and policy decisions at the local level.

MR-6 STATE PROPERTY TAX RELIEF PROGRAMS

Metro Cities supports state funded property tax relief programs paid directly to homestead property taxpayers such as the “circuit breaker” program and enhanced targeting for special circumstances. Metro Cities also supports the renter’s credit program. Metro Cities supports an analysis of property tax relief programs to determine their effectiveness and equity in providing property tax relief to individuals and families across the state.

Metro Cities supports efforts by the Minnesota Department of Revenue to expand outreach and notification efforts about state property tax relief programs to homeowners, and notifications to local units of government to support such efforts. Metro Cities also supports legislative modifications to make tax relief payments to taxpayers automatic.

Metro Cities supports the use of the Department of Revenue’s Voss database to link income and property values, and the consideration of income relative to property taxes paid in determining eligibility for state property tax relief programs. Updates to the database should occur in a timely manner, with data reviewed periodically to ensure the database’s accuracy and usefulness.

MR-7 PROPERTY VALUATION LIMITS/LIMITED MARKET VALUE

Metro Cities opposes the use of artificial limits in valuing property at market for taxation purposes since such limitations shift tax burdens to other classes of property and create disparities between properties of equal value.

MR-8 MARKET VALUE HOMESTEAD EXCLUSION PROGRAM

The Market Value Homestead Exclusion Program (MVHE) provides property tax relief to qualifying homesteads, through reductions in property tax values, which shifts property taxes

within jurisdictions. The MVHE replaced a former Market Value Homestead Credit Program, which provided credits on local government tax bills to qualifying properties, with reimbursements provided by the state to local governments.

Metro Cities opposes restoration of the former Market Value Homestead Credit, as reimbursements to local governments were inconsistent, and encourages further study of the exclusion program, with input by city officials, to determine the program's overall efficacy and its effects on local tax bases. Due to the recent rapid increase in home values, Metro Cities supported 2023 modifications to the homestead market value exclusion program to increase the benefit of the exclusion to qualifying homeowners and will continue to support future periodic modifications for qualifying homeowners. Changes to the homestead market value exclusion should be considered in concert with the impact of the homestead credit refund program.

MR-9 METROPOLITAN AREA FISCAL DISPARITIES PROGRAM

The Metropolitan Area Fiscal Disparities Program, enacted in 1971, was created for the purposes of:

- providing a way for local governments to share in the resources generated by the growth of the metropolitan area without removing existing resources;
- promoting orderly development of the region by reducing the impact of fiscal considerations on the location of business and infrastructure;
- establishing incentives for all parts of the area to work for the growth of the area as a whole;
- helping communities at various stages of development; and
- encouraging protection of the environment by reducing the impact of fiscal considerations to ensure protection of parks, open space and wetlands.

Metro Cities supports the Fiscal Disparities Program. Metro Cities opposes any diversion from the fiscal disparities pool to fund specific state, regional or local programs, goals or projects as such diversions contradict the purposes of the program.

Legislation that would modify or impact the fiscal disparities program should only be considered within a framework of comprehensive reform efforts of the state's property tax, aids, and credits system. Any proposed legislation that would modify or impact the fiscal disparities program must be evaluated utilizing the criteria of fairness, equity, stability, transparency, and

coherence in the treatment of cities and taxpayers across the metropolitan region and must continue to serve the program's intended purposes.

Metro Cities opposes legislation that would allow for capturing and pooling growth in residential tax capacity to fund specific programs or objectives.

Further studies or task forces to consider modifications to the fiscal disparities program must include participation and input from metropolitan local government representatives.

MR-10 STATE PROPERTY TAX

The state levies a property tax on commercial/industrial and cabin property. Since cities' only source of general funds is the property tax, Metro Cities opposes extension of the state property tax to additional classes of property.

Metro Cities opposes using the state property tax to fund specific programs or objectives generally funded through state income and sales tax revenue.

To increase transparency, Metro Cities supports efforts to have the state provide information on the property tax statement regarding the state property tax. Metro Cities opposes exempting specific classes of property under the tax as such exemptions shift the costs of the tax onto other classes of property.

MR-11 CLASS RATE TAX SYSTEM

Metro Cities opposes elimination of the class rate tax system or applying future levy increases to market value since this further complicates the property tax system.

MR-12 REGIONAL FACILITY HOST COMMUNITIES

Municipalities hosting regional facilities such as utilities, landfills or aggregate mining incur costs and effects such as environmental damage or lost economic development opportunities.

Communities should be compensated for the effects of facilities that provide benefits to the region and state. Metro Cities supports efforts to offset the negative effects of these facilities and activities on host communities. Metro Cities would prefer that municipalities be allowed to collect a host fee that may be adjusted when state decisions affect those fees.

MR-13 SALES TAX ON LOCAL GOVERNMENT PURCHASES

Metro Cities supported the 2013 reinstatement of the sales tax exemption for purchases of goods and services made by cities. This reinstatement does not apply to all local government purchases.

To ensure citizens receive the full benefit of this exemption, the law should treat purchases of all local government units the same, including purchases made by special taxing districts, joint powers entities, or any other agency or instrumentality of local government.

Metro Cities supports simplifying the process on the exemption for construction materials that is complex and cost ineffective or converting the process to a refund program. Metro Cities supported the law enacted in 2021 that exempts construction materials purchased to construct public safety facilities from state sales tax.

Metro Cities supports granting an extension of the motor vehicle sales tax exemption to all municipal vehicles that are used for general city functions and are provided by governmental entities. Currently, only certain vehicles, including road maintenance vehicles purchased by townships, and municipal fire trucks and police vehicles not registered for use on public roads, are exempt from the motor vehicle sales tax (MVST).

MR-14 CITY REVENUE STABILITY AND FUND BALANCE

Metro Cities opposes state attempts to control or restrict city fund balances, or to use city fund balances as a rationale for reducing state aids or property tax payment delays.

These funds are necessary to maintain fiscal viability, meet unexpected or emergency resource needs, purchase capital goods and infrastructure, provide adequate cash flow and maintain high level bond ratings.

MR-15 PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION (PERA)

Metro Cities supports employees and cities sharing equally in the cost of necessary contribution increases and a sixty percent employer/forty percent employee split for the PERA Police and Fire Plan. Metro Cities also supports state assistance to local governments to cover contribution burdens placed on cities over and above contribution increases required by employees. Cities should receive sufficient notice of increases so that they may take them into account for budgeting purposes.

Metro Cities opposes benefit improvements for active employees or retirees until the financial health of the PERA General Plan and PERA Police and Fire Plan are restored.

Metro Cities supports modifications to help align PERA contributions and costs, and reduce the need for additional contribution increases, including a modification of PERA eligibility guidelines to account for temporary, seasonal, and part-time employment situations, the use of pro-rated service credit and a comprehensive review of exclusions to simplify eligibility guidelines. Further employer contribution rate increases should be avoided until other cost alignment mechanisms are considered.

Metro Cities supports cities and fire relief associations working together to determine the best application of State Fire Aid. Flexibility in the application of aid, where combination departments exist, will ensure that fire services can be provided in the most cost-effective means possible.

Regarding police pension contributions, Metro Cities supports a proactive review of factors contributing to the financial status of police and fire pension plans, to ensure that structural adjustments are considered in conjunction with potential increases in employee and employer contribution rates. Specifically, an area that could be considered is contractual overtime impacts on pension levels.

In recent years, the number of public safety employees seeking duty disability determinations through the Public Employees Retirement Association (PERA) and making workers' compensation claims for line-of-duty injuries has accelerated. The current system for processing and addressing duty disability benefits can be incompatible with the goal of restoring good health and returning employees to work and the fiscal implications of the increasing number of claims are unsustainable for employers and, ultimately, taxpayers.

~~Metro Cities supported legislation initiated by the League of Minnesota Cities and enacted in 2023, to address mental injury and prevention and funding for related costs.~~

Metro Cities supports legislative efforts by the League of Minnesota Cities to address issues associated with public safety duty disability prevention, best practices and costs. Metro Cities also supports ongoing work by cities and other stakeholders to identify ways to enhance public safety physical and mental wellness, to gather empirical evidence related to treatability of mental injuries, and to developing tools, best practices, resources and guidance for identifying, preventing and responding to post-traumatic-stress-disorder (PTSD). Ongoing funding will be needed to continue addressing these challenges. (changes suggested by staff)

Metro Cities further supports full state funding for the Public Safety Officer Benefit account that reimburses employers for continued health insurance to police officers and firefighters injured in the line of duty, funding to reimburse local governments for providing paid time off to public safety employees who experience work related trauma and/or are seeking treatment for a mental injury, and funding for trauma training, early intervention, and mental health treatment.

Metro Cities supports reinstating the PERA aid that was paid to local units of government to help address increased employer contribution costs.

MR-16 STATE PROGRAM REVENUE SOURCES

Metro Cities opposes any attempt by the state to finance programs of statewide value and significance, that are traditionally funded with state revenues, with local revenue sources such as municipal utilities or property tax mechanisms. Statewide programs serve important state goals and objectives and should be financed through traditional state revenue sources such as the income or sales tax. Metro Cities further opposes substituting traditionally state funded programs with funding mechanisms that would disparately affect taxpayers in the metropolitan area. ~~For these reasons, Metro Cities opposed the metropolitan sales tax for the purposes of funding housing, that was enacted in 2023.~~ *(change recommended by staff)*

MR-17 POST-EMPLOYMENT BENEFITS

Metro Cities supported statutory changes that allow local governments to establish trusts from which to fund post-employment health and life insurance benefits for public employees, with participation by cities on a strictly voluntary basis, in recognition of differing local needs and circumstances. Cities should retain the ability to determine the level of post-employment benefits to employees.

MR-18 HEALTH CARE INSURANCE PROGRAMS

Metro Cities supports legislative efforts to control health insurance costs but opposes actions that undermine local flexibility to manage rising insurance costs.

Metro Cities encourages a full examination of the rising costs of health care and the impacts on city employers and employees. Metro Cities also supports a study of the fiscal impacts to both cities and retirees of pooling retirees separately from active employees.

MR-19 STATE BUDGET STABILITY

Metro Cities supports a state revenue system that provides for stability, flexibility, and adequacy, reduces volatility in state revenues and improves the long- term balance of state revenues and expenditures. Metro Cities supports a statutory budget reserve minimum adequate to manage risks and fluctuations in the state's tax system and a cash flow reserve account of sufficient size so that the state can avoid short- term borrowing to manage cash flow fluctuations.

Metro Cities supports the principle of representative democracy and opposes including tax and expenditure limits in the state constitution, as well as new constitutional amendments, as these limit flexibility by the Legislature and local governments to respond to unanticipated critical needs, emergencies, or fluctuating economic situations.

Metro Cities supports an examination of the property tax system and the relationships between state and local tax bases, with an emphasis on state budget cuts and effects on property taxes. State budget deficits must be balanced with statewide sources and must not further reduce

funding for property tax relief programs and aids to local governments that result in local governments bearing more responsibility for the costs of services that belong to the state.

MR-20 TAXATION OF ELECTRONIC COMMERCE

Metro Cities supports efforts to develop a streamlined sales and use tax system to simplify sales and use tax collection and administration by retailers and states. Metro Cities supports policies that encourage remote retailers to collect and remit state sales taxes in states that are complying with the Streamlined Sales and Use Tax Agreement.

Metro Cities opposes legislation that allows accommodation intermediaries such as online travel companies a tax exemption that terminates obligations to pay hotel taxes to state and local governments or otherwise restricts legal actions by states and localities. The Legislature in 2011 clarified that these services are subject to state sales tax. Metro Cities supports statutory changes to further clarify that all lodging taxes, whether administered by the state or locally, apply to total charges, including charges for services provided by accommodation intermediaries.

MR-21 PAYMENTS FOR SERVICES TO TAX EXEMPT PROPERTY

Metro Cities supports city authority to collect payments from tax exempt property owners to cover costs of services to those entities, similar to statutory authority for special assessments. Metro Cities opposes legislation that would exempt nonprofit entities from paying user fees and service charges.

MR-22 PROCEEDS FROM TAX FORFEITED PROPERTY

Metro Cities supports changes to state laws governing the proceeds for tax forfeited properties. Currently, counties can recover administrative costs related to a property before other allocations are made, and the law allows for the county to recoup a percentage of assessment costs once administrative costs are allocated. The result is often no allocation or a very low allocation, and usually insufficient level of proceeds available for covering special assessments, unpaid taxes, and fees to cities. State processes addressing tax-forfeited properties can have implications for local land use plans and requirements and can result in unexpected and significant fiscal impacts on local communities. The current process also does not require the repayment of unpaid utility charges or building and development fees.

Metro Cities supports statutory changes that balance repayment of unpaid taxes and assessments, utility charges and other fees and that more equitably allocates the distribution of proceeds between counties and cities.

MR-23 DEPUTY REGISTRARS

~~In 2019, state officials elected to replace the MNLARS system with the Vehicle Title and Registration System (VTRS), also known as MNDRIVE. The state Vehicle Title Registration System (VTRS), enacted in 2019, was intended to improve reliability and accuracy in the provision of driver and vehicle services. However, some system changes have created challenges that threaten the continued viability of local registrar offices. A 2022 Independent Expert Review found that the MNDRIVE system has increased overall reliability and accuracy across the driver and vehicle services ecosystem, but that deputy registrars are still experiencing difficulties that threaten their continued viability. Specifically, the transition to MNDRIVE has meant that more work is being done at service point counters and more staff time is being spent with customers. At the same time, simpler transactions have moved online.~~

~~Some registrar offices have relied on other local revenues, such as the property tax, to manage normal expenses due to unresolved glitches in the system and a shift from the state to the local level for additional processing time. These challenges have also created a high potential for negative public perceptions on local government services, on an issue over which local governments have no ability to control.~~

Metro Cities supports state funding to compensate local deputy registrars for unanticipated, increased costs associated with the MNDRIVE system. ~~and the shifting of per transaction processing burdens that may result from the implementation of MNDRIVE.~~ *(changes suggested by staff)*

As the state works to identify efficiencies in the vehicle registration process and system, policy makers must consider the effects of changes on the financial viability of deputy registrars resulting from decreases in transaction fees collected by local registrars. The perspectives from local deputy registrars should have increased weight in discussions regarding future MNDRIVE system enhancements.

Metro Cities supports increases to existing transaction fee levels that are set by state law, to ensure that local deputy registrars can sufficiently function and meet continually evolving local registrar service needs and address any necessary modifications to registrar operations to ensure these services can be provided safely to the public. Metro Cities further supports sharing revenue from mail-in and online transactions between Driver and Vehicle Services (DVS) and deputy registrars.

MR-24 SPECIAL ASSESSMENTS

When property owners challenge special assessments based on application of the special benefit test, some courts have interpreted “benefits received” to mean the oneyear increase in property value that is directly attributable to a construction project. There is currently no consistency between state laws and rulings by some courts on the term “benefits received”.

367 Metro Cities supports modifications to state laws governing special assessments for
368 construction projects or other improvements arising from legislative authority to clarify the
369 definition of “benefits received”. The modified definition should more closely align with how
370 special assessments are calculated and recognizes that the benefit of the improvement to a
371 property may be realized over time and not within one year.

428B.02 ESTABLISHMENT OF TOURISM IMPROVEMENT DISTRICT.

Subdivision 1.Ordinance.

(a) Upon a petition by impacted business owners, a governing body of a municipality may adopt an ordinance establishing a tourism improvement district after holding a public hearing on the district. The ordinance must include:

(1) a map that identifies the tourism improvement district boundaries in sufficient detail to allow a business owner to determine whether a business is located within the tourism improvement district boundaries;

(2) the name of the tourism improvement association designated to administer the tourism improvement district and implement the approved activities and improvements;

(3) a list of the proposed activities and improvements in the tourism improvement district;

(4) the time and manner of collecting the service charge and any interest and penalties for nonpayment;

(5) a definition describing the type or class of businesses to be included in the tourism improvement district and subject to the service charge;

(6) the rate, method, and basis of the service charge with intent, and penalties on delinquent payments for the district, including the portion dedicated to covering expenses listed in subdivision 4, paragraph (b); and

(7) the number of years the service charge will be in effect.

(b) If the boundaries of a proposed tourism improvement district overlap with the boundaries of an existing special service district, the tourism improvement district ordinance may list measures to avoid any impediments on the ability of the special service district to continue to provide its services to benefit its property owners.

Subd. 2.Notice.

A municipality must provide notice of the hearing by publication in at least two issues of the official newspaper of the municipality. The two publications must be two weeks apart and the municipality must hold the hearing at least three days after the last publication. Not less than ten days before the hearing, the municipality must mail, or deliver by electronic means, notice to the business owner of each business subject to the proposed service charge by the tourism improvement district. The notice must include:

(1) a map showing the boundaries of the proposed district;

(2) the time and place of the hearing;

(3) a statement that all interested persons will be given an opportunity to be heard at the hearing regarding the proposed service charge; and

(4) a brief description of the proposed activities, improvements, and service charge.

Subd. 3. Business owner determination.

A business must provide ownership information to the municipality. A municipality has no obligation to obtain other information regarding the ownership of businesses, and its determination of ownership shall be final for the purposes of this chapter. If this chapter requires the signature of a business owner, the signature of the authorized representative of a business owner is sufficient.

Subd. 4. Service charges; relationship to services.

(a) A municipality may impose a service charge on a business pursuant to this chapter for the purpose of providing activities and improvements that will provide benefits to a business that is located within the tourism improvement district and subject to the tourism improvement district service charge. Each business paying a service charge within a district must benefit directly or indirectly from improvements provided by a tourism improvement association, provided, however, the business need not benefit equally. Service charges must be based on a percent of gross business revenue, a fixed dollar amount per transaction, or any other reasonable method based upon benefit and approved by the municipality.

(b) Service charges may be used to cover the costs of collections, as well as other administrative costs associated with operating, forming, or maintaining the district.

Subd. 5. Public hearing.

At the hearing regarding the adoption of the ordinance establishing a tourism improvement district, business owners and persons affected by the proposed district may testify on issues relevant to the proposed district. The hearing may be adjourned from time to time. The ordinance establishing the district may be adopted at any time within six months after the date of the conclusion of the hearing by a vote of the majority of the governing body of the municipality.

§

Subd. 6. Appeal to district court.

Within 45 days after the adoption of the ordinance establishing a tourism improvement district, a person aggrieved, who is not precluded by failure to object before or at the hearing, may appeal to the district court by serving a notice on the clerk of the municipality or governing body. The validity of the tourism improvement district and the service charge imposed under this chapter shall not be contested in an action or proceeding unless the action or proceeding is commenced within 45 days after the adoption of the ordinance establishing a tourism improvement district. The petitioner must file notice with the court administrator of the district court within ten days after its service. The clerk of the municipality must provide the petitioner with a certified copy of the findings and determination of the governing body. The court may affirm the action objected to or, if the petitioner's objections have merit, modify or cancel it. If the petitioner does not prevail on the appeal, the costs incurred shall be

charged to the petitioner by the court and judgment entered for them. All objections shall be deemed waived unless presented on appeal.

Subd. 7. Notice to the commissioner of revenue.

Within 30 days of adoption of the ordinance, the governing body must send a copy of the ordinance to the commissioner of revenue.

History:

[2023 c 64 art 15 s 13](#)

Official Publication of the State of Minnesota
Revisor of Statutes

Minneapolis Tourism Improvement District (TID)

The Minneapolis Tourism Improvement District is a hotel-led initiative to attract more overnight visitors and drive visitor spending in the city. Funded by a 2% charge on hotel room revenue, the TID will generate approximately \$7 million annually for supplemental tourism marketing, sales and events. These funds will be governed by a committee of local hotel leaders to ensure strategic investment and community impact. Below is a FAQ to better understand this initiative.

Updated: June 10, 2025

What is a Tourism Improvement District?

This Tourism Improvement District (TID) is a hotel-led investment to attract more overnight visitors, and more business, to Minneapolis. It is a self-assessment by hotels to generate new, dedicated funding for specific tourism activities.

Are there any TIDs in Minnesota?

The Minneapolis TID is the first in our state. This form of supplement (self-assessed) funding only became an option after Minnesota passed enabling legislation in 2023. However, TIDs have been used throughout the U.S. since the late 1980s. There are currently over 200 communities in more than 20 states with TIDs.

What are some other U.S. cities with TIDs?

Albuquerque, N.M.	Anaheim, Calif.	Arlington, Texas
Baltimore	Billings, Mont.	Boston
Dallas	Denver	Detroit
Fort Worth, Texas	Lafayette, La.	Los Angeles
Louisville, Ky.	Memphis, Tenn.	Mobile, Ala.
Monterey, Calif.	Myrtle Beach, S.C.	Napa, Calif.
New Orleans	Newark, N.J.	Newport, R.I.
Palm Springs, Calif.	Philadelphia	Richmond, Va.

Sacramento, Calif.

Salt Lake City

San Antonio

San Diego

San Francisco

San Jose, Calif.

Seattle

Sioux Falls, S.D.

Spokane, Wash.

Tampa, Fla.

Tulsa, Okla.

Wichita, Kan.

Why does Minneapolis need a TID?

Minneapolis has recovered more slowly from the pandemic than many of its peer cities. Overall hotel occupancy remains lower, especially during holidays and winter. And tourism funding lags compared to the cities we compete against for meetings, conventions, sporting events and more.

The TID gives our hotels, and our city, an additional tool to invest in new tourism campaigns, events and strategies to attract more overnight visitors.

How will the TID work?

At hotels in Minneapolis with 50 or more rooms, the TID will collect 2% of room revenue only (it excludes any other expenses like food, drink, etc.) and will appear on the hotel guest's bill at checkout. The funds stay in Minneapolis and are reinvested in tourism efforts. A 2% charge is the industry average for TIDs across the country.

Will this raise taxes for Minneapolis residents?

No. This is not a tax on residents or city resources. The assessment applies only to hotel room revenue and is paid for by hotel guests.

How will the TID benefit Minneapolis residents?

More visitors mean more spending at local businesses, more opportunities for workers, and more tax revenue to help fund essential city services. By increasing tourism to Minneapolis, the TID helps build a healthier, more resilient economy for everyone in Minneapolis.

How much money will the TID generate?

The Minneapolis TID is projected to generate approximately \$7 million annually. These are new, supplemental dollars focused solely on growing the city's visitor economy.

What will the funds support?

TID funds can be invested to support new marketing and sales initiatives, as well as new special events and activations. Funds can also be used for tourism and hospitality workforce development. The goal is to bring more overnight visitors for meetings, events and conventions to our city.

Who will oversee the TID?

The TID will be managed by a governance committee made up of Minneapolis hotel leaders. The governance committee makes decisions about the use of the funds and will work closely with Meet Minneapolis to execute the plan.

If TID funds are for tourism, how will Meet Minneapolis be part of the TID?

While the TID will be led and managed by Minneapolis hotel leaders, Meet Minneapolis will be responsible for carrying out the tourism-related marketing and sales initiatives prioritized by the Minneapolis hotel community. In addition, Meet Minneapolis will handle the finances.

What are the next steps?

In 2024-25, a majority of hotel owners in Minneapolis agreed to form a TID. In May 2025, an ordinance authored by Council Member Katie Cashman (and co-authored by Council Member Michael Rainville, Council Member Robin Wonsley, Council Member Andrea Jenkins and Council Member Jamal Osman) was brought forward to the Minneapolis City Council. A public hearing was held on May 20, 2025, where the ordinance was advanced. On June 5, 2025, the ordinance was approved unanimously. Next, the Minneapolis hotel community will create a governance committee, and funds will start to be collected and invested.

If this is a self-assessment, why involve the city council?

The state statute requires TIDs to be designated by a local city or county. That means Minneapolis hotels need to petition city hall through the ordinance process to add this charge to the cost of a hotel room.

Why is tourism important for Minneapolis?

Tourism is an essential economic engine for our city. Visitor spending fuels local businesses, supports jobs, and generates tax revenue that helps pay for services like public safety and infrastructure. By investing in tourism, we're building a healthier economic foundation for our entire community.



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

EVALUATION REPORT

Consolidation of Local Governments

APRIL 2012

PROGRAM EVALUATION DIVISION
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Program Evaluation Division

The Program Evaluation Division was created within the Office of the Legislative Auditor (OLA) in 1975. The division's mission, as set forth in law, is to determine the degree to which state agencies and programs are accomplishing their goals and objectives and utilizing resources efficiently.

Topics for evaluations are approved by the Legislative Audit Commission (LAC), which has equal representation from the House and Senate and the two major political parties. However, evaluations by the office are independently researched by the Legislative Auditor's professional staff, and reports are issued without prior review by the commission or any other legislators. Findings, conclusions, and recommendations do not necessarily reflect the views of the LAC or any of its members.

A list of recent evaluations is on the last page of this report. A more complete list is available at OLA's web site (www.auditor.leg.state.mn.us), as are copies of evaluation reports.

The Office of the Legislative Auditor also includes a Financial Audit Division, which annually conducts an audit of the state's financial statements, an audit of federal funds administered by the state, and approximately 40 audits of individual state agencies, boards, and commissions. The division also investigates allegations of improper actions by state officials and employees.

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<http://www.auditor.leg.state.mn.us>

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OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

April 2012

Members of the Legislative Audit Commission:

Every level of government must be open to reform, particularly when a reform might result in cost savings or improved service delivery. With that goal in mind, you asked the Office of the Legislative Auditor to examine the potential for greater local government consolidation—and collaboration—in Minnesota.

We found that there are opportunities for increased consolidation and collaboration around the state, particularly among smaller jurisdictions with capital-intensive services or equipment needs. In addition, we found that local government officials are often open to considering consolidation proposals, but view its implementation as potentially complex, costly, and controversial. They also voiced a strong desire to manage consolidation and collaboration efforts themselves and not have them mandated by the state.

We recommend that the Legislature facilitate local efforts by providing grants to local governments that want to evaluate consolidation prospects. We also recommend that the Legislature give more consideration to the fact that state funding for local capital projects may inhibit local governments from considering the need to consolidate or collaborate with adjoining jurisdictions. In addition, the Municipal Boundary Adjustment Unit, along with counties, should also provide more information to local governments and citizens about consolidation and the state's processes.

Our report was researched and written by Valerie Bombach (project manager), Emi Bennett, and Becky Burand. During our evaluation, we received full cooperation from the Office of Administrative Hearings Municipal Boundary Adjustment Unit and representatives from counties, cities, and townships.

Sincerely,

James Nobles
Legislative Auditor

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Summary

There are opportunities around the state to increase collaboration and consolidation among local governments.

Key Facts and Findings:

- Minnesota has over 2,700 local units of government that range in size from very large to extremely small. (pp. 4-6)
- Consolidations among Minnesota local governments are rare. When they do occur, they are typically initiated by local officials and residents. (pp. 23-27)
- Consolidation can be a costly, controversial, and complicated undertaking, with no guarantee of savings or more efficient operations due to differences among potential partners in resources, services, and other factors. (pp. 38-45)
- In lieu of consolidation, cooperative service arrangements and incremental boundary adjustments are preferred methods to reconfigure local government services. (pp. 31-34, 62, 64)
- There are opportunities to increase collaboration and consolidation among local governments around the state, particularly among smaller jurisdictions with capital-intensive services. (pp. 39-40, 63, 65)
- State funding for local capital projects may impact consolidation efforts among some local governments. In the past, state funding has helped facilitate local collaborative projects; for others, funding diminished the need to consider collaboration or consolidation. (p. 59)

Key Recommendations:

- Consolidation efforts in Minnesota should continue to be led by local government representatives and citizens. Further, local officials should consider and pursue such opportunities. (p. 68)
- Minnesota local governments looking for service delivery options should survey citizens to determine their interest in consolidation. (p. 73)
- The Legislature should amend state laws to allow the state's chief administrative law judge to waive select procedural requirements for mergers among cities. (p. 74)
- The Legislature should provide grants for cities and townships to evaluate consolidation proposals. The Municipal Boundary Adjustment Unit and counties should make available more information and technical materials about consolidation. (p. 70)
- The Legislature should provide funding for a pilot project to (1) develop a more comprehensive process and guidelines for consolidating counties, and (2) facilitate a merger between counties interested in consolidating. (p. 77)
- The Legislature should consider ways to encourage more collaboration and consolidation among local governments when funding capital projects and capital grant programs. (p. 59)

Minnesota has several processes available to consolidate local governments, and local officials and residents most often have a say in the final outcome.

The ability to reduce local government costs through consolidation depends in part on the extent of service overlap and duplication among potential partners.

Report Summary

Minnesota had more than 2,700 local governments in 2010, and they ranged from very large to extremely small in population and size. Minnesota also had more local governments per capita and per square mile in 2007 than most other states.

Together, expenditures for counties, cities, and townships totaled about \$11.5 billion in 2009, some of which were to provide mandated services. Local governments relied mostly on taxes to fund their operations, with state grants and aids representing a smaller share of revenues in recent years.

In Minnesota, counties, cities, and townships can use various options to improve their efficiencies and service delivery. In particular, local officials or residents may seek to dissolve or fully consolidate local governments.

State law outlines several processes for local governments to combine their jurisdictions. For example, the Office of Administrative Hearings Municipal Boundary Adjustment Unit oversees consolidation and other boundary adjustments among cities, or cities and townships, and the chief administrative law judge may initiate some proceedings. However, counties handle proceedings among townships, while petitions for county mergers are handled by the Secretary of State and the Governor. Local officials and residents also have a say in approving most types of consolidation actions.

Rather than consolidate, most local representatives prefer alternative approaches to improve services and costs.

Since 1980, there have been relatively few actions to combine local governments (about 38). Most local officials said that their jurisdiction would not benefit from merging with another local government and that they preferred cooperative service agreements to streamline services and reduce costs.

Initiating and implementing a consolidation can be costly, time-consuming, and may encounter many obstacles. In particular, local representatives said that opposition by local officials and voters, statutory requirements, or differences in how local governments finance and provide services may impede consolidation efforts.

Consolidation proposals should be examined on an individual basis to determine when consolidation would be beneficial and a better alternative than other options.

According to national research, consolidation of local governments does not guarantee cost savings or more efficient operations. Studies have found that consolidations have had mixed results in terms of cost savings, service quality, and responsiveness of delivery.

Further, the potential for improving local government efficiencies through consolidation depends on a number of factors, including the assets and debts that potential partners would bring to a merger. A jurisdiction's ability to reduce its budget and overhead costs through consolidation depends in part on the extent of service overlap and duplication

Although most local government representatives said that their jurisdiction would not benefit from consolidation, many said that some Minnesota local governments should consolidate.

Many local governments lack the expertise or resources to sufficiently evaluate the costs and benefits of consolidation prospects.

among potential partners and, thus, the ability to eliminate excess equipment, facilities, or staff.

Among the benefits to consolidation, the literature generally confirms the potential for improving average costs per capita among smaller jurisdictions that provide mostly capital-intensive services. However, the benefits will likely vary among stakeholders and depend in part on the objectives of the consolidation.

Among several recent consolidation efforts in Minnesota, the need for large capital investments and increased demand for services were motivating factors. Local officials cited improved long-range planning and facilities, higher bond ratings, and improved average costs per capita as benefits from the merger. However, for some residents, the costs of consolidation outweighed the benefits, and voters rejected some proposals.

Local jurisdictions should retain control over consolidation efforts, rather than have the state decide which entities should merge.

Most local representatives and others we spoke with said that local governments and citizens, and not a state entity, should determine when and if local governments should consolidate. Further, over the last three decades, more locally directed initiatives than state directed initiatives resulted in mergers in Minnesota, and national research reports similar findings. Some of this success may be because determining possible cost savings and service improvements among potential partners requires knowledge of the government entities and their service arrangements, which is best provided

when involving local government staff, officials, and residents.

To facilitate more consolidations among cities, the Legislature should consider granting the state's chief administrative law judge authority to waive procedural requirements under *Minnesota Statutes* 2011, 414.041. Specifically, local officials viewed some requirements for appointing a consolidation commission as too challenging to comply with, particularly for smaller entities.

Local officials should consider and pursue opportunities to consolidate with neighboring jurisdictions.

Many county, city, and township officials indicated support for consolidation as an option for their own or other jurisdictions. These officials and others we spoke with had concerns about duplication or overlap of similar services and equipment in their service area.

Local officials will need to clearly assess voter interest, perhaps through surveys or focus groups, and reconcile residents' service demands when developing consolidation plans and proposals. Among recent consolidation efforts, voters had strong concerns about preserving existing zoning and land use ordinances and fairly allocating property tax burdens.

The Legislature should provide grants to help local governments study consolidation prospects.

Many officials that expressed interest in consolidation said that they would not undertake a merger effort without first thoroughly evaluating a proposal, but they had neither the time nor expertise to do so. They also said it would be difficult to

More work is necessary to further develop the process and guidelines for county consolidations.

There may be greater potential for improved efficiencies among smaller local governments with capital-intensive services, capital projects, or equipment.

divert monies from services for such a study in times of fiscal constraints.

To help with these efforts, the Municipal Boundary Adjustment Unit and counties should provide more information and technical materials to local governments and residents regarding consolidation.

Given their statutory role and responsibilities, Minnesota law provides little guidance for counties to consolidate.

Counties may consolidate under the same locally directed process—*Minnesota Statutes*, 465.81-465.86—that is available to cities and townships. However, other state laws provide for a different process, but contain minimal information for carrying out a merger.

Counties also serve a distinct role in delivering state-supervised services and other mandated functions on behalf of county residents and some county officials voiced concerns about these requirements as obstacles to consolidation. When compared with a sample of other states, Minnesota imposes a higher threshold to initiate and approve a merger among counties.

Proposing a consolidation among two or more counties would be a large undertaking, in part due to a lack of experience in combining Minnesota counties. The investment required to carry out an initiative and present the question to voters also is of concern to county representatives, particularly when voters may reject the proposal.

More work by state and local officials is necessary to further develop the process and guidelines for county consolidations. The Legislature should provide funding for a pilot

project to address these issues and to facilitate a merger between two counties demonstrating a significant interest in consolidation.

The Legislature should give greater consideration to how state funding for local capital projects affects consolidation efforts.

The state's funding of some capital projects—mostly in smaller jurisdictions—had diminished the probability of some local governments consolidating, according to several local representatives. Specifically, because state funds supported these capital projects, there was no longer an incentive for the recipients to collaborate or consolidate with others. On the other hand, state funding for local projects made it possible for other jurisdictions to carry out large scale collaboration or functional consolidation of some services.

Capital costs were a primary factor in recent consolidation efforts in Minnesota and a deciding factor for voters in approving or rejecting some mergers. There may be greater potential for improved efficiencies among local governments with capital-intensive services, capital projects, or equipment.

Introduction

Minnesota has over 2,700 local governments, and they range from very large to extremely small. Both the number of local governments and their wide variation in capacity have caused legislators and others to periodically consider the possible benefits of consolidation. It is a particularly relevant issue now, a time of intense searching for changes that will improve the performance and cost-effectiveness of government at all levels.

But local government consolidation is a complex and sensitive concern: both benefits and costs should be considered, as well as alternatives such as cooperative service agreements. To help the Legislature give the issue that kind of consideration, the Legislative Audit Commission directed the Office of the Legislative Auditor for an evaluation. In response, we designed this evaluation to address the following questions:

- **To what extent have Minnesota townships, cities, and counties pursued consolidation? How has consolidation affected the costs and services of merged jurisdictions?**
- **What factors facilitate or inhibit consolidation? Should the state create incentives for consolidation? If so, what approach should the state use?**
- **To what extent have local governments used cooperative agreements to streamline services and reduce costs?**

Our evaluation focused on Minnesota counties, cities, and townships, and did not include special districts or school districts. In our work, we did not seek to determine the optimal size, number, or configuration of local governments in Minnesota, nor did we examine whether or not certain entities should consolidate. Rather, we looked at the existing laws and examined Minnesota's history of local government consolidation over the last 30 years.

To provide context for our evaluation, we analyzed data from the U.S. Census Bureau's Decennial Census and Census of Governments for Minnesota and other states, as well as 2009 financial data reported by local governments to the Minnesota State Auditor's Office. We also reviewed current and historical laws regarding Minnesota local governments, how they may be formed, and their roles in delivering services.

To determine the extent to which local governments in Minnesota pursued consolidation over the past three decades, we identified the various ways that local jurisdictions can be merged or their boundaries restructured. We also analyzed data on boundary adjustments filed with the Secretary of State and the Municipal Boundary Adjustment Unit in the Office of Administrative Hearings between 1980 and 2010.

We conducted eight case studies of past consolidation efforts in Minnesota. Where available, we interviewed local officials and other stakeholders, and compiled and reviewed relevant documents on these initiatives. We also collected data from and spoke with officials in nine other states to compare consolidation outcomes and processes used in Minnesota with those used elsewhere. However, because consolidation does not happen very often in Minnesota, we also conducted a review of the national literature to examine the impact of local government consolidation on cost savings and efficiencies, as well as factors affecting the outcome of consolidation attempts.

To obtain additional local government perspectives on consolidation and cooperative service agreements, we conducted three surveys: one of county chief administrators, one of city chief administrative officers, and one of township clerks. We mailed questionnaires to officials in all 87 counties, 855 cities, and 1,785 townships in the state. Our response rates were: 82 percent for counties, 67 percent for cities, and 71 percent for townships. We conducted follow-up interviews with some survey respondents from across the state.

We also gathered feedback from many other individuals about the value of reducing the number of local governments in Minnesota, and consolidation generally. To do this, we spoke with numerous stakeholders, including elected officials; current and former Municipal Boundary Adjustment Unit staff; legislators and legislative staff; staff from various state agencies and the Metropolitan Council; and representatives from a number of interest groups and organizations, including the Association of Minnesota Counties, the League of Minnesota Cities, the Minnesota Association of Townships, Metro Cities, the Minnesota Inter-County Association, and the Minnesota Chamber of Commerce.

Chapter 1 of this report provides an overview of local governments in Minnesota, the services they provide, and state oversight of local government consolidation. In Chapter 2, we discuss the processes available to merge local jurisdictions in Minnesota and the extent to which they have been used over the last 30 years. In addition, Chapter 2 looks at local governments' use of cooperative service agreements and other boundary adjustment actions in lieu of consolidation. Chapter 3 examines why local governments consolidate and presents key findings and outcomes from our case studies and literature review. In Chapter 4, we provide background information on local governments' finances and briefly discuss the impact of state funding on local governments' consolidation efforts. In Chapter 5, we present local government officials' perspectives on consolidation, examine the role of the state and local governments in the consolidation process, and discuss several obstacles to combining Minnesota local governments. The Appendix at the end of this report lists the statutorily required factors local governments must examine when considering consolidation. Lastly, we include a "Further Reading" section at the end of this report, with a sample list of national research, case studies, and other literature regarding consolidation.

Background

The pros and cons of each consolidation proposal should be examined carefully.

Consolidation is often proposed as a way to reform government. For example, it is frequently suggested that state governments, as well as the federal government, would operate more cost-effectively with fewer departments, agencies, boards, and commissions. Some reform advocates also suggest that reducing the number of separate units of local government—counties, cities, townships, and special purpose districts—could achieve greater efficiencies and cost savings. On the other hand, many public officials and government reform experts caution that consolidation, particularly at the local level, may not always produce positive results. At the very least, they suggest that the pros and cons of each consolidation proposal should be examined carefully. In addition, they recommend that alternatives to consolidation, such as cooperative service agreements, should be considered.

In this report, we analyze various factors we think are relevant for considering local government consolidation as a government reform initiative. We focus on actions by either state government or local governments to reduce the number of counties, cities, and townships. We start this chapter by briefly describing the number and type of local governments in Minnesota, how they are formed and their purposes, the options (including consolidation) for configuring and delivering their services, and the role of the state in overseeing these activities.

LOCAL GOVERNMENTS IN MINNESOTA

In Minnesota, the term “local government” refers to counties, statutory and home rule charter cities, townships, and special districts.¹ With the exception of special districts, these local government units are also sometimes referred to as general purpose governments or political subdivisions. For the purposes of this evaluation, we include counties, cities (also referred to as municipalities), and townships in our definition of local government unit (LGU).

In addition to these LGUs, Minnesota also contains “unorganized territories” or “congressional townships,” which are typically 36-square-mile areas that have no governance structure; these areas often receive services from their county and/or nearby cities. Townships are generally formed from unorganized territories in order to provide more direct governance and services to residents. We also

¹ See, for example, *Minnesota Statutes* 2011, 4A.07, subd. 1; 216D.01, subd. 7; and 473.121, subd. 6. Minnesota has two types of cities: statutory (operating under the statutory city code) and home rule charter (operating under a local charter that may contain provisions different from state law). A “town” is the governmental or political organization and a “township” generally refers to the geographic congressional territory without connection to the governmental organization; Minnesota laws use the terms interchangeably. Throughout this report, the terms town and township both refer to the governmental organization. Some laws include school districts in the definition of local governments, but school districts and special districts were not part of our evaluation.

reference select types of special districts in our report, although special districts were not the direct focus of our evaluation.²

Number and Size

To provide context for our discussion about consolidating Minnesota's local governments, we looked at the number, population, and size of LGUs in the state. We also examined local governments and their populations on a regional level using Minnesota's 13 economic development regions and compared Minnesota's LGUs to LGUs in other states. Figure 1.1 provides a general map of Minnesota and its counties, as well as the state's economic development regions. Based on data from the most recent decennial U.S. Census:

Minnesota had more than 2,700 local government units in 2010.

- **In 2010, there were 87 counties, 854 cities, and 1,785 townships in Minnesota, with minimal restrictions on the size or formation of these local governments.**

Minnesota had more than 2,700 local government units in 2010.³ Although Minnesota law does not impose restrictions on the number or location of counties, cities, and townships, statutes do outline parameters for the formation of *new* counties and towns (but not cities). Specifically, a new county must contain at least 400 square miles and have at least 4,000 inhabitants.⁴ For townships, new townships generally must have an area of least 36 square miles, unless certain other conditions are met.⁵

The population and size of Minnesota's local governments varied greatly in 2010. About 82 percent of the state's 5.3 million residents lived in a city, and the remainder resided in either a township (17 percent) or unorganized territory (1 percent). Overall, there were 85 cities and 213 townships with populations less than 100, and 2 cities and 4 counties with populations greater than 250,000.

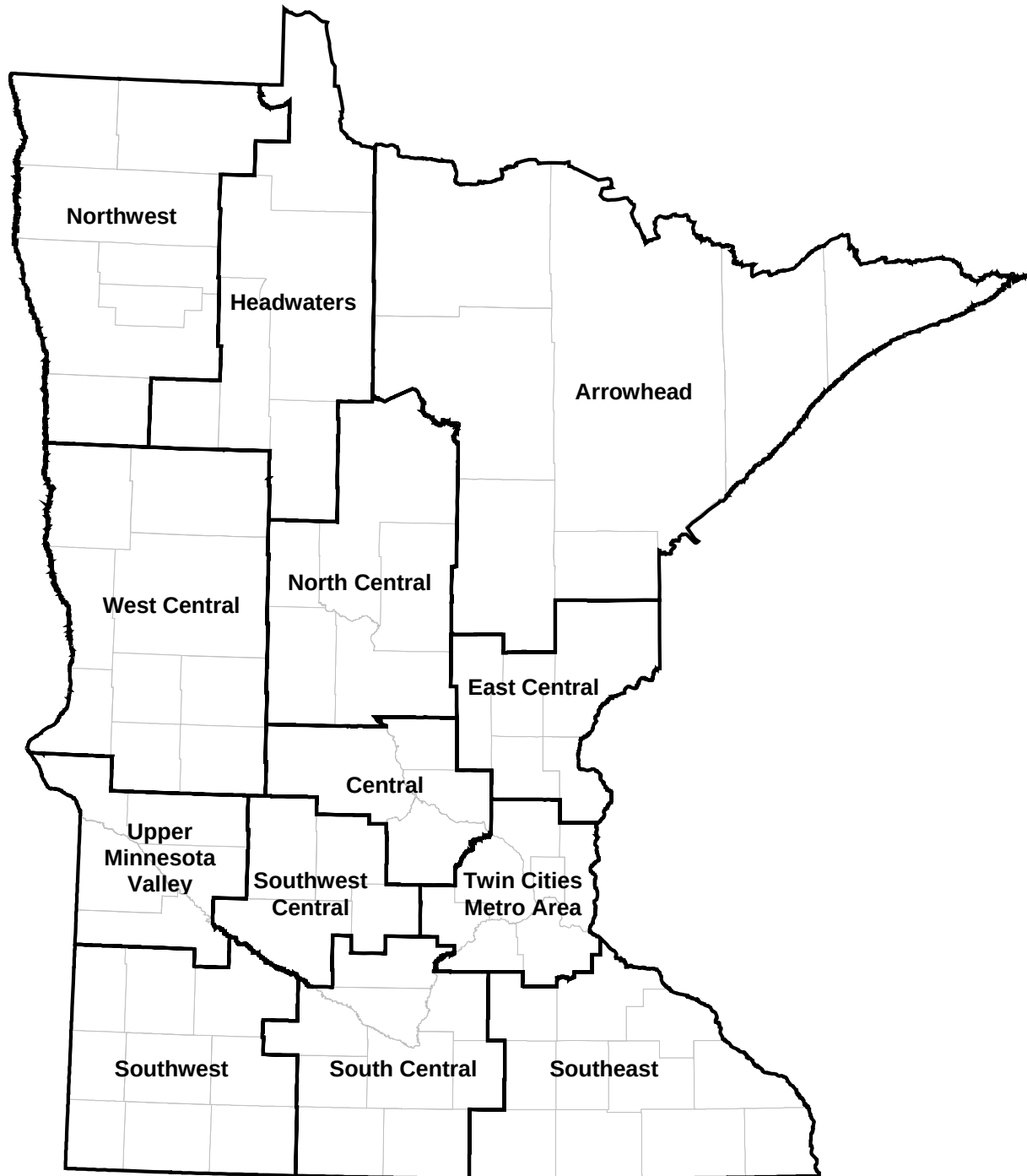
² *Minnesota Statutes* 2011, 6.465, subd. 3, defines a special district as a "public entity with a special or limited purpose" that is not included as a component of a city, county, or town. Many special districts are formed to carry out services passed on from these other local governments. Special districts include, for example, hospital districts, watershed districts, sanitary districts, regional railroad authorities, housing and redevelopment authorities, and the Metropolitan Council.

³ Minnesota also had 456 special districts in 2007 and 79 unorganized territories in 2010.

⁴ *Minnesota Statutes* 2011, 370.01. A proposed new county also must have a total taxable market value of at least 35 percent of (1) the total taxable market value of the existing county, or (2) the average total taxable market value of the existing county (from which the new county would be formed).

⁵ Under *Minnesota Statutes* 2011, 379.02, no town shall be so formed, having less than 36 square miles, nor have its boundaries changed to reduce its territory below that area, unless after such division it shall have at least 25 qualified voters therein, and real estate valued at \$30,000 or more; and no town shall be divided or have any part detached therefrom so as to make its area less than 36 square miles, except upon the petition of at least two-thirds of the voters residing in one or both areas. When Minnesota was first organized as a state, any new township had to have a minimum of 100 inhabitants. *Minnesota General Laws* 1858, chapter 75, art. 1.

Figure 1.1: Map of Minnesota County Boundaries and Economic Development Regions, 2011



SOURCES: U.S. Census Bureau and Minnesota Land Management Information Center.

As shown in Table 1.1, city populations ranged from 5 (Funkley and Tenney) to 382,578 (Minneapolis); county populations varied from a low of 3,558 (Traverse) to a high of 1.15 million (Hennepin). The geographic size of LGUs also varied; for example, county size ranged from 170 square miles (Ramsey) to 6,860 square miles (St. Louis).

Table 1.1: Population and Area of Minnesota Local Government Units (LGUs), 2010

Population	Median	Minimum		Maximum	
		Number	LGU	Number	LGU
Counties	22,431	3,558	Traverse	1,154,514	Hennepin
Cities	685	5	Funkley and Tenney ^a	382,578	Minneapolis
Townships	290	5	Hangaard	10,949	White Bear
Area (Square Miles) ^b					
Counties	717.1	170.1	Ramsey	6,859.5	St. Louis
Cities	1.3	<0.1	Tenney ^a	186.4	Hibbing
Townships	35.7	2.7	Grey Cloud Island	587.3	Fall Lake

NOTE: Local government units include counties, cities, and townships.

^a The City of Tenney dissolved in 2011.

^b Measured in total area (land and water).

SOURCE: Office of the Legislative Auditor, analysis of U.S. Census Bureau 2010 Census data.

The population and size of Minnesota's local governments varied greatly in 2010.

As we describe later in this report, local governments often participate in cooperative service agreements with neighboring jurisdictions to either provide or receive services on behalf of their residents. Thus, we think it is useful to assess the number of LGUs per population on a broader, regional level. We found that:

- **In 2010, the number of local governments per capita varied considerably among Minnesota's economic development regions.**

As shown in Table 1.2, the Twin Cities Metro Area Region had the lowest number of LGUs per capita—0.7 per 10,000 population—while the Northwest Region had the highest—33.2 LGUs per 10,000 population. The number of LGUs per 100 square miles ranged from about 1.2 in the Arrowhead Region to 6.4 in the Twin Cities Metro Area Region. The differences among various regions on these measures may be due to many factors, including geographic size, population density, demographics, and service needs of residents.

Table 1.2: Minnesota Local Government Units (LGUs) per Capita and Area by Economic Development Region, 2010

Economic Development Region and Region Number	Total Number of LGUs ^a	LGUs per 10,000 Population	LGUs per 100 Square Miles ^b
West Central—4	330	14.9	3.8
Southeast—10	306	6.2	4.4
Northwest—1	286	33.2	3.4
Arrowhead—3	256	7.8	1.2
Southwest—8	251	21.1	4.2
South Central—9	227	9.9	4.3
North Central—5	220	13.5	3.5
Twin Cities Metro Area—11	190	0.7	6.4
Upper Minnesota Valley—6W	136	30.1	4.0
Headwaters—2	135	16.3	1.8
Central—7W	132	3.3	4.4
East Central—7E	131	8.0	3.7
Southwest Central—6E	126	10.6	4.2
Minnesota	2,726	5.1	3.1

NOTES: Shading represents the median for each measure. In addition to LGUs, the following regions of the state had unorganized territories: Arrowhead (34 unorganized territories), Headwaters (30), Northwest (8), North Central (6), and Twin Cities Metro Area (1-Fort Snelling). The relatively high number of unorganized territories in two regions is partly because two Minnesota counties—Lake of the Woods County in the Headwaters Region and Koochiching County in the Arrowhead Region—do not have organized township governments; this characteristic is also reflected in their relatively low number of LGUs per square mile. Cities that straddle more than one economic development region were included in the region assigned to the county that contained the majority of the city's population, land area, and/or city hall.

^a Local government units include counties, cities, and townships.

^b Measured in total area (land and water).

SOURCE: Office of the Legislative Auditor, analysis of U.S. Census Bureau 2010 Census data.

Among all states, Minnesota had the fifth highest number of local governments per capita in 2007.

When we compared Minnesota's local governments to those in other states, we also found that:

- **In 2007, Minnesota had more local government units per capita and per square mile than most other states.**

Minnesota had the second-highest number of local governments (counties, cities, and townships) out of all 50 states, as shown in Table 1.3.⁶

⁶ For this analysis, we used the most recent data available from the U.S. Census Bureau Census of Governments.

Table 1.3: Local Government Units (LGUs) per Capita and Area, Minnesota and Comparison States, 2007

Comparison State	Number of LGUs	National Rank	LGUs per 10,000 Population	National Rank	LGUs per 100 Square Miles ^a	National Rank
Minnesota	2,729	2	5.1	5	3.1	8
Pennsylvania	2,628	3	2.1	15	5.7	2
Ohio	2,334	4	2.0	16	5.2	3
Wisconsin	1,923	6	3.4	9	2.9	11
Michigan	1,858	7	1.9	18	1.9	18
Indiana	1,666	9	2.6	10	4.6	5
New York	1,604	10	0.8	28	2.9	10
South Dakota	1,291	13	15.9	2	1.7	20
Georgia	689	16	0.7	31	1.2	27
Washington	320	32	0.5	42	0.4	38
United States						
Total	39,043		1.3		1.0	
Median	458		1.2		1.2	
Minimum	4		<0.1		<0.1	
Maximum	2,833		25.7		6.7	

NOTES: Local government units include counties, cities, and townships, or comparable units as defined by the U.S. Census Bureau Census of Governments. Rankings are out of 50 states, where "1" indicates the state with the highest number of LGUs, LGUs per capita, or LGUs per area. We selected nine states for comparison purposes based on the number of LGUs and the geographic region of the country, among other factors.

^a Measured in total area (land and water).

SOURCE: Office of the Legislative Auditor, analysis of U.S. Census Bureau 2007 Census of Governments data.

**However,
Minnesota had
fewer special
districts per
capita than most
other states.**

Minnesota also ranked fifth in the number of LGUs per capita and eighth in the number of LGUs per square mile.⁷ Minnesota's relatively high rank on these measures is partly due to the existence of township governments here and in just 19 other states.⁸ However, among all 50 states, Minnesota had the highest number of townships, seventh-highest number of municipalities, and fourteenth-highest number of counties.⁹

In contrast with its relatively high number of counties, cities, and townships, Minnesota had fewer special districts than most other states in 2007. Minnesota ranked in the lower half of all states, with 0.9 special districts per 10,000

⁷ The four states with more general purpose local governments per capita than Minnesota were other Midwestern states with townships—North Dakota, South Dakota, Kansas, and Nebraska.

⁸ States with township governments had an average of 1,367 local governments, or more than three times the average number of LGUs in states without townships. States without townships had an average of 390 units of local government.

⁹ On average, states in the U.S. had 63 counties, 390 municipalities, and in states with townships, 826 townships.

population, and 0.5 special districts per 100 square miles.¹⁰ In Chapter 2, we examine trends in the number of LGUs and their populations to help illustrate the extent of local government consolidations.

Purpose of Local Governments

In Minnesota, state law lays out processes for forming a county, city, or township government. Under the Minnesota Constitution, all local governments derive their powers from the Legislature. The Constitution says:

The legislature may provide by law for the creation, organization, administration, consolidation, division and dissolution of local government units and their functions, for the change of boundaries thereof, for their elective and appointive officers including qualifications for office and for the transfer of county seats....¹¹

The Legislature has authority over the formation and purpose of local governments.

The basic notion that local units of government are creations of the state legislature has been well established.¹² Within this context, the Minnesota Legislature has carved out powers and functions for the state's local governments. As prescribed in state statutes:

- **In Minnesota, counties generally have distinct roles and responsibilities, while cities and townships have many overlapping responsibilities and service options.**

Counties historically have been considered “agencies of the state.” That is, counties perform certain administrative functions and deliver certain services to residents as instructed by the Legislature—either directly or through executive branch agencies—although counties may also offer other services when authorized by law.¹³ Counties are required, for example, to have a county sheriff, attorney, auditor, social service agency, and 911 telecommunications system, as shown in Table 1.4. In addition, counties are the only type of LGU that can provide a license bureau, a park district, and community corrections services.

¹⁰ Among all states, Minnesota's rank was 32 on the number of special districts per 10,000 population, and 40 on the number of special districts per 100 square miles.

¹¹ *Minnesota Constitution*, art. XII, sec. 3. *Minnesota Constitution*, art. XII, sec. 4, also grants any local government that adopts a home rule charter more substantive authority in governing its community. However, the provision requires legislation to implement such authority.

¹² For example, see United States Supreme Court, *City of Trenton v. State of New Jersey*, 262 U.S. 182, 43 S. Ct. 534 (1923); and Minnesota Supreme Court, *Town of Bridgie and Others v. County of Koochiching and Others*, 277 Minn. 320, 35 N.W.2d 537 (1948).

¹³ The 1987 Legislature authorized Ramsey County to obtain “home rule charter” status—a status that allows the county to exercise additional powers not otherwise prescribed by the state.

Table 1.4: Key Services Provided by Minnesota Counties, Cities, and Townships, 2011

Entity	Service
County	<i>Required Services</i> • Administer social service programs, including public assistance and child welfare, through a social service agency • Operate a 911 emergency telecommunications system • Provide public safety services through a county sheriff's office • Provide legal services, including giving legal advice on county matters and prosecuting felonies, through a county attorney's office • Order autopsies through a county coroner or medical examiner's office • Conduct financial audits and prepare financial statements for the county • Record, transcribe, and make various county records and documents available to the public <i>Optional Services</i> • Establish a license bureau to issue any state license or permit • Plan for future development and adopt zoning regulations and restrictions^a • Conduct a solid waste management program^b • Develop and operate a community-based corrections program^c • Repair, maintain, and plow highways, roads, and bridges
City	<i>Optional Services</i> • Create departments and advisory boards as deemed necessary for the proper management and operation of city affairs • Provide public safety services through a police department • Establish and maintain sewers • Establish and operate a fire department • Plan for future development and adopt zoning regulations and restrictions • Carry out a housing and redevelopment program • Provide and regulate the water supply • Repair, maintain, and plow streets • Operate and maintain a cemetery
Township	<i>Optional Services</i> • Provide for police protection • Contract with the county, a nearby city, or volunteer fire department for fire protection • Repair, maintain, and plow roads and bridges • Buy and maintain a public dump • Operate and maintain a cemetery • Plan for future development and adopt zoning regulations and restrictions <i>In addition to the above services, urban townships can, for example:</i>^d • Establish and operate a fire department • Engage in industrial and commercial development projects

NOTES: The services listed above are not exhaustive and only represent a sample of those provided by local governments. In addition, statutes require local governments to elect or appoint specific positions, or impose requirements on the services they do provide.

^a Per *Minnesota Statutes* 2011, 394.21, this provision does not apply to Hennepin and Ramsey counties.

^b Per *Minnesota Statutes* 2011, 400.02, this provision does not apply to counties in the seven-county metro area.

^c A county must have a population of 30,000 to provide a community-based corrections program. Two or more contiguous counties with an aggregate population of 30,000 can jointly provide these services.

^d Per *Minnesota Statutes* 2011, 368.01, towns that meet certain criteria can possess urban powers similar to those of cities.

SOURCES: Office of the Legislative Auditor, summary of select *Minnesota Statutes* 2011.

Counties, and not a state entity, are responsible for approving consolidations among townships.

Counties also have a unique role among local governments in that they are responsible for approving boundary adjustments among townships as requested by their residents and for dissolving a township under certain conditions.¹⁴ We discuss this county function and township consolidations in later sections of this report.

Most of Minnesota's 87 counties were formed through an act of the Legislature, although some were established or changed by voters under processes authorized in state law.¹⁵ The number and boundaries of Minnesota counties have not changed since 1922, when the last county established—Lake of the Woods County—was created from territory that had been part of Beltrami County.

In contrast with counties, cities and townships have the option to provide certain services outlined in law to their residents and may provide different types and levels of service.¹⁶ Further, cities and townships are created on the initiative of property owners and exist to act on behalf of the general welfare of their residents.¹⁷ Minnesota laws, however, specify areas best served by either a city or a township; for example, “the public interest requires that municipalities be formed when there exists or will likely exist the necessary resources to provide for their economical and efficient operation.”¹⁸ In addition, state law broadly defines the scope of cities' services, where “municipal government most efficiently provides governmental services in areas intensively developed for residential, commercial, industrial, and governmental purposes.” For example, cities may have a housing and redevelopment program and provide and regulate water to residents.

For townships, Minnesota law states that “township government most efficiently provides governmental services in areas used or developed for agricultural, open space, and rural residence purposes.”¹⁹ That is, township governments typically serve areas not served by cities, and many provide fewer types of services than cities. However, the 1907 Legislature established a provision under which larger townships could adopt “urban powers”—powers and authority that are similar to

¹⁴ *Minnesota Statutes* 2011, 379.02, 365.01, 365.45-365.49, and 368.47.

¹⁵ *Minnesota Territorial Laws* 1849, chapter 5, secs. 1-9, and *Minnesota Statutes* 2011, 2.01.

¹⁶ This discussion pertains primarily to statutory cities, whose powers are enumerated in statute. Although state law grants cities discretion on the services they may provide, some laws impose requirements on the delivery of specific services. The Legislature also has divided cities into four classes—based on population—as a way to provide powers to or impose duties on cities of a certain size. Under *Minnesota Statutes* 2011, 410.01, Minnesota had 4 first-class cities (those with more than 100,000 inhabitants); 51 second-class cities (more than 20,000 and no more than 100,000 inhabitants); 40 third-class cities (more than 10,000 and no more than 20,000 inhabitants); and 759 fourth-class cities (not more than 10,000 inhabitants) in 2010.

¹⁷ *Minnesota Statutes* 2011, chapter 379, 365.10, and 414.02. The city incorporation process may be initiated by either a petition of 100 or more property owners or a town board resolution, which must be approved by township voters.

¹⁸ *Minnesota Statutes* 2011, 414.01, subd. 1a.

¹⁹ *Minnesota Statutes* 2011, 414.01, subd. 1a(2).

In Minnesota, counties, cities, and townships may provide some of the same services.

those of statutory cities.²⁰ In 2010, 218 of the state's 1,785 townships had large enough populations to be eligible to have urban powers.²¹

Most township governments were formed from Minnesota's unorganized territories.²² Unlike counties and cities, where elected officials are authorized to act on local jurisdictional matters and spend monies, a township board generally must receive approval from township residents to act.²³ Specifically, the township board of supervisors must hold public meetings for voters to weigh in on most township matters, including any property tax levies of township residents.²⁴ Urban townships, however, have more flexibility in the administration and delivery of their services.²⁵

Despite the differing roles of counties, cities, and townships, they have authority to provide some of the same services. Both cities and townships can provide—or provide for—fire protection services, for example. All three LGU types may operate and maintain cemeteries, provide for public parks, and maintain roads. Their authority to provide similar services means that LGUs with overlapping jurisdictions could potentially provide the same, or duplicate, services for these areas. For example, duplication of services could occur as part of snow plowing or maintaining roads. Under this scenario, neighboring jurisdictions would need to coordinate responsibility for servicing overlapping roadways to avoid duplicating work activities. Neighboring jurisdictions also could have the same services in close proximity to one another, such as public parks or fire departments.

OPTIONS FOR SERVICE DELIVERY AND RESTRUCTURING

Discussions about reforming government structure and services often first focus on what processes and restructuring options are available to local governments. Currently:

- **Minnesota local governments have a continuum of options available for delivering services and organizing their boundaries.**

²⁰ *Laws of Minnesota* 1907, chapter 193, sec. 1. Under *Minnesota Statutes* 2011, 368.01, a town with 1,200 or more residents or a town within 20 miles of the city hall of a first-class city with a population of 200,000 has urban township powers. In addition, a town with a population of 1,000 or more also can possess urban powers upon affirmative vote of its electors.

²¹ As of 2011, there were at least 55 townships with urban powers granted to them through *Minnesota Statutes* 2011, chapter 368, or various other special laws.

²² Minnesota townships were originally created through the federal land ordinances of 1785 and 1787. These ordinances provided for the survey, sale, and legal organization of the territory north and west of the Ohio River into congressional townships that were six miles square.

²³ *Minnesota Statutes* 2011, chapter 365.

²⁴ *Minnesota Statutes* 2011, 365.10.

²⁵ For example, the board of supervisors in townships that have adopted urban powers can operate a hospital, establish a board of health, and establish and operate a fire department.

These service delivery and restructuring options vary in complexity and range from providing services exclusively and directly to residents to full consolidation of jurisdictions, as shown in Table 1.5. Local governments may use any of these arrangements to help fulfill their responsibilities, and they may use more than one option for one or more services. The most direct approach is when a local government provides its own services and does not participate in a shared service arrangement with another jurisdiction. If a local government wants to pursue alternative ways to deliver services, the least formal approaches involve using unwritten or written agreements with other local governments to provide and/or receive services.²⁶

Table 1.5: Continuum of Service Delivery and Restructuring for Minnesota Local Governments, 2011

In Minnesota, there are a range of options available to restructure local government services and boundaries.

	Service Delivery Option	Description
Cooperation	Direct Services	A local government provides services directly and exclusively to its residents
	Unwritten Agreement	Two or more local government units (LGUs) enter a verbal agreement to provide or receive services
	Service Agreement	Two or more LGUs enter a written agreement or contract to provide or receive services ^a
	Joint Powers Agreement	Two or more LGUs work together through a written agreement to jointly provide a service
	Joint Powers Board	Two or more LGUs form a board with representatives from each to oversee a specific service for their jurisdictions
	Functional Consolidation	Two or more LGUs merge specific functions, services, or departments, but maintain separate identities and boundaries
	Boundary Changes; Annexation or Detachment	A local government's jurisdictional boundaries are shifted incrementally to include or exclude property and/or residents in its service areas
Consolidation	Dissolution	A local government entity ceases to exist, whereby it no longer has a governing body or provides services to its residents; a different entity may then provide some services to residents
	Structural Consolidation	A new entity is formed by merging the entire jurisdictions of two or more local governments

NOTE: Townships or unorganized territories also may incorporate into a municipality, which may or may not affect jurisdictional boundaries.

^a Local governments also may contract with private vendors for services.

SOURCE: Office of the Legislative Auditor, summary of select *Minnesota Statutes* 2011.

²⁶ See *Minnesota Statutes* 2011, 471.59, for example.

Local officials or residents can pursue changes to local government boundaries.

Moving along this continuum, local governments can also enter into formal joint powers agreements, where two or more entities work together to deliver services.²⁷ These agreements can involve creating a joint powers board made up of representatives from participating jurisdictions to oversee and/or administer the services. Agreements to deliver services jointly can also involve consolidating specific services or programs, or combining day-to-day operations from two jurisdictions into a single facility. Sometimes referred to as “functional consolidation,” this approach often involves establishing a joint powers board to oversee the merged service; however, the participating local governments still retain their separate governance structures. Entities can also create a joint, special district for a unique service that allows the participating jurisdictions to impose taxes and bring in revenues to fund their operations.²⁸

In addition to using shared service agreements, counties, cities, and townships, or their residents, can pursue several types of changes to their boundaries that alter the number of residents served by the local government. These boundary changes are more complex than service agreements and can occur through an annexation and/or detachment of land to either include or exclude property.²⁹ Annexations typically involve small parcels of land, but they may involve larger portions. For example, a city can annex (1) unorganized territory from a county, (2) a portion of a township, (3) an entire township, and (4) land from another city. Residents in an unorganized territory may also form a township, which could change a county’s service area (but not its boundaries) as some services, such as snow plowing and road grading, would be taken over by the township.³⁰ County boundaries can also be changed under a process separate from the process for cities and townships.³¹

Another type of boundary adjustment can occur when a township or city dissolves, whereby the jurisdiction no longer provides services to its residents or has a governing body or boundaries.³² Under this scenario, a different local government unit—often a county—may take over responsibility for providing some services to residents, or the area is merged into another local government’s jurisdiction.

Finally, at the other end of the service continuum, local governments may fully combine their jurisdictions, sometimes referred to as “structural consolidation.”³³ Under this scenario, two or more local governments with a contiguous boundary merge into a single governing body that serves their combined geographic areas and populations. This means that their boundary lines become coterminous and all government services, programs, and elected positions are reconfigured to support a single governing entity.

²⁷ *Ibid.*

²⁸ *Minnesota Statutes* 2011, chapter 370.

²⁹ *Minnesota Statutes* 2011, 414.031, 414.0325, 414.033, 414.06, and 414.061.

³⁰ *Minnesota Statutes* 2011, 379.01.

³¹ *Minnesota Statutes* 2011, chapter 370.

³² *Minnesota Statutes* 2011, 365.45-365.49, 368.47, and 412.091.

³³ *Minnesota Statutes* 2011, chapters 371 and 379, 414.041, and 465.81-465.86.

Over the years, the Legislature has delegated to various state entities the authority to direct or decide consolidation issues.

STATE OVERSIGHT OF CONSOLIDATION

The Legislature has absolute authority over the formation and purpose of local governments in Minnesota. Over the years, the Legislature has delegated to various state entities the authority to direct or decide local government consolidation and other boundary adjustment issues. However, we found that:

- **While the state has had a role in local government consolidation issues historically, its involvement has diminished since 2002.**

Specifically, the 1959 Legislature created the Minnesota Municipal Commission (more recently referred to as the Minnesota Municipal Board) to address concerns about land-use planning stemming from the significant—and disorganized—proliferation of cities, villages, and towns during the 1950s.³⁴ The commission's authority was primarily over these entities (and not counties) and included: protecting the integrity of land use planning in municipalities, townships, and unorganized territories; conducting proceedings and issuing orders regarding boundary adjustments, including consolidations; and providing for the extension of municipal government into areas in need of such services. In general, the commission had primary control over consolidation actions and proceedings filed under *Minnesota Statutes*, chapter 414.

In 1993, the Legislature also created the Board of Government Innovation and Cooperation (BGIC) and an alternative consolidation method to the Minnesota Municipal Board's processes.³⁵ BGIC provided grants to support local governments' efforts to cooperate on service delivery or to consolidate, and local governments that pursued consolidation through the new process had more local control than through other processes.³⁶ Unlike the Municipal Board, BGIC's involvement in local government consolidations was only at the request of local governments—it could not initiate proceedings. LGUs that used the BGIC process were, however, required to obtain approval of their consolidation plan from BGIC. After nine years, the 2002 Legislature abolished the Board of Government Innovation and Cooperation, removed the requirement for state approval of consolidation plans, and eliminated grant funding, but retained the consolidation processes in law to provide local governments a self-directed process to merge.³⁷

In 1997, the Legislature terminated the Minnesota Municipal Board (effective in 1999) and transferred its responsibilities to the Minnesota Office of Strategic and Long-Range Planning.³⁸ Boundary adjustment activities were then administered

³⁴ *Laws of Minnesota* 1959, chapter 686.

³⁵ *Laws of Minnesota* 1993, chapter 375, art. 15.

³⁶ The board also granted local governments waivers to administrative rules and temporary exemptions from state procedural laws.

³⁷ *Laws of Minnesota* 2002, chapter 220, art. 10, sec. 40. For current laws, see *Minnesota Statutes* 2011, 465.81-465.86.

³⁸ *Laws of Minnesota* 1997, chapter 202, art. 5, sec. 8; and *Laws of Minnesota* 1999, chapter 243, art. 6, sec. 24.

Currently, the Office of Administrative Hearings Municipal Boundary Adjustment Unit oversees some, but not all, consolidation proceedings.

through the Office of Strategic and Long-Range Planning Municipal Boundary Adjustment Unit (MBAU). The Office of Strategic and Long-Range Planning also contracted with the Office of Administrative Hearings to handle contested proceedings, and it established a dispute resolution process to encourage local governments to plan jointly for their jurisdictions. In 2003, state oversight of these boundary adjustment activities was transferred from the Office of Strategic and Long-Range Planning to the Department of Administration, where the Municipal Boundary Adjustment Unit was established as a stand-alone unit; this change included reducing the staff size of the MBAU.³⁹

In 2005, the Municipal Boundary Adjustment Unit was transferred to the Office of Administrative Hearings, where the state's chief administrative law judge currently acts as the decisionmaker in boundary adjustment proceedings. MBAU staff activities are limited to overseeing boundary adjustments pursued under *Minnesota Statutes*, chapter 414 (mostly involving actions among cities, or between cities and townships). Occasionally, counties also may be involved in these boundary adjustment actions. However, state law lays out separate processes for county-county and township-township mergers, and MBAU activities do not include assisting local officials or residents with consolidations pursued under these other state processes. We discuss details of Minnesota's consolidation processes, trends in local governments' consolidation efforts, and LGUs' use of collaborative service agreements in Chapter 2.

³⁹ Minnesota Department of Administration, *Reorganization Order No. 188*, March 13, 2003.

Processes and Trends

Given the wide array of local government services and responsibilities, restructuring counties, cities, and townships can be complicated. Any initiative to fully consolidate two or more local jurisdictions requires determining how consolidation should occur and who should be involved. Consolidations, thus, take time—sometimes years—to fully implement, and the processes can have a substantial impact on the outcome of a consolidation effort.

This chapter provides a brief overview of the processes available to merge local jurisdictions in Minnesota, including the roles of citizens and state and local governments. We also describe consolidation actions in Minnesota during the past several decades, trends in other types of local government boundary adjustments, and local governments' use of cooperative service arrangements in lieu of consolidation.

CONSOLIDATION PROCESSES

As we discussed in Chapter 1, local governments are creations of the state, and the Legislature has the authority to determine their number and configuration. Aside from this authority, the Legislature has created other processes to restructure local government boundaries and fully consolidate jurisdictions. According to state law:

- **In Minnesota, there are several processes available to consolidate local governments, most of which require either residents or local governing bodies to initiate an action.**

Generally, consolidation occurs when either two or more local governments merge into a single jurisdiction or a local government unit dissolves its governing body and boundaries. Table 2.1 outlines these consolidation options and shows that these processes, and the state's involvement, differ somewhat for counties, cities, and townships. For each of these types of entities, state law provides for more than one process and more than one method to initiate consolidation. In the next section, we briefly describe these processes, including those administered through the state's Municipal Boundary Adjustment Unit, locally directed processes, and processes unique to counties.¹

Minnesota law provides for more than one process and more than one method to initiate consolidation.

¹ In Chapter 1, we provided historical information on various state entities charged with overseeing consolidations and other boundary adjustment activities for Minnesota local governments. Throughout this report, we occasionally reference actions by state entities—such as the Minnesota Municipal Board—that were charged with overseeing processes under *Minnesota Statutes* chapter 414, but no longer exist. We differentiate among these various entities in our discussions when it is appropriate to do so.

Table 2.1: Consolidation Options for Minnesota Local Governments, 2011

Option	Process via <i>Minnesota Statutes</i> 2011	Description	Who Can Initiate Proceedings	Final Voter Approval Required?
Consolidation of two or more cities	414.041	State law specifies procedural requirements and factors to consider. The Office of Administrative Hearings Municipal Boundary Adjustment Unit oversees the process.	• Resident voters • Governing bodies • Chief administrative law judge	Yes ^a
	465.81- 465.86	Consolidation follows a maximum two-year period of cooperation and planning; no state oversight or approval required.	• Governing bodies	Yes
Consolidation of city and township	414.0325	One or more townships and one or more cities may designate an entire township for orderly annexation into the city's jurisdiction.	• Governing bodies	X ^b
	414.031 and/or 414.033	The chief administrative law judge may order an entire township annexed into a city following public testimony and evidentiary hearings. Annexation may also occur by city ordinance under certain conditions.	• Property owners • Governing bodies	No
	465.81- 465.86	Consolidation follows a maximum two-year period of cooperation and planning; no state oversight or approval required.	• Governing bodies	Yes
Consolidation of two or more counties	Chapters 371 and 373.51	Voters must submit a petition, or county boards must submit a resolution, to the Secretary of State for approval. The Governor then issues a proclamation, orders the question be submitted to voters, and appoints the first county board.	• Resident voters • Governing bodies	Yes
	465.81- 465.86	Consolidation follows a maximum two-year period of cooperation and planning; no state oversight or approval required.	• Governing bodies	Yes
Consolidation of two or more townships	Chapter 379	A county board can merge townships or adjust township boundaries upon petition of residents in affected territories/areas.	• Resident voters	No
	465.81- 465.86	Consolidation follows a two-year period of cooperation and planning; no state oversight or approval required.	• Governing bodies	Yes
Dissolution of a city	412.091	A city dissolves into a township or unorganized territory; state approval is not required, although the chief administrative law judge must direct proceedings.	• Resident voters	Yes
Dissolution of a township	365.45 or 368.47	A township dissolves into unorganized territory; state approval is not required.	• Resident voters • County board^c	Yes

NOTES: State law specifies which actions may be initiated by voter petition, a resolution of one or both governing bodies, or the chief administrative law judge. Consolidations may also occur through special legislation; historically, such actions require final voter approval.

^a For actions initiated by residents and approved by resolution, final voter approval is required only if residents request a referendum.

^b *Minnesota Statutes* 2011, 414.0325, does not explicitly require the city or the township to obtain voter approval through final referendum. For several recent orderly annexation agreements that subsumed the entire township and dissolved the town board, town officials sought approval from electors before entering into the agreement. The chief administrative law judge, by way of state agency order to extend municipal service to an area, also may designate an area for orderly annexation under certain conditions.

^c A county board may initiate and approve proceedings only under certain conditions. Dissolutions initiated under *Minnesota Statutes* 2011, 368.47, require final approval by township voters for townships in Cass, Itasca, and St. Louis counties.

SOURCE: Office of the Legislative Auditor, summary of select *Minnesota Statutes* 2011.

Municipal Boundary Adjustment Unit Processes – Chapter 414

Currently, the state’s Municipal Boundary Adjustment Unit and chief administrative law judge, through the Office of Administrative Hearings, oversee three statutory processes for consolidating local governments: (1) consolidation of cities under *Minnesota Statutes*, 414.041; (2) orderly annexation agreements between cities and townships under *Minnesota Statutes*, 414.0325; and (3) consolidation of cities and townships by order of the chief administrative law judge under *Minnesota Statutes*, 414.031.²

Consolidation can occur by merging two or more local jurisdictions’ services and boundaries, or by dissolving a local government.

Under *Minnesota Statutes*, 414.041, state law sets forth the legal framework, governance structure, and procedures and timelines for two or more cities to consolidate. This process may be initiated by petition of local residents, resolution of the cities’ governing bodies, or order of the state’s chief administrative law judge. The process includes establishing a consolidation commission made up of local representatives to: conduct hearings; evaluate various factors regarding the proposed merger; and develop findings, recommendations, and a final report for the chief administrative law judge.³ The chief administrative law judge then must consider the commission’s findings and recommendations and hold public hearings. The law also outlines conditions under which the chief administrative law judge is required to approve the merger and refer the matter to voters for final determination.⁴

The second procedure overseen by the chief administrative law judge is the locally determined “orderly annexation” process by which one or more cities and one or more townships can combine.⁵ Orderly annexation agreements are joint agreements between the governing bodies of a city and township that designate small or large areas of township land to bring into a city’s jurisdiction. These annexations typically occur incrementally over several years, and they proceed at either the initiative of the city or at the request of individual property owners who desire additional services beyond those provided by the township.

² Under *Minnesota Statutes* 2011, 414.033, full annexation of a smaller township also could occur by city ordinance under certain conditions, for example, if the city entirely surrounded the township. Because of the rarity of these circumstances, our discussion of consolidation focuses on more commonly used processes.

³ The Appendix at the end of this report contains a list of these statutory factors to consider.

⁴ If a consolidation is initiated by voter petition, a judge’s order for consolidation is final upon approval by resolution of each city council, unless at least 10 percent of the voters in each city petition for a referendum. If a consolidation is initiated by resolution of each city council, a consolidation order is final unless at least 10 percent of voters in each city petition for a referendum. If the chief administrative law judge initiates a consolidation, an order for consolidation is not effective unless it is adopted by each city council and by a majority of the voters in each city.

⁵ *Minnesota Statutes* 2011, 414.0325. For this discussion, we focus on consolidation between two jurisdictions with governing bodies. Under *Minnesota Statutes* 2011, 414.0325, subd.1(f), the chief administrative law judge may also designate an area of orderly annexation if a state agency—other than the Minnesota Pollution Control Agency—orders a municipality to extend service to an area. Cities and counties can also enter into orderly annexation agreements regarding unorganized territory.

Orderly annexation agreements offer an alternative, incremental approach to consolidation.

For many jurisdictions, orderly annexation agreements offer an alternative, incremental approach to full consolidation. Specifically, local governing bodies—through a joint resolution—may forego incremental annexation agreements for smaller land areas and agree upfront to merge an entire township with one or more cities.⁶ Under this scenario, the entire township can be merged in a single event—or portions of the township can be annexed over several years—and the town board and governance structure no longer exists. When full consolidation occurs over several years, it gives a city time to expand its services and infrastructure in a more cost-effective manner, and allows township landowners more advance notice about changes in land use planning. The chief administrative law judge also is required to approve these agreements when they conform to state law.⁷

A third process by which an entire township can be annexed by a city is by order of the chief administrative law judge. Under *Minnesota Statutes*, 414.031, the governing body or residents of either a city or a township may petition the chief administrative law judge to annex some or all township land.⁸ However, the chief administrative law judge always makes the final decision. These types of actions have almost always involved individual parcels of land—not entire townships—and often have been initiated when there was disagreement among neighboring governing bodies and/or residents over the demand for services, property development and tax revenues, or environmental concerns stemming from wastewater.

Under the consolidation processes in *Minnesota Statutes*, chapter 414, the state's authority to initiate a consolidation action is restricted to mergers among cities. However, the state—currently through the chief administrative law judge—also may review the potential for larger Minnesota townships to consolidate with other jurisdictions.⁹ First established in 1959, these reviews were initially mandatory and their intent was to identify and make recommendations to townships that would be better served by either incorporating or annexing into a village. The law has since been amended, and now the nature and purpose of these reviews is not explicitly defined. Townships also are not required to act on these recommendations.

Locally Directed Processes

Minnesota Statutes, 465.81-465.86, provide an alternative, locally directed process for all three types of LGUs to consolidate. This process involves

⁶ *Minnesota Statutes* 2011, 414.0325 (the orderly annexation process), does not explicitly require the city or the township to obtain voter approval through final referenda. For several recent orderly annexation agreements that subsumed the entire township and dissolved the town board, town officials sought approval from electors before entering into the agreement.

⁷ Under *Minnesota Statutes* 2011, 414.0325, subd. 1(h), if a joint resolution designates an area as in need of orderly annexation, provides for the conditions for its annexation, and states that no consideration by the chief administrative law judge is required, the chief administrative law judge may review and comment, but shall, within 30 days, order the annexation in accordance with the terms of the resolution.

⁸ This process can also involve annexations of land in unorganized territories.

⁹ Under *Minnesota Statutes* 2011, 414.051, the chief administrative law judge may conduct reviews of townships with populations greater than 2,000 following each federal census.

In Minnesota, there are several processes available for counties, cities, and townships to direct and administer consolidations.

minimal state oversight, and local governments have more flexibility in handling consolidation initiatives when compared to the processes administered through the Municipal Boundary Adjustment Unit.¹⁰ Under this locally directed process, counties may merge with other counties, and cities and townships may merge with other cities and/or townships. The process is initiated through a resolution of the governing bodies, and local officials are required to develop a consolidation plan that includes an initial period of cooperation (up to two years) and steps for obtaining approval from voters through referenda. State law requires that the merger be completed within four years of beginning the process.

State law also outlines a separate process for townships to merge with other townships. This process does not involve state oversight; rather, this function is performed by county boards.¹¹ Township voters can petition their county board to alter their township boundaries or merge their township with another township.¹² A county board may, but is not required to, approve and act on these requests.

Residents in cities or townships also may seek to dissolve their governing bodies and jurisdictional boundaries. When a city or township dissolves and the service area is not merged with another city or township—that is, the area becomes an unorganized territory—another government entity typically provides some services to the residents. Often, dissolutions are pursued in small jurisdictions that are experiencing challenges in providing services or in finding residents to act as governing officials. Occasionally, residents may seek to dissolve their LGU when they are dissatisfied with their elected officials. Although city residents must submit a petition to the chief administrative law judge to initiate the dissolution of a city, state permission or approval is not required to proceed.¹³ Rather, the chief administrative law judge must schedule a referendum for voters to approve or reject the action. For townships, a county board must approve a residents' petition following a town election and affirmative vote on the matter; in some situations the county board can initiate the dissolution.¹⁴

¹⁰ Local governments still must comply with other Minnesota laws, for example, election laws when holding a referendum. In addition, local governments in the metropolitan area must submit their consolidation plan to the Metropolitan Council for review and comment; however, the local governments do not need the council's approval to proceed with their merger.

¹¹ *Minnesota Statutes* 2011, 365.01.

¹² *Minnesota Statutes* 2011, chapter 379. According to data reported to the Municipal Boundary Adjustment Unit, a consolidation among townships rarely occurs (the most recent merger occurred in 1993). Rather, counties are more often involved in responding to requests from residents in unorganized territories to form townships.

¹³ *Minnesota Statutes* 2011, 412.091. The petition must be signed by a number of voters equal to one-third of those voting in the last preceding city election.

¹⁴ *Minnesota Statutes* 2011, 365.45-365.49. *Minnesota Statutes* 2011, 368.47, allows a county board to declare by resolution a town dissolved when: (1) the voters have failed to elect any town officials for more than ten years continuously; (2) a town has failed for a period of ten years to exercise any of the powers and functions of a town; (3) the market value of a town drops to less than \$165,000; (4) the tax delinquency of a town, exclusive of taxes that are delinquent or unpaid because they are contested in proceedings for the enforcement of taxes, amount to 12 percent of its market value; or (5) the state or federal government has acquired title to 50 percent of the real estate of a town. Dissolutions initiated under *Minnesota Statutes* 2011, 368.47, require final approval by resident voters for townships in Cass, Itasca, and St. Louis counties.

County Consolidation

Among the various ways that local governments can pursue consolidation, the process under *Minnesota Statutes*, chapter 414, provides the most direction for cities, or cities and townships, to merge. However,

- **Minnesota law provides minimal guidance for counties to consolidate.**

Consolidations among counties would likely be more complicated than suggested under current state laws.

Counties may consolidate under the same locally directed process—*Minnesota Statutes*, 465.81-465.86—that is available to cities and townships. The process is initiated by resolution of the governing bodies and lays out a maximum two-year time frame for cooperation and subsequent approval of the consolidation. Other state laws outline different processes for counties to merge, but provide few specifics beyond basic timelines, requirements for creating new commissioner districts, setting a new tax rate, and appointing new officers.¹⁵ For instance, at least 90 days before a general election, voters from each county must submit a petition, or county boards must submit a resolution, to consolidate to the Secretary of State for review and approval.¹⁶ The Governor must then issue a proclamation at least 60 days before the general election and direct that the question of consolidation be presented to voters of the affected counties. If voters approve the consolidation, the Governor appoints a new county board to handle county matters until the consolidation becomes effective.

However, counties serve a distinct role in delivering state-supervised services and other mandated functions on behalf of county residents—and for city and township governments. State law also requires counties to maintain certain elected or appointed positions for individuals who serve on behalf of all county residents. Local officials we spoke with expressed concern that state statutes do not clearly specify how counties should reconcile or address these responsibilities, or specific factors to consider, when consolidating.

State laws also lay out conflicting threshold requirements for voter approval of county-county mergers. Specifically, *Minnesota Statutes* 2011, 465.82, allows counties to determine whether a majority of those voting in each county or a majority of those voting in the entire area that will be combined is needed to approve the consolidation, whereas *Minnesota Statutes* 2011, 371.07, requires at least 60 percent of voters in each county to approve the consolidation proposal. We discuss these requirements and processes for county-county mergers further in Chapter 5.

TRENDS

In this section, we examine the use of local government service delivery and restructuring options in Minnesota over the past three decades. First, we look at

¹⁵ *Minnesota Statutes* 2011, chapter 371.

¹⁶ *Minnesota Statutes* 2011, 371.02, requires that a petition for each affected county, signed by at least one-fourth of those voting in the last general election, be filed. Laws passed in 2011 expands the authority to initiate consolidation to county boards by resolution. See *Minnesota Statutes* 2011, 373.51.

In Minnesota, there have been relatively few actions to consolidate local governments since 1980.

the extent to which Minnesota’s consolidation processes have been used and the response of voters to these actions; this includes comparing trends in the number of Minnesota’s local governments with those in other states. We then briefly discuss trends in other boundary adjustment activities and local governments’ use of cooperative service agreements in lieu of consolidation.

Consolidation Actions

We reviewed how often Minnesota local governments have merged or dissolved in recent decades, and found that:

- **Consolidation of two or more local governments rarely occurs in Minnesota.**

Despite the availability of numerous statutory processes to consolidate, there have been relatively few actions to combine two or more of the state’s local governments.¹⁷ Since 1980, there have been about three dozen merger attempts among cities and/or townships, as shown in Figure 2.1.¹⁸ State records also indicate that there have been no actions filed to consolidate counties.¹⁹ Among 38 initiatives during this time period, 26 have resulted in fewer local governments (27 fewer), and most involved smaller cities and/or townships.²⁰

For example, the most recent dissolution of a city occurred when voters in the City of Tenney (population 5) agreed to dissolve in early 2011. Prior to that, the most recent consolidation proposed to voters involved the cities of Elko and New Market in Scott County. Voters approved this merger in early 2006, thereby creating the City of Elko New Market in January 2007.

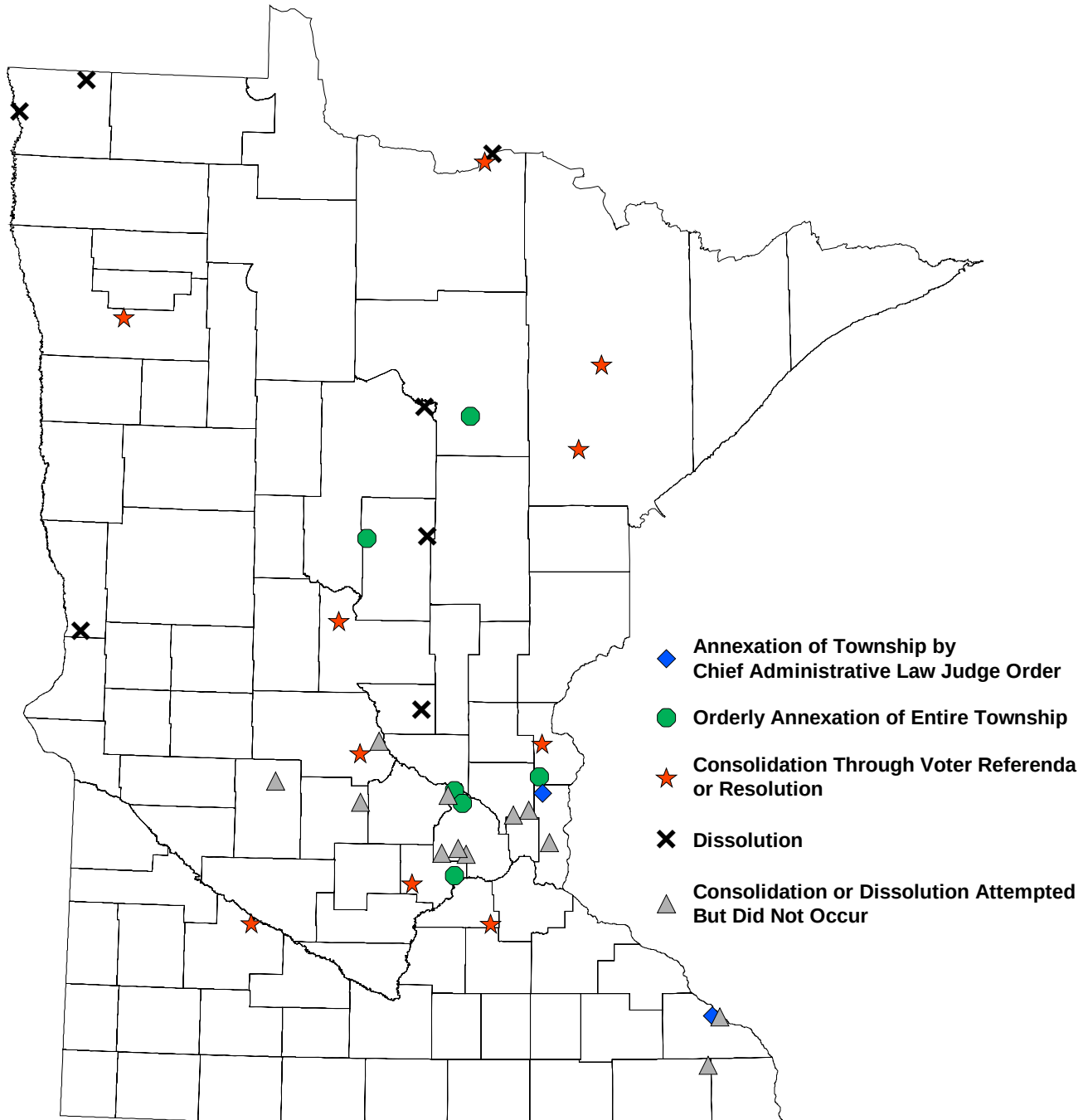
¹⁷ We based this conclusion on data maintained by the Municipal Boundary Adjustment Unit and the Secretary of State. The Municipal Boundary Adjustment Unit maintains records and oversees processes pursued under *Minnesota Statutes*, chapter 414. MBAU also keeps some historical records of, but does not oversee, consolidation efforts pursued under *Minnesota Statutes*, 465.81-465.86 (the locally directed process). MBAU also does not oversee or have authority over county-county consolidation activities or township-township mergers pursued under other processes.

¹⁸ The 38 initiatives include actions filed and reported to the Municipal Boundary Adjustment Unit between January 1980 and December 2010, the filing and dissolution of the City of Tenney in February 2011, and actions initiated through resolution under *Minnesota Statutes* 2011, 465.81-465.86. In addition to the initiatives and entities listed here, other local governments also may have initiated consolidation within their jurisdiction during this time period.

¹⁹ This analysis is based on records kept by the Secretary of State. State law requires county residents and—as of July 2011—county boards seeking to consolidate to file a petition and/or notice with the Secretary of State.

²⁰ We also surveyed LGU officials about the extent to which their jurisdictions have pursued a merger with another entity in recent years. Only 2 percent of respondents reported that their local government had taken actions toward consolidation between 2005 and 2011. Other than the consolidation of Elko and New Market in 2007, only 39 respondents—from cities and townships only—reported taking any action. The most common activities reported were that (1) governing board members’ had initiated a resolution for consolidation and (2) LGUs had surveyed citizens to determine their interest in consolidation.

Figure 2.1: Initiatives to Consolidate Minnesota Local Jurisdictions, January 1980-February 2011



NOTES: The figure represents initiatives to consolidate or dissolve Minnesota cities and townships. There have been no attempts by Minnesota counties to merge during this time period. More information about these initiatives is contained in Table 2.2.

SOURCE: Minnesota Municipal Boundary Adjustment Unit.

How Consolidation Actions Were Initiated

Depending on the process, Minnesota law allows for the state, local governing bodies, or residents to commence a merger or dissolution of local governments. We examined how consolidation actions in Minnesota have been started and found that:

- **Over the past three decades, most local government consolidation actions were initiated by either local governing bodies or citizens.**

Out of 38 efforts to reduce the number of local governments, 33 were initiated by either resolution of the governing bodies or a petition by residents.²¹ The remaining five were directed by the Minnesota Municipal Board during the 1990s. Table 2.2 shows these efforts, how they were initiated, and the final results. For example, a few townships merged with other townships—most of these actions occurred through residents’ petition to their county board.

Actions to dissolve a city or township do not happen very often in Minnesota.

In 7 of these 38 consolidation actions, city and township governing bodies—by board resolution—fully merged their jurisdictions using the orderly annexation process.²² Some of these efforts involved multi-year incremental annexation of township sections, but most involved immediate annexation of entire township land. Overall, more of these orderly annexation agreements (four) occurred in the 2000s than in the previous two decades combined.

Among the various ways to reduce the number of Minnesota local governments, actions to dissolve an LGU have not happened very often, also shown in Table 2.2. Since 1980, four townships have been dissolved and became unorganized territories—most of these occurred in the 1990s. Three of these dissolutions were at the initiative of township residents; one occurred through special legislation and county board action. Among cities, there have been only four petitions by residents filed with the state to dissolve; three of which were approved by voters.

²¹ We based our analysis on state records from January 1980 through February 2011.

²² The seven orderly annexation agreements referenced here include those actions where the township was fully annexed by January 2012. There were seven additional such agreements filed with MBAU between January 1980 and December 2010 that designate an entire township for eventual annexation over the next several years or decades. These additional agreements involved the following cities and townships: Fergus Falls and Fergus Falls Township, Becker and Becker Township, Gilbert and Fayal Township, Mankato and South Bend Township, Shakopee and Jackson Township, and Sartell and LeSauk Township. One agreement—between Hutchinson and Lynn Township—was also filed but later rescinded.

Table 2.2: Consolidation Actions in Minnesota and Results, 1980-2011

	Approx. Year Initiated	Method of Initiation	Results
Consolidation Type and Jurisdictions			
Consolidation: <i>Minnesota Statutes</i> 2011, 465.81-465.86 (Locally directed)			
Norwood/Young America	1994	Resolution	Voters approved
Redwood Falls/North Redwood	1996	Resolution	Voters approved
Orono/Long Lake	1999	Resolution	Voters rejected
Baytown/Lake Elmo	1999	Resolution	Voters rejected
Rockville/Pleasant Lake/Rockville Twp	2001	Resolution	Voters approved
New London/Spicer/New London Twp	2001	Resolution	Voters rejected
Elko/New Market	2004	Resolution	Voters approved
Consolidation: <i>Minnesota Statutes</i> 2011, 414.041 (Process involves state oversight)			
Deephaven/Greenwood	1983	Resolution	Voters rejected
International Falls/South International Falls	1988	Resolution	Voters approved
Centerville/Lino Lakes	1991	Residents' petition	Municipal Board denied
Branch/North Branch	1992	Resolution	Voters approved
Lexington/Blaine	1993	Residents' petition	Council rejected
Virginia/Franklin	1993	Resolution	Approved w/o referendum
Rushford/Rushford Village	1994	Municipal Board order	Council/residents rejected
Albertville/Otsego	1995	Municipal Board order	Board rescinded order
Winona/Goodview	1995	Municipal Board order	Council/residents rejected
St. Cloud/Waite Park	1996	Municipal Board order	Board rescinded order
Minnetrista/St. Bonifacius	1997	Municipal Board order	Voters rejected
City Dissolution: <i>Minnesota Statutes</i> 2011, 412.091 (Locally directed)			
Island View	1990	Residents' petition	Voters approved
Kingston	2002	Residents' petition	Voters rejected
Ronneby	2008	Residents' petition	Voters approved
Tenney	2011	Residents' petition	Voters approved
Township Dissolution: <i>Minnesota Statutes</i> 2011, 365.45-365.49 (Locally directed; county board administered)			
McKinley	1990	Residents' petition	Voters approved
Dean Lake	1994	Residents' petition	Voters approved
Wahnena	1995	Residents' petition	Voters approved
North Red River	2000	Resolution; <i>Minnesota Laws</i> 2000, chapter 256	
Orderly Annexation: <i>Minnesota Statutes</i> 2011, 414.0325 (Locally directed; process involves state oversight)			
St. Cloud/Waite Park/St. Cloud Twp	1995	Resolution	Statute does not require final referenda
St. Michael/Otsego/Albertville/Frankfort Twp	1996	Resolution	
Grand Rapids/LaPrairie/Coleraine/Grand Rapids Twp	1999	Resolution	
Pequot Lakes/Sibley Twp	2002	Resolution	
Rogers/Hassan Twp	2003	Resolution	
Wyoming/Wyoming Twp	2005	Resolution	
Chaska/Chaska Twp	2005	Resolution	
Township Consolidation: <i>Minnesota Statutes</i> 2011, 379.02-379.04, 379.06 (Locally directed; county board administered)			
Clough/Cushing	1989	Residents' petition	Statute does not require final referenda
Grove Park/Tilden	1992	Residents' petition	
Meadowlands/Payne	1993	Residents' petition	
Annexation by Chief Administrative Law Judge Order: <i>Minnesota Statutes</i> 2011, 414.031			
Winona/Goodview/Winona Twp	1995	Resolution	Statute does not require final referenda
Forest Lake/Forest Lake Twp	1999	Residents' petition	

NOTES: Some actions involved multiple filings under multiple processes or required special legislation; jurisdictions are listed under the process by which the action was primarily resolved. Orderly annexations include agreements where the entire township was annexed by January 2012. In addition to the entities listed here, other local governments may have initiated consolidation during this time period. For example, the City of Kinney and Great Scott Township received a state grant to study consolidation.

SOURCE: Office of the Legislative Auditor, summary of public documents and Municipal Boundary Adjustment Unit data.

Local government consolidations rarely occur by order of the state.

Finally, the process by which an entire township is annexed by order of the state has occurred only twice in the last three decades: in 1995, the Winona City Council submitted a resolution to the Minnesota Municipal Board seeking to annex all of Winona Township; and in 1999, Forest Lake Township residents submitted a petition to the Municipal Board seeking to be annexed into the City of Forest Lake. Both of these actions were prompted in part by disputes over development and environmental issues. Following multi-year contested proceedings and attempts to resolve the conflicts through arbitration, the state's chief administrative law judge granted these requests for annexation. Because of the rarity of two jurisdictions merging under these circumstances, we focus on the other procedures for consolidating local governments in the remainder of this report.

Voter Approval of Consolidation Proposals

Over the last three decades, most consolidation and dissolution initiatives used an approach that involved obtaining approval from voters.²³ As shown in Table 2.2, these initiatives included: 2 in the 1980s, 17 in the 1990s, and 6 since 2000. Among the other 13 actions, 7 mergers occurred through the orderly annexation process.²⁴ Three other actions were initiated by township residents to consolidate with another township; these were approved by the respective county boards. Only two consolidations—each involving a city and a township—occurred by order of the chief administrative law judge. The remaining action was to dissolve a township through special legislation and a voter referendum was not required. We found that:

- **Since 1980, Minnesota voters and local governing bodies have approved the majority of locally initiated consolidation proposals and rejected every consolidation action ordered by the state.**

Specifically, voters approved four of the seven consolidation efforts that used the locally directed process (*Minnesota Statutes*, 465.81) and proceeded to referenda. Voters also approved three of the six actions initiated by residents or local governing bodies to merge through the process in *Minnesota Statutes*, chapter 414.041. In contrast, among the five consolidation actions formally initiated by the state's Municipal Board during the 1990s, either the governing bodies and/or voters rejected the proposal or the board rescinded its order.

Number of Local Governments, 1980-2010

To better understand the outcomes of local government consolidation actions, we looked at trends in the number of counties, cities, and townships in Minnesota

²³ Statement is based on actions reported to or filed with the Municipal Boundary Adjustment Unit or included in other state records.

²⁴ As we discussed earlier in this chapter, *Minnesota Statutes* 2011, 414.0325, does not require final referenda be held by either the city or the township. For several recent orderly annexation agreements that subsumed the entire township and dissolved the town board, town officials sought approval from electors before entering into the agreement.

Since 1980, the overall number of Minnesota local government units decreased by less than 0.4 percent.

between 1980 and 2010 and compared these changes with trends in the state's population. First, we found that:

- **Over the past three decades, there has been little change in the overall number of Minnesota counties, cities, and townships.**

Between 1980 and 2010, the overall number of Minnesota local government units (LGUs) decreased less than 0.4 percent, from 2,735 in 1980 to 2,726 in 2010. During this time period, there were no changes in the number of counties, no net changes in the number of cities, and a net decrease of nine townships. Among the state's 13 economic development regions, the Arrowhead Region gained the most LGUs (seven total, all townships) and the Central Region lost the most (five total).²⁵ Overall, the change in the number of Minnesota's LGUs during this time period was quite small compared with the total number of LGUs.

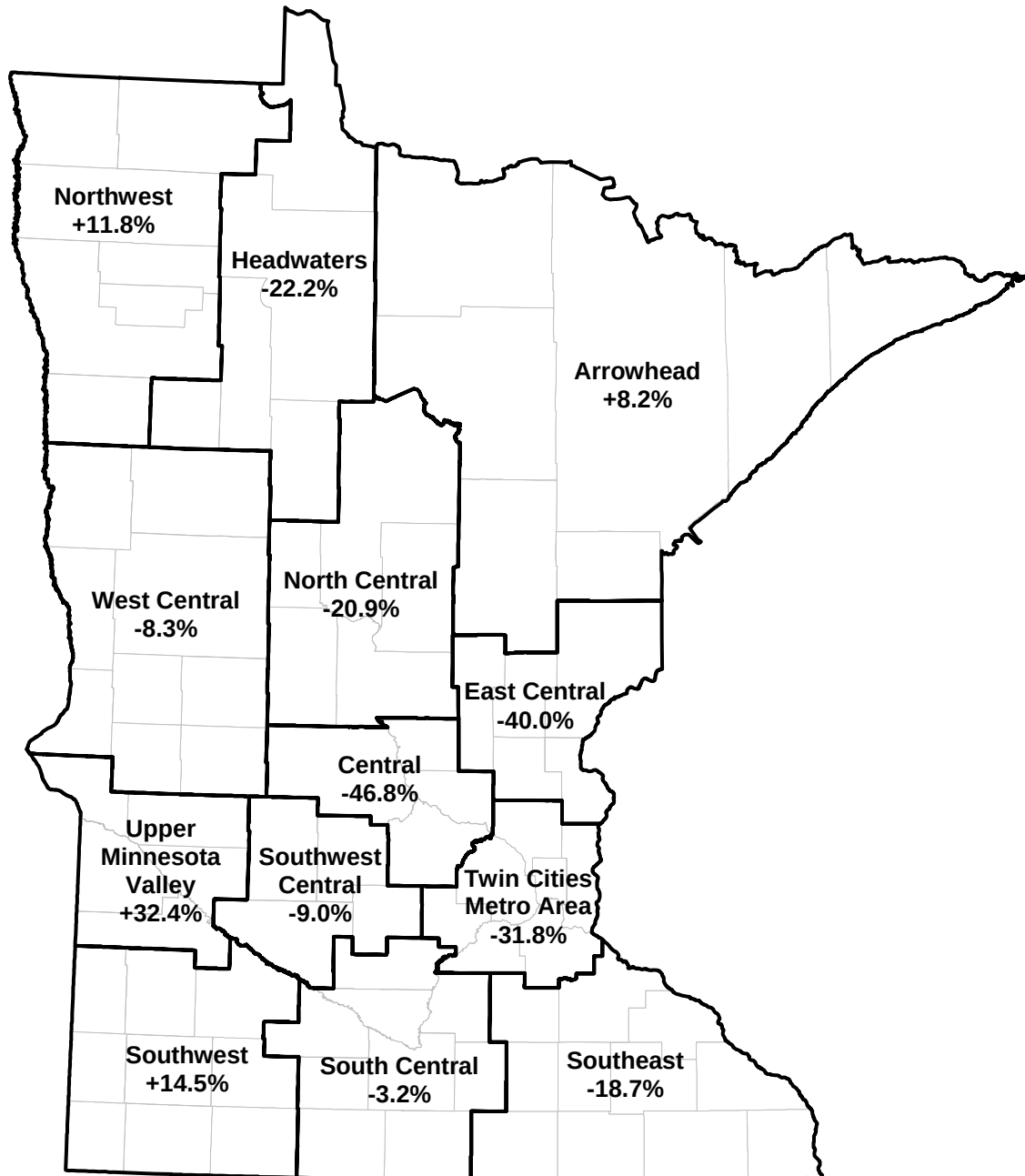
When we compared the changes in the number of LGUs to the state's population, however, we found that:

- **Due largely to an increase in the state's population, the overall number of Minnesota local governments per capita declined, although these changes varied considerably around the state.**

While the state's overall population grew 30 percent from 4.1 million in 1980 to 5.3 million in 2010, the number of LGUs per capita decreased 23 percent, from 6.7 per 10,000 population down to 5.1 per 10,000 population. Different regions of the state, however, experienced different growth levels, as shown in Figure 2.2. For example, the state's Central Region experienced an 81-percent increase in population and a decrease of 5 LGUs, resulting in a 47-percent decrease in LGUs per capita. That is, counties, cities, and townships in the Central Region served many more residents in 2010 than they did in 1980 and did so with fewer LGUs. On the other hand, the Upper Minnesota Valley Region lost about 24 percent of its population but maintained the same number of LGUs, resulting in a 32-percent increase in the number of LGUs per capita.

²⁵ The net changes in the number of local government units in each economic development region from 1980 to 2010 were: Twin Cities Metro Area (-4), North Central (-4), Northwest (-3), East Central (-2), Southeast (-1), Southwest (-1), Southwest Central (0), South Central (0), Upper Minnesota Valley (0), West Central (1), and Headwaters (+3). During this same time period, the overall number of unorganized territories increased by 19.

Figure 2.2: Percentage Change in Minnesota Local Government Units per Capita by Economic Development Region, 1980-2010



NOTES: The changes in LGUs per capita are largely due to growth and shifts in population. Between 1980 and 2010, Minnesota experienced a 30-percent increase in population overall but a 0.3-percent decrease in LGUs—resulting in a 23-percent decrease in LGUs per capita. The net changes in the number of local government units in each economic development region from 1980 to 2010 were: Twin Cities Metro Area (-4), North Central (-4), Northwest (-3), East Central (-2), Southeast (-1), Southwest (-1), Southwest Central (0), South Central (0), Upper Minnesota Valley (0), West Central (1), and Headwaters (+3).

SOURCE: Office of the Legislative Auditor, analysis of U.S. Census Bureau and Minnesota Land Management Information Center data.

We also compared trends in the number of Minnesota's LGUs and populations with those in other states. We found that:

- **Minnesota's decrease in local governments per capita between 1992 and 2007 is close to the national average.**

Between 1992 and 2007, Minnesota had the fourth largest net decrease in the number of general purpose LGUs—15 total—among all states. However, Minnesota's change in the number of LGUs per capita was similar to the national average (an 18-percent decrease), where Minnesota ranked 21st among all states on this measure, as shown in Table 2.3.

Among all states, Minnesota had the fourth largest net decrease in LGUs between 1992 and 2007.

Table 2.3: Change in the Number of Local Government Units (LGUs) per Capita, Minnesota and Comparison States, 1992-2007

State	Net Change in LGUs	Change in Number of LGUs per Capita	
		Percentage Change	National Rank
Minnesota	-15	-18.0%	21
South Dakota	-52	-17.8	22
Ohio	-10	-6.4	47
Pennsylvania	-8	-6.7	45
Georgia	-4	-33.5	6
Michigan	-1	-6.0	48
New York	-1	-7.2	43
Indiana	+1	-14.4	29
Wisconsin	+2	-13.9	31
Washington	+13	-24.6	14
United States			
Total	+66	-19.3%	
Median	+1	-16.8	
Average	+1	-18.2	
Range	-52 to +38	-54.2 to -2.9	

NOTES: Local government units include counties, cities, and townships, or comparable units as defined by the U.S. Census Bureau Census of Governments. "National Rank" places states in order of the percentage change in the per capita number of LGUs, where "1" is the largest percentage decrease. Minnesota had the fourth highest net decrease in LGUs between 1992 and 2007.

SOURCE: Office of the Legislative Auditor, analysis of U.S. Census Bureau Census of Governments, 1992 and 2007.

Like other states, the number or configuration of Minnesota counties has not changed for many years. According to the U.S. Census Bureau, eight states reported net changes in the number of counties between 1992 and 2007.²⁶ Five of these states reported a decrease of between one and three counties, resulting

²⁶ One state—Massachusetts—abolished all but six of its county governments between 1997 and 2000. The functions of the abolished counties were turned over to the state, but their boundaries still serve as political districts for election purposes.

The great majority of boundary adjustments have been initiated by property owners.

mostly from city-county consolidations. The remaining two states reported net increases in the number of counties.

Changes in the number of LGUs and LGUs per capita present only a partial picture of efforts to reconfigure local government services in Minnesota. For example, there are many types of special districts in Minnesota, which may provide services or serve purposes previously provided by and shifted from general purpose LGUs. Between 1992 and 2007, the number of special districts in Minnesota grew by 21 percent (from 377 to 456), close to the median change among all states.²⁷

Other Boundary Adjustments, 1980-2010

As we discussed in Chapter 1, Minnesota law provides for alternative ways to restructure local government boundaries and services in lieu of consolidation. We found that:

- **Between 1980 and 2010, Minnesota local governing bodies and citizens have more often sought incremental boundary adjustments than full consolidation of their jurisdictions.**

Between 1980 and 2010, there were about 7,000 filings to adjust local government boundaries; the great majority of these actions were initiated by property owners.²⁸ Ninety-one percent of filings involved annexation of parcels of land, either by city ordinance or order of the chief administrative law judge (58 percent) or orderly annexation (33 percent). About 5 percent of boundary adjustments involved detachments, where property owners sought to detach land from one LGU and annex it to another. In contrast, less than 5 percent of boundary adjustment actions were to fully merge two or more cities and/or townships.²⁹

Among all types of boundary adjustments, local governments' use of orderly annexations involving parcels of land increased the most between the 1980s and 2000s, as shown in Figure 2.3. Filings for annexation by city ordinance also increased between the 1980s and 1990s, but were about the same during the last two decades.

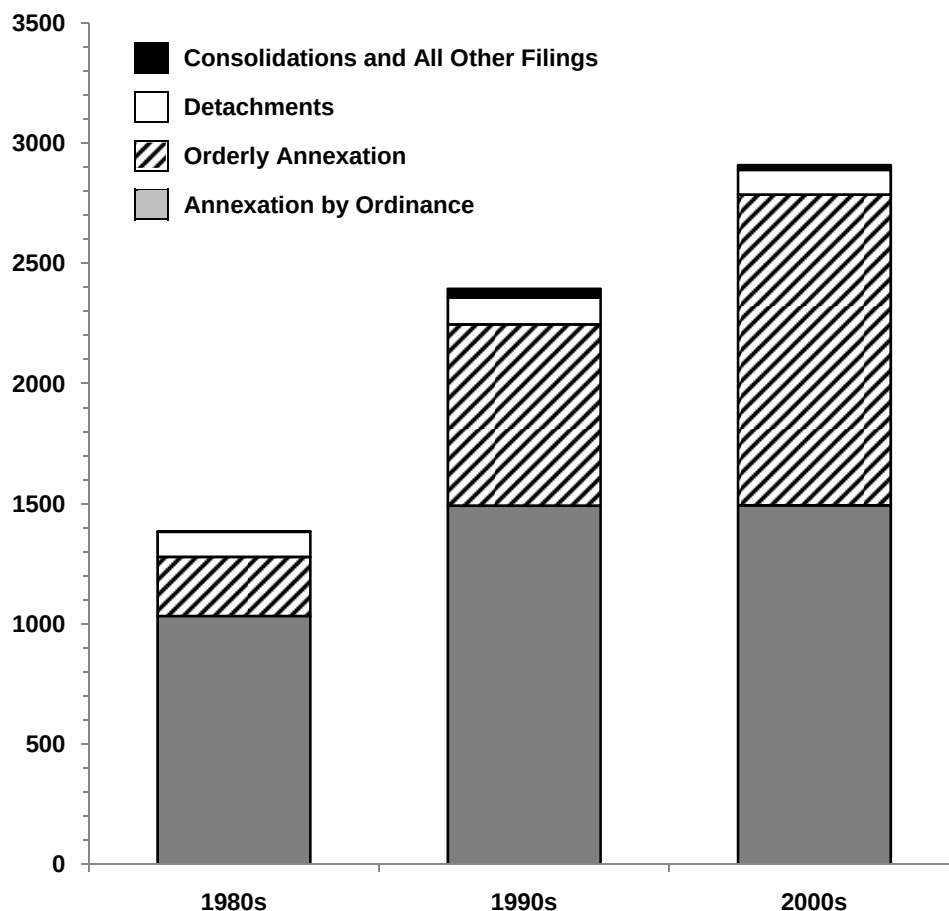
²⁷ Due to changes in reporting requirements for the U.S. Census Bureau Census of Governments, we did not use data prior to 1992 for this analysis.

²⁸ We based this analysis on data from the Municipal Boundary Adjustment Unit and state records from other sources.

²⁹ Percentage represents all filings to dissolve or consolidate cities and/or townships and include individual filings that are part of orderly annexation agreements to annex an entire township.

Figure 2.3: Boundary Adjustment Activities in Minnesota, Filings 1980-2010

Number of Boundary Adjustment Filings



NOTES: "Detachments" includes actions filed as a detachment and those filed as combined detachment and annexation proceedings. "All Other Filings" includes dissolutions, incorporations, and orderly annexations that subsume an entire township. Between January and September 2010, boundary adjustments filed with the Municipal Boundary Adjustment Unit included: annexation by ordinance (39), orderly annexation (58), and detachments (10).

SOURCE: Office of the Legislative Auditor, analysis of Municipal Boundary Adjustment Unit data and state records.

Cooperative Service Activities, 2005-2010

For many services, local governments can use cooperative agreements to restructure service delivery to their residents, rather than pursue more complicated boundary changes or consolidation. We surveyed representatives from counties, cities, and townships on their use of cooperative service

Many counties, cities, and townships reported that they collaborated with more LGUs in 2010 than in 2005.

agreements over the past five years. This section discusses key findings from our surveys.³⁰ We found that, in contrast with infrequent consolidation actions:

- **The majority of local governments reported that they had cooperative service agreements in 2010, and local governments' collaborative efforts have increased in recent years.**

Among survey respondents, all county representatives, 74 percent of city representatives, and 66 percent of township representatives reported that their LGU participated in at least one cooperative service agreement with another local government in 2010. In general, counties had more cooperative service agreements in place in 2010 than did cities or townships; counties had a median of 20 cooperative service agreements, while cities had 6 and townships had 3.³¹

In addition, among local government representatives that reported they had a cooperative service agreement in 2010, 80 percent of county respondents reported that *the number of cities, counties, and townships* that their county collaborated with increased between 2005 and 2010. Meanwhile, 40 percent of city respondents and 13 percent of township respondents said their LGU collaborated with more local governments in 2010 than in 2005. Sixty-eight percent of county respondents also reported that their county collaborated in more *service areas* in 2010 than in 2005, while 34 percent of city respondents and 11 percent of township respondents said their LGU collaborated in more service areas in 2010.

When we looked at the types of service collaborations that survey respondents participated in, we found that:

- **In 2010, counties' collaborative arrangements involved joint powers boards, joint agencies, or joint service districts more often than did cities' or townships' arrangements.**

Many county respondents reported that, among their shared service arrangements, they had progressed beyond a service agreement to establishing a

³⁰ To obtain local government perspectives on consolidation and cooperative service agreements, we conducted three surveys: one of county chief administrators, one of city chief administrative officers, and one of township clerks. We mailed questionnaires to officials in all 87 counties, 855 cities, and 1,785 townships in the state. Our response rates were: 82 percent for counties, 67 percent for cities, and 71 percent for townships. We provide survey results for select questions online at <http://www.auditor.leg.state.mn.us/ped/2012/consollocgov.htm>.

³¹ Counties' collaboration with more LGUs than cities or townships is likely an artifact of their relative size and proximity compared with other local governments, where county boundaries surround numerous cities and townships, and thus, they may have greater opportunities to collaborate.

joint powers board or merging select services.³² Overall, counties had a median of nine joint boards, agencies, or districts that represented a range of service areas, while cities and townships had two and one, respectively.³³

Finally, when we asked about the nature of LGUs' written service agreements, we found that:

- **Counties more often had agreements to *provide* services to other LGUs, while townships more often had agreements to *receive* services.**

Among counties, 85 percent of respondents reported that they had written service agreements to *provide* services, while 63 percent reported they had agreements to *receive* services. Among township respondents, 17 percent reported that they had agreements to provide services and 46 percent reported they had agreements to receive services. About equal shares of city respondents reported that they had agreements to provide or receive services.

There may be many reasons why there is not more consolidation among local governments, including: preferences for service type, fewer services or lower service levels overall, geographic size, or lack of desired expertise or resources among neighboring jurisdictions. We discuss these and other obstacles to collaboration and consolidation in Chapter 5. In the next chapter, we review more closely consolidation efforts and outcomes in Minnesota and elsewhere and discuss findings from the national literature on the potential for consolidation to improve the efficiency of local governments.

³² Respondents provided us with numerous examples of these efforts, including: building a regional joint juvenile corrections facility for use by participating entities; merging five public safety dispatch centers into a single facility; and merging multiple counties' health and human services departments. For example, Lincoln, Lyon, Murray, Pipestone, and Rock counties established a joint public health board to serve their residents under *Minnesota Statutes*, 145A.03, subd. 2. Several jurisdictions reported that they have standing organizations with representatives from neighboring LGUs to improve service efficiencies. For example, the long-standing Scott County Association for Leadership and Efficiency facilitates opportunities for cost and service sharing among LGUs within Scott County (and with other jurisdictions).

³³ For example, for townships, these arrangements were most often in the area of fire, emergency medical services, and rescue services. Cities most often had a joint entity to provide services for: general government, administration, and libraries; law enforcement; fire, emergency medical services, and rescue; and sanitation, sewer, and utilities.

Consolidation Outcomes

Consolidation proposals often have multiple objectives, including reducing costs.

As we discussed in Chapter 2, complete mergers of two or more local governments occur infrequently in Minnesota. In this chapter, we examine the circumstances under which consolidations are initiated, the costs and benefits of consolidating, and the outcomes of past consolidation efforts. For our work, we relied on national research on this topic and looked in-depth at a sample of eight local government consolidation actions undertaken in Minnesota since 1997.¹ Among these eight case studies, five actions resulted in the jurisdictions merging; the remaining three initiatives were rejected by voters. To provide context, we also spoke with representatives from nine other states about their experiences with consolidation.

REASONS WHY LOCAL GOVERNMENTS CONSOLIDATE

Local governing bodies, state officials, and residents pursue consolidation for a variety of reasons, and these reasons may differ among individuals or entities. Commonly, their objectives may include a desire to achieve greater efficiency in government operations or in capital spending in order to lower tax rates. According to the national literature:

- **Opportunities for cost-savings and economies of scale often are an impetus for consolidation, but they are not the only factors.**

Beyond these objectives, national research also identified increasing economic growth and reducing urban sprawl as motivating factors for pursuing consolidation. Frequently, local governments also seek increased equity between the resources of neighboring jurisdictions and payment for services used by their residents.

Among our eight Minnesota case studies, the most cited reasons for consolidating were:

- Concerns about coordinating long-term planning with neighboring jurisdictions, in some cases prompted by population growth and development pressures;
- Recent annexation and/or detachment actions;

¹ These eight consolidation initiatives included the following five initiated under the locally directed process *Minnesota Statutes*, 465.81-465.86: the cities of Elko and New Market; the cities of Norwood and Young America; New London Township and the cities of New London and Spicer; Rockville Township and the cities of Rockville and Pleasant Lake; and the cities of Long Lake and Orono. One effort involving the cities of St. Bonifacius and Minnetrista was initiated by the state under *Minnesota Statutes*, 414.041. The remaining two used the orderly annexation process under *Minnesota Statutes*, 414.0325: the City of Pequot Lakes and Sibley Township; and Grand Rapids Township and the cities of Grand Rapids, LaPrairie, and Coleraine. More information about these initiatives is contained in Chapter 2, Table 2.2.

Concerns about long-term planning and reducing capital costs prompted several recent consolidation efforts in Minnesota.

- Increased citizen demand for services, or opportunities to improve staffing and expand services;
- Opportunities to reduce duplicate services or equipment;
- The need for large capital investments (often tied to the impact of wastewater on the environment) and potential savings from sharing capital expenses;
- Concerns about capital spending practices (which also affected some local governments' willingness to merge); and
- A desire to reallocate tax burdens to help cover service costs.

Unique circumstances also motivated some local officials to look more closely at consolidation as a service delivery option. Specifically, state highway expansion projects were a primary catalyst for two initiatives, where the projects prompted local officials to reexamine long-range plans for their communities and assess the impact of the projects on their jurisdictions.² State and federal requirements pertaining to water quality or preserving the environment also pressured some local officials to look to consolidation to resolve issues in their communities. Among our case studies, population decline was not observed or cited as a reason for consolidating; however, one merger was prompted in part by the loss of tax revenue due to a large business relocating out of the jurisdiction.³

IMPACT OF CONSOLIDATION ON COSTS

One common objective of consolidation is to reduce local government costs, where the expenditures for a combined entity will be lower than the sum of expenditures for the two (or more) individual entities. Another goal is that the average cost per resident of providing government services will decrease after consolidation.

Evaluating the potential impact of consolidation on costs and services can be complex.

Minnesota law requires jurisdictions to estimate the impact of any proposed merger, including both the fiscal impact and impact on services in the areas under consideration.⁴ As shown in Table 3.1, the information needed to prepare these estimates is complex, and the required analysis varies depending on the consolidation process used. For example, local officials must evaluate the fiscal impact on property tax rates and state aid and whether services can be provided adequately and economically by the existing government; however, jurisdictions do not have to demonstrate that a merger would result in more efficient service delivery.⁵

² The two projects involved: Highway 12 in Long Lake and Orono; and Highway 23 in Rockville, Pleasant Lake, and Rockville Township.

³ Either declining population or loss of revenue base may be why some Minnesota cities or townships dissolved in the past; for example, public documents indicate that the City of Tenney dissolved in 2011 due in part to a severely declining population.

⁴ *Minnesota Statutes* 2011, 414.0325, 414.041, and 465.82.

⁵ These and other statutory criteria are also contained in the Appendix at the end of this report.

Table 3.1: Select Requirements for Evaluating a Potential Consolidation, 2011

Factors for Consideration of Consolidation – *Minnesota Statutes* 2011, 414.041 and 414.0325

- Past and present population, number of households, and projected population growth for the area;
- Existing levels of governmental services being provided to the subject area, including water and sewer service, fire rating and protection, law enforcement, street improvements and maintenance, administrative services, and recreational facilities and the impact of the proposed action on the delivery of the services;
- Fiscal impact on the subject area and adjacent units of local government, including present bonded indebtedness; local tax rates of the county, school district, and other governmental units, including, where applicable, the net tax capacity of platted and unplatted lands and the division of homestead and nonhomestead property; and other tax and governmental aid issues; and
- Whether delivery of services to the subject area can be adequately and economically delivered by the existing government.

Contents of Cooperation and Combination Plan – *Minnesota Statutes* 2011, 465.82

- Changes in services provided, facilities used, and administrative operations and staffing required to effect the preliminary cooperative activities and the final merger, and a two-, five-, and ten-year projection of expenditures for each unit if it combined and if it remained separate;
- Financial arrangements for the merger, specifically including responsibility for debt service on outstanding obligations of the merging units; and
- One- and two-year impact analyses, prepared by the granting state agency at the request of the local government unit, of major state aid revenues received for each unit if it combined and if it remained separate, including an impact analysis, prepared by the Department of Revenue, of any property tax revenue implications associated with tax increment financing districts and fiscal disparities resulting from the merger.

NOTES: *Minnesota Statutes* 2011, 414.041 (Consolidation of Municipalities), references the requirements listed in *Minnesota Statutes* 2011, 414.02, subd. 3. *Minnesota Statutes* 2011, 414.0325 (Orderly Annexations), references the requirements in *Minnesota Statutes* 2011, 414.031, subd. 2. These and other required factors are contained in the Appendix at the end of this report.

SOURCES: *Minnesota Statutes* 2011, 414.02, subd. 3; 414.041; 414.0325; and 465.82, subd. 2.

In the following sections we discuss the likelihood that consolidation improves the efficiency of local governments and reduces costs. We also discuss how these outcomes may impact stakeholders. Generally, efficiency is measured by the amount of services provided compared to the associated costs, where costs include time, money, or other resources.⁶ For purposes of our discussion, efficiencies mostly refer to decreased expenses or lower average expenditures per capita, rather than improved worker productivity. From our small sample of Minnesota case studies we were able to obtain only limited pre- and post-merger expenditure information. Thus, we primarily relied on national research to determine whether local governments are able to reduce costs through consolidation.⁷

⁶ A measure of efficiency, however, does not necessarily capture the effectiveness or quality of the service provided. In some cases, there may be a trade-off between efficiency and effectiveness.

⁷ We include a list of select research studies and other literature in the Further Reading section at the end of this report.

Evidence From National Research

We found a considerable amount of national literature on the issue of local government consolidation that includes both empirical research and in-depth case studies of consolidation actions.⁸ According to national research:

Research has found that consolidation may be beneficial in some situations but not others.

- **Consolidation of local governments does not guarantee cost savings or more efficient operations.**

In a recent literature review conducted by Rutgers University School of Public Affairs, the authors observed that government consolidations have had mixed results in terms of cost savings, service quality, and responsiveness of service delivery.⁹ The study concluded that consolidation may be beneficial in some situations but not in others and that there are no general rules that can be applied to determine when consolidation would be in a community's best interest. As a result, a case-by-case analysis is needed for any potential merger to determine when consolidation would improve upon the status quo or be more efficient than sharing or contracting for services.

Other research involving case studies also found that consolidation has produced mixed results, with some mergers exhibiting evidence of cost savings and others showing no cost savings or even increased costs.¹⁰ For example, a 2010 analysis of nine city-county consolidations in the United States found evidence of improved efficiency in about half of the cases, but it also found that expenditures in the other half of the consolidated governments grew faster than in the nonconsolidated comparison entities.¹¹ This study concluded that:

...there is no support for the hypothesis that consolidations predictably lead to increased efficiency in local government. It can—and does—happen, but increased efficiency is not a predictable outcome of consolidating city and county governments.¹²

⁸ Most of the case studies were largely based on city-county consolidations, which may be quite different than the types of consolidations of interest in Minnesota.

⁹ Marc Holzer et al., "Overview of the Literature Review and Analysis on Five Subjects Related to the Cost-Efficiency of Municipal Government" (report to the New Jersey Local Unit Alignment, Reorganization, and Consolidation Commission, Rutgers University School of Public Affairs and Administration, Newark, May 2009), 7. The Rutgers review was commissioned by the Local Unit Alignment Reorganization and Consolidation Commission created by the 2007 New Jersey Legislature.

¹⁰ For example, see Suzanne M. Leland and Kurt Thurmaier, eds., *City-County Consolidation: Promises Made, Promises Kept?* (Washington, D.C.: Georgetown University Press, 2010); and Lawrence L. Martin and Jeannie Schiff, "City-County Consolidations: Promise Versus Performance," *State and Local Government Review* 43, no. 2 (August 2011).

¹¹ Suzanne M. Leland and Kurt Thurmaier, "Promises Made, Promises Kept," in *City-County Consolidation: Promises Made, Promises Kept?*, eds. Suzanne M. Leland and Kurt Thurmaier (Washington, D.C.: Georgetown University Press, 2010), 282-283.

¹² *Ibid.*, 282-283.

Local governments with larger populations generally have lower capital costs per resident than smaller jurisdictions.

Similarly, a 2011 literature review examined eight different studies of city-county consolidation and reported that only two of the eight studies found evidence of improved efficiency.¹³ The authors of this review also examined numerous other studies of government consolidation and found similar results.¹⁴ Regarding the claims often made by proponents of local government consolidation that it improves efficiencies, they concluded that: “Overall, the research provides little support for the efficiency argument.”¹⁵

Other studies have examined the extent to which consolidation improves the average cost per resident—or economies of scale—in the delivery of local government services.¹⁶ We found that:

- **Among the benefits to consolidation, the literature generally confirms the presence of economies of scale for some government services—in particular, capital-intensive services.**

National studies support the notion of economies of scale for capital-intensive services (such as sewer and water services) in jurisdictions with larger populations.¹⁷ For example, the Rutgers literature review found that overall average government costs decline as the size of the population served increases, up to about 25,000.¹⁸ The review authors found that smaller municipalities (those with populations less than 25,000) tend to be less efficient, but only when

¹³ Lawrence L. Martin and Jeannie Hock Schiff, “City-County Consolidations: Promise Versus Performance,” 167-177. Two of the other studies that were reviewed had mixed results for efficiency after consolidation. The remaining four of the eight studies showed no evidence of improved efficiency, and two of these showed evidence of increased spending and taxes.

¹⁴ *Ibid.*, 170-171.

¹⁵ *Ibid.*, 171.

¹⁶ See, for example, Dagney Faulk and Michael Hicks, *Local Government Consolidation in the United States* (Amherst, NY: Cambria Press, 2011). Some studies suggest careful consideration when evaluating costs per capita, due to differences in accounting methods, for example. See William F. Fox, *Size Economies in Local Government Services: A Review* (Washington D.C.: U.S. Department of Agriculture, August 1980), 4-5; and Holzer et al., “Overview of the Literature Review and Analysis on Five Subjects Related to the Cost-Efficiency of Municipal Government,” 1. Further, it is important to isolate each jurisdiction’s actual costs and identify the population served by those costs. Most local governments have cooperative service agreements with multiple jurisdictions—jurisdictions that may differ among program areas. Thus, the number of recipients of any particular local government’s service may differ from that jurisdiction’s actual population.

¹⁷ For example, see Holzer et al., “Overview of the Literature Review and Analysis on Five Subjects Related to the Cost-Efficiency of Municipal Government,” 5; Igor Vojnovic, “The Transitional Impacts of Municipal Governments,” *Journal of Urban Affairs* 22, no. 4 (Winter 2000): 385-417; and Fox, *Size Economies in Local Government Services: A Review*, 24-30. This latter study noted that costs for sewer services varied widely in sparsely populated areas, depending on service levels.

¹⁸ The Rutgers literature review found that government efficiencies increase—that is, average municipal government costs decline—until a government serves a population of about 25,000. The overall average costs per capita are roughly constant for governments serving populations between 25,000 and 250,000. As populations exceed 250,000, overall efficiencies decrease—that is, average costs increase. In Minnesota, all townships, 695 cities, and 46 counties had fewer than 25,000 residents, and 2 cities and 4 counties had more than 250,000 residents. We note that other studies have identified the presence of economies of scale at population thresholds different than the thresholds presented here.

There may be opportunities to improve efficiencies among smaller jurisdictions that provide capital-intensive services.

services are capital-intensive or specialized and/or are minimally used by any one local government, like high-tech crime labs. Other studies also have identified local government size or scale inefficiencies among smaller governments in the provision of rural road maintenance, a service that requires trucks and road graders.¹⁹ These findings suggest that there may be opportunities to improve efficiencies among smaller jurisdictions that provide capital-intensive services.

On the other hand, national research has also observed that average costs are greater in large jurisdictions for some labor-intensive services.²⁰ In other words, smaller governments appear to produce labor-intensive services at a lower average cost per resident than larger governments.²¹ Thus, if labor-intensive services represent a higher share of the costs of local government than capital-intensive services, it may be more challenging to improve overall efficiencies through consolidation.

Factors That Limit Efficiencies

Combining two or more local governments is a complicated process that requires considering an array of factors and planning and carrying out numerous restructuring activities. Table 3.1 outlines key fiscal analyses that Minnesota local governments must complete when considering a merger. However, completing these analyses requires much more extensive background work than is described in statute. For example, calculating the impact of a merger on administrative operations and expenditures in any one service area often involves more than simply examining staffing levels and personnel budgets; it can require taking an inventory of information technology systems, determining compatibility among the systems, and estimating integration and/or upgrade needs, among other tasks.

The results of these analyses and subsequent administrative decisions by local officials can have a large impact on how a newly combined entity is administered and serves its residents and, thus, may affect its costs. For example, local stakeholders must determine the form of the new governance structure, including

¹⁹ Fox, *Size Economies in Local Government Services: A Review*, 24-25. See also Steven C. Deller and John M. Halstead, "Efficiency in the Production of Rural Road Services: The Case of New England Towns," *Land Economics* 70, no. 2 (May 1994): 247-259. The authors suggest that there are both size and managerial inefficiencies in smaller units of government. Size or scale inefficiencies refer to higher average costs incurred by smaller units of government, while managerial inefficiencies refer to the government unit's inability to achieve the lowest average costs it should be able to achieve for a government of its size. Managerial inefficiencies may result because officials are making decisions about services with little or no input from individuals with the appropriate technical or other expertise.

²⁰ Vojnovic, "The Transitional Impacts of Municipal Governments," 387-388, 407. The author suggests that the higher per capita costs are due to the higher levels of service provision and standards in larger jurisdictions, where the differences translate into more municipal vehicles and uniforms per capita and greater complexity in information and accounting systems, for example. See also Holzer et al., "Overview of the Literature Review and Analysis on Five Subjects Related to the Cost-Efficiency of Municipal Government," 6.

²¹ One study observed that reduced levels of service and expectations in smaller jurisdictions may also be operating to reduce costs. See Holzer et al., "Overview of the Literature Review and Analysis on Five Subjects Related to the Cost-Efficiency of Municipal Government," 6.

Consolidating any two local governments would likely result in different cost-savings possibilities.

the size and composition of the new governing body. Other decisions to equalize service levels among jurisdictions may require new capital investments that quickly offset any promised gains in efficiencies. These and other examples of consolidation issues to consider are contained in Table 3.2.²² When we looked into the likelihood that consolidation results in efficient services, we found that:

- **The potential for improving local government efficiencies through consolidation depends on a number of factors, including the assets potential partners would bring to a merger.**

Most local governments share a border with multiple jurisdictions and, therefore, have more than one potential consolidation partner. Each of these partners has different assets, resources, and expertise they would bring to a consolidation, which would result in varying scenarios for cost-savings.²³ A jurisdiction's ability to reduce its budget and overhead costs through consolidation depends in part on the extent of service overlap and duplication among partners and, thus, the ability to eliminate excess resources, such as equipment, facilities, or staff. The potential for savings is also tied to service levels; jurisdictions that provide relatively few services may yield fewer savings to taxpayers if they consolidate or dissolve.

The geographic size, demographics, and population density of a local government also affect the likelihood of reducing costs through consolidation. Some studies suggest that smaller jurisdictions have been better able to realize greater efficiency in service delivery and local governance through consolidation when compared with larger jurisdictions.²⁴ A 1997 study of Minnesota counties found that combining counties that have large geographic areas might be detrimental to the county's ability to deliver services and contain expenditures. For these jurisdictions, the type of service and the way services are delivered can have a large impact on per capita costs, where service providers may have to travel farther to deliver services in sparsely populated areas.²⁵

²² In presenting this information, we note that the nature and scope of factors to consider vary for counties, cities, and townships.

²³ For example, a merger between two jurisdictions may produce savings in health-related services, but may increase costs for law enforcement.

²⁴ Vojnovic, "The Transitional Impacts of Municipal Governments," 407-408.

²⁵ Minnesota Board of Government Innovation and Cooperation, *Summary Report: The Feasibility of Adjusting County Boundaries in Minnesota* (St. Paul, 1996), 9.

Table 3.2: Examples of Consolidation Activities and Factors to Consider

Subject Area	Description of Activities and Factors to Consider When Consolidating
General Government	
Government Structure	- For counties, decide on the form of administrative structure; and elected or appointed executive position(s), county auditor, treasurer, sheriff, and recorder - For cities, decide on a home rule charter or statutory city, and executive option - For townships, determine administrative structure and option for urban/rural powers
Governing Body	Determine number of representatives and election system
Interim Government	Determine composition of interim government
Commissions/Boards	Plan for existing and new commissions and/or boards and their composition and authority
Administration	
Personnel	- Determine staff complement, expertise, surplus/gaps, and potential for combining functions - Evaluate pay levels and impact on retirement benefits, and negotiate union contracts - Renegotiate professional and other private and interlocal service contracts
Information Systems	Inventory information technology systems and determine compatibility and/or upgrade needs
Selected Services	
Overall Services	Compare range of services and service levels; determine impact on delivery of services; and coordinate interlocal service agreements
Health/Human Services	Coordinate service delivery with state agencies, such as oversight of various care facilities or services
Road Maintenance and Snow Plowing	Determine inventory and infrastructure and maintenance needs
Law Enforcement/Corrections	Coordinate law enforcement services and coverage; for counties, coordinate with state agency for facility oversight and corrections services
Fire Protection	Determine the type of fire department and staffing (full-time, volunteer); location of fire halls; and impact on insurance ratings and residents' premiums
Sewer/Water	Evaluate current and projected: facility and infrastructure capacity, service demands and extensions, impact on rates, and (for water) fire protection systems
Development, Land Use, and Zoning	Evaluate projected population, commercial, industrial, and agricultural growth; compare comprehensive plans, environmental protection plans, and existing land use controls; and draft and adopt new plans
Ordinances	Compare and reconcile ordinances; determine application of ordinances among newly combined areas; and adopt new ordinances
Utilities	Coordinate gas and electric services and determine impact on services and rates
Facilities and Equipment	
Overall Inventory	Assess inventory, use, and space needs; and determine needed infrastructure investments and potential for reducing inventory and/or repurposing space
Overall Costs and Savings	
All Functions/Services	Analyze the end costs and savings across all functions and services, including payroll, taxes, facilities, and other infrastructure

NOTES: The activities above represent only a sample of factors that were or may be evaluated as part of consolidation efforts by Minnesota LGUs. Consolidation among counties would likely require (1) a more extensive review of these issues and other issues or functions due to counties' administrative role in delivering state services, and (2) special legislation to address state-mandated functions.

SOURCE: Office of the Legislative Auditor, review of Minnesota statutes and select local government consolidation studies.

According to national research, the probability of improved efficiency from consolidation is often diminished by the need to accommodate competing interests.

Research also has found that:

- **Administrative decisions made post-merger can reduce the potential for improved efficiencies.**

Most notably, a consolidated government may set the wage and benefit rates for employees at the highest level of the governments being merged, thereby offsetting any anticipated savings.²⁶ If officials decide to make significant changes in employment or wage levels, there may be negative impacts on employee morale and, thus, worker output. Even if there are potential savings in personnel budgets, elected officials may not pursue cuts in staff or wages in the consolidation proposal since they may adversely affect the constituents they serve (and voters' approval of the merger). To this latter point, one study observed that the probability of increased government efficiency is often lowered because officials must compromise on service areas and staffing that could otherwise yield savings to taxpayers.²⁷ Without assurances to at least preserve the status quo, a consolidation proposal may face strong opposition by employees or service recipients.

Finally, although one objective to consolidation is to reduce costs, it is also important to note that:

- **Any consolidation effort promoted solely as a “cost-savings” initiative may not win voters’ approval.**

A recent national study of a sample of consolidation efforts in other states found that voters often did not approve initiatives grounded in cost savings.²⁸ That is, when consolidation supporters focused primarily on efficiency or equity issues, voters rejected the consolidation. Numerous stakeholders in Minnesota and other states advised us that consolidation is not just about the money, that voters are often more concerned about factors other than efficiency, and that citizens equate “saving money” with lower service quality. According to an official from another state, “consolidations that go forward with promises of cost-savings are more likely to have unhappy citizens [when the cost-savings are not realized].”

These findings suggest that local government consolidation—as a government reform option—may have *potential* for producing savings, but that there will need to be other motivating factors for voters to approve a merger. Further, proposals offering the strongest potential for savings may not have been approved by voters and, thus, may not have been included in some post-merger studies of consolidation outcomes.

²⁶ Vojnovic, “The Transitional Impacts of Municipal Governments,” 388; and Holzer et al., “Overview of the Literature Review and Analysis on Five Subjects Related to the Cost-Efficiency of Municipal Government,” 7.

²⁷ Suzanne M. Leland and Kurt Thurmaier, “Promises Made, Promises Kept,” in *City-County Consolidation: Promises Made, Promises Kept?*, 299-300.

²⁸ Suzanne M. Leland and Kurt Thurmaier, “Lessons from 35 Years of City-County Consolidation Attempts,” *Municipal Year Book 2006*: 5-8.

The extent to which residents benefit from consolidation will depend in part on their individual expectations and service needs.

Impact on Stakeholders

One factor to consider when assessing whether consolidation will improve efficiencies is “to whom would the benefits accrue?” There are many stakeholders in any consolidation initiative, including state and local elected officials, public employees, residents, taxpayers, and service recipients. Thus, it is likely that:

- **In circumstances where consolidation does improve efficiencies, the benefits among stakeholders will vary.**

From a local perspective, the value of consolidation will depend in part on the type and level of services provided by each potential partner. Further, the extent that residents benefit from consolidation will depend on their individual expectations and need for services. As one of our survey respondents observed about consolidation:

At this point, I see no gain for [our city or neighboring townships from consolidation]. Distance would make it impossible to run infrastructure out to any of the townships, which are agricultural, so there are no services we can provide to benefit them. Maybe the circumstances for other entities frees up a building or equipment that could be sold, but that would not apply in [our case].

Consolidation also may bring about changes in service delivery, and accessing services that require face-to-face interaction may become more or less of a burden for some residents. For these residents, driving time and fuel expenses could increase or decrease dramatically if a new county seat or other major service hub were relocated.

Although a common objective of consolidation is to reduce costs, cost savings could mean a one-time reduction in local government operating expenses that may not be passed on to taxpayers. On the other hand, a merger could result in substantive savings that are passed on to residents through reduced property taxes. However,

- **It is unlikely that taxpayer burdens are precisely the same between any two jurisdictions, and thus, some equalization—increases and decreases—in property taxes among residents would occur from consolidation.**

To illustrate, in one Minnesota consolidation proposal we looked at that was rejected by voters, planned changes in residential property tax rates ranged from a decrease of 42 percentage points for some residents in one jurisdiction to an increase of 5.6 percentage points for residents in the neighboring jurisdiction.²⁹ Forecasted changes in property taxes varied less in other cases. For example, one proposal projected that taxes in each jurisdiction would be about 6 percentage

²⁹ Estimates represent rates in the third year following consolidation.

The impact of local government consolidations on state agencies would likely vary among state programs.

points lower than if a merger did not occur. This consolidation was approved by voters in both jurisdictions.

From a state perspective, the impact on state services of combining two or more local governments would likely vary among agencies and programs. We spoke with a small sample of representatives from various state agencies about consolidation. Some said that they see opportunities for greater economies of scale among LGUs and their services, and that fewer local government units might ease their workload by reducing the number of local representatives with whom they work. However, some state employees said that reducing the number of LGUs would not impact their work because: (1) much of their work and services is no longer provided in-person but through information technology and their staffing already has been reduced accordingly, and (2) over the years some administrative work has been delegated to local governments, and particularly to counties. On this latter point, some questioned whether mergers among counties—which would involve combining and possibly reducing county staff—might actually increase state agencies’ workload.

Some individuals suggest that any savings that might accrue to the state’s budget from a merger of two local jurisdictions—particularly small entities that provide minimal services—would be insignificant. Other individuals point out that even a small annual savings to the state would add up over the years. We discuss state funding for local governments and its impact on local officials’ decisions about consolidation further in Chapter 4.

RESULTS FROM MINNESOTA CASE STUDIES

In our review of eight consolidation efforts in Minnesota, we observed issues similar to those noted in the national literature and discussed in the previous section, but we also identified several issues that appeared unique to Minnesota. In the next sections, we highlight a few of these issues and several actions that affected the outcomes of the consolidation initiatives.

Most local jurisdictions hired consultants to estimate the fiscal impact of their proposed consolidation.

Estimates of Fiscal Impact

Our review of eight consolidation initiatives included examining local jurisdictions’ estimates for savings. Notably, we found that: (1) comprehensive cost estimates were developed in only six of the eight initiatives;³⁰ (2) the scope of these estimates varied somewhat, and some jurisdictions were unable to forecast the fiscal impact for some service areas; and (3) most jurisdictions hired financial consultants to help develop the estimates and technical reports. This information was included in feasibility reports—or consolidation proposals—and

³⁰ The local jurisdictions that merged using the orderly annexation process did not conduct extensive pre-merger feasibility studies of these issues. In one initiative, residents demonstrated significant support for the merger early in the process. In the other initiative, the merger was prompted by a severely declining tax base and a need for wastewater infrastructure improvements.

was made public for voters to review prior to a referendum. From our review of these reports, we found that:

- **Local officials estimated that consolidation would reduce overall costs and improve efficiencies; in some cases, the improved fiscal outlook was largely due to increases in state aid.**

Most of the consolidation proposals we looked at estimated that the jurisdictions would achieve some modest savings in operating costs, usually by combining staff positions, eliminating duplicate contracts for private consultants, or eliminating a governing body or joint powers board. In three initiatives, the estimates for additional state aid that the jurisdictions would receive following a merger generally exceeded the estimated savings in operating costs. For example, the pre-merger estimates for St. Bonifacius and Minnetrista included annual savings of \$99,500, compared with a net increase of \$245,000 in additional state aid. For the New London, Spicer, and New London Township initiative, the consolidation plan forecast that the merger “should reduce the overall administrative expense of local government” based on a number of factors, and would make the combined jurisdiction eligible for \$200,000 in state aid for road maintenance and construction. In both of these initiatives, voters in one or more of the jurisdictions rejected the proposal.

Post-Merger Outcomes

Local representatives from each of our eight case studies described how their consolidation initiative affected the costs and services of their jurisdiction.³¹ We found that:

- **Among recent consolidation efforts in Minnesota, the impact of consolidation on spending was difficult to measure.**

Several officials said that external factors—such as changes in the state’s local government aid formula—negatively impacted their consolidation objectives and made it difficult to accurately assess the financial outcomes. Others said that the economic and financial crises beginning in 2007 adversely affected their revenues due to a declining housing market, and it forced them to unexpectedly cut their budgets. In addition, stakeholders often had more than one objective for merging and not all were linked to reducing near-term costs. Among the five consolidations that did occur:

- **Local officials said that improved coordination of planning was among the most important benefits to their newly combined community.**

Among recent consolidations, local officials reported that a single administrative entity helped ensure a unified vision and would help control costs over the long term.

³¹ We also asked whether they had conducted any post-initiative analysis of the effort. Two jurisdictions where voters approved the merger were able to provide us with some summary information on key measures; others were able to provide only anecdotal information because they no longer had historical records dating back to the merger.

These officials said that having a single entity responsible for planning and administration helped ensure a unified vision for their area, and would help control costs over the long term. For example, consolidation would eliminate costs incurred for annexation and detachment proceedings between the two jurisdictions. In addition, several of these mergers involved joint projects to improve facilities or other infrastructure, and officials said these changes brought about higher bond ratings, improved services and facilities for residents, and better property tax rates (than if each local government had undertaken the projects separately).

Some local governments realized more direct savings; for example, the combined city of Norwood Young America sold five fire trucks and still maintained a sufficient fire rating. In several jurisdictions, local officials said they were able to combine staff functions and eliminate what they viewed as duplication in services or additional layers of government.

Among several case studies, we also found that:

- **For some property owners, the costs of consolidation outweighed the benefits.**

For example, according to some residents, the resulting tax increases and other assessments imposed after one merger created severe financial difficulties for some landowners. And in a merger involving the City of Rockville, a group of property owners sought and were granted a request to detach from the city to the neighboring township several years after the merger occurred. These residents were unhappy with the new infrastructure investments and resulting increases in property taxes.³² Among the three consolidation initiatives where voters rejected the effort, several individuals we spoke with said that their jurisdiction was in a better financial position than if the consolidation had been approved. Citizens were also more satisfied with the range and level of current services than those that were proposed in the consolidation plan.³³

The costs for outside technical assistance can offset potential savings from consolidation.

Limitations to Cost Savings

Among our Minnesota case studies, certain factors mitigated any immediate cost savings among the jurisdictions that did consolidate. The factor local officials cited most often was that:

- **The costs of preparing for the consolidation and implementing the objectives largely offset any near-term savings.**

³² For this initiative, the consolidation plan and proposal to voters included these planned infrastructure and capital projects.

³³ On the other hand, other stakeholders expressed concerns about the ongoing viability of their community after voters rejected the merger. They commented that the merger was a lost opportunity to improve services and reduce government costs in the region, that one or both of the participating jurisdictions did not have the population to support their infrastructure, and/or that ongoing fiscal constraints were forcing them to cut budgets or look to volunteers to assist in service delivery. Other individuals pointed to increased property tax rates or the increased disparity in tax rates between the jurisdictions as issues that a merger would have mitigated.

Most of these officials said that the consolidation required considerable resources and time—sometimes several years—to prepare for and implement. For three consolidation actions that received voter approval, representatives said that additional work continued sporadically for two to three years after the vote. Several officials reported that they relied significantly on volunteers—sometimes dozens—to work through the lengthy process, and that their costs would have been much higher without these resources.

Among our case studies, other transition costs—such as the need for outside technical, financial, and legal expertise—offset potential savings from consolidating.³⁴ Some jurisdictions also reported that their implementation expenditures were higher than anticipated. For example, they had additional expenses for combining their accounting and other technology systems and reconciling comprehensive plans, ordinances, and budget documents.

Finally, several jurisdictions had forecast that overall costs would increase post-merger because of the need for capital investments; their intent was to improve the average costs per capita by completing projects jointly. However, some representatives from the Grand Rapids area reported that the increased costs from required water and sewer infrastructure improvements in the newly combined area were very high and that any increases in efficiencies would have resulted from cuts in other services.

Addressing Voter Concerns

In Chapter 2, we described how Minnesota residents have a final say in approving or rejecting almost all types of consolidation actions. The outcome of any referendum depends largely on how residents perceive the costs and benefits of a consolidation initiative. Thus, a significant challenge for local officials when crafting a merger proposal is ensuring that the proposal and plan satisfy a majority of their voters. We found that:

- **Some local officials addressed key concerns of voters in their consolidation proposals; by doing so, voters approved the merger.**

In several of our case studies, local government officials advised us that they wanted to ensure a consolidation resulted in a win-win scenario for citizens from both jurisdictions and, thus, negotiated on key issues to avoid alienating voters. For example, residents in several jurisdictions were very concerned about changes in zoning ordinances and where land development was likely to occur under a merger. The proposals addressed these concerns by explicitly preserving the existing land-use and zoning ordinances, including preserving hunting

A significant challenge for local officials is crafting a consolidation proposal that satisfies a majority of voters.

³⁴ Local officials from all eight initiatives cited these extra costs. Their estimates for consultants' services ranged from \$5,000 to \$40,000; one entity reported the legal costs totaled about \$10,000 annually for several years.

Some officials observed that an advocate in the community is necessary for advancing a consolidation proposal.

areas.³⁵ Officials told us that these provisions, and not improved efficiency or lower costs, were the key reasons that voters approved the merger.

Mitigating the impact on residents' property taxes was also important to residents, according to local representatives. They said that it was difficult to balance the need for a more equitable tax burden with determining fair tax rates for services received.³⁶ In most of the cases we looked at, the consolidation plan included a tax step-up provision, whereby tax equalization occurred over three to five years.³⁷ In three mergers that did move forward, local officials set up permanent differential tax provisions for various regions of the newly combined jurisdiction.³⁸

Some local governments took other steps to address citizens' interests and general needs. Specifically,

- **Local officials said that voters approved their consolidation in part because they had included residents in the study and implementation process.**

In several of our case studies, officials set up committees and study groups comprised of local officials, administrators, and residents to help evaluate the feasibility of merging. They asserted that this approach helped identify and address areas of voter concern, as well as inform residents about the issues and the process. To this latter point, some officials observed that informing the voter required a lot of work, and that having an advocate in the community was necessary.³⁹ They said that involving residents in the process helped convey to voters that local officials were not imposing a merger on residents.

In the jurisdictions where the consolidation did not occur, we looked into the reasons why residents opposed the initiative. We found that:

- **The primary reasons Minnesota voters rejected recent consolidation attempts were: (1) potential changes in land use and zoning ordinances, and (2) projected increases in property taxes.**

³⁵ In reviewing these proposals, we observed that where the proposal did not explicitly preserve the status quo, or in fact promoted greater opportunities for development, voters rejected the consolidation.

³⁶ Some officials told us that the need for additional revenues was the primary factor driving some jurisdictions' merger efforts, which created an inherent obstacle to successful negotiations. In two cases where residents voted down the merger, officials cited projections of significantly higher tax burden for some residents as the reason for the rejection.

³⁷ *Minnesota Statutes* 2011, 414.041, subd. 7; and 465.82, subd. 4, allow jurisdictions to set up differential tax rates as part of their merger.

³⁸ In Rockville, for example, only the first 200 feet of rural residential property was taxed at the residential rates applied in other areas of the jurisdiction.

³⁹ Several officials observed that it is extremely difficult to move a consolidation forward—regardless of the facts—when there is strong opposition in the community. Representatives from nine comparison states we spoke with voiced similar reasons why voters rejected consolidation efforts in their state.

Voters rejected some consolidation proposals that may have resulted in changes in zoning and land use.

As indicated by voters' rejection of these mergers, the consolidation proposals and their conditions did not adequately address and reconcile the many competing interests among citizens. Voter opposition was most often due to the possibility of changes in land use and zoning ordinances, including increased development for housing and businesses and restrictions on hunting. Some other reasons why voters rejected the proposal included: (1) projected increases (sometimes large and sometimes small) in property taxes, particularly when there was little or no increase in services proposed; (2) resistance to paying for the maintenance or lack of maintenance of the neighboring jurisdictions' roads, water and sewer infrastructure, or facilities; (3) general disagreements over the level of service and spending among jurisdictions; and (4) expected loss of identity with their jurisdiction, either due to a jurisdiction's name change or from expanding the boundaries to include land zoned for different purposes.⁴⁰ The outcomes of these initiatives demonstrate that one of the most difficult tasks for local officials attempting a merger is negotiating and developing a proposal that is supported by residents.

In the next chapter, we provide background information on the finances of counties, cities, and townships. We also discuss local officials' perspectives regarding state grants and aids and the impact on consolidation efforts.

⁴⁰ Representatives from nine comparison states we spoke with voiced similar reasons voters rejected consolidation efforts in their state. They said that fear of the unknown, loss of community identity with their home jurisdiction, and loss of local control over decisions in their community were common reasons that consolidation efforts failed.

Funding Local Government Services

The likelihood that consolidation improves efficiencies and reduces average per capita costs depends on many factors, including the objectives of the merger, the extent of overlap and duplication in services among potential partners, and their assets and debts. In this chapter, we briefly discuss research findings regarding the relationship between spending and number of local government units and provide information on the finances of Minnesota counties, cities, and townships. We also discuss local officials' perspectives regarding the impact of state funding for local services and capital projects on their consolidation efforts.

NUMBER OF LOCAL GOVERNMENTS AND SPENDING

In Chapter 1, we observed that Minnesota had more local government units and more LGUs per capita than nearly all other states. Some stakeholders suggest that reducing the number of Minnesota local governments through consolidation will help resolve state and local fiscal challenges. National research has looked at the relationship between higher numbers of government units—sometimes referred to as fragmentation—and spending. Overall, researchers have found that:

- **The impact of more local government units on spending is complex and difficult to measure.**

Research regarding the impact on spending of a state having more local government units is mixed.

For example, a 2011 study demonstrated that the impacts of more local government units are “complex and multidimensional.”¹ The authors concluded that the presence of overlapping general purpose local governments and special purpose governments have a more significant effect on total local government spending than fragmentation, but that further research is needed to better isolate the impacts of special purpose governments and other factors on local government spending overall. Other studies have not found a statistically significant relationship between government spending and either fragmentation or general decentralization of government, or they have yielded mixed results.² For instance, one large 2009 study found that there were somewhat offsetting

¹ Rebecca M. Hendrick et al., “Does Local Government Fragmentation Reduce Local Government Spending?” *Public Administration Review* 47, no. 4 (2011).

² See, for example, Dagney Faulk and Michael Hicks, *Local Government Consolidation in the United States* (Amherst, NY: Cambria Press, 2011), 41-43, for a summary of research on this issue; and Drew A. Dolan, “Local Government Fragmentation: Does It Drive Up the Cost of Government?” *Urban Affairs Quarterly* 26, no. 1 (1990): 28-45.

The potential to reduce costs through consolidation depends in part on the extent to which the services provided by the local governments are complementary or duplicative.

benefits resulting from the number and size of government units.³ This study concluded that individual governments are more likely to be efficient at the local level—perhaps due to competitive pressures among local government units—but that fragmentation is also associated with greater overall spending, possibly due to lack of economies of scale or overlap of services.

In general, the potential to reduce costs by combining two or more local governments depends in part on the extent to which their resources and services are complementary or duplicative. Further, merging two jurisdictions will likely impact both their expenditures and their revenues. We discuss Minnesota local government finances in the following sections.

Expenditures

In Minnesota, counties generally have unique roles and responsibilities; however, counties, cities, and townships can provide some similar services. These service characteristics are partly reflected in their expenditures, as shown in Table 4.1. Overall:

- **Minnesota local governments spent about \$11.5 billion in 2009, and most spending was for human services; public safety; and roads, bridges, and highways.**

In 2009, Minnesota county expenditures (including capital outlay and debt service) totaled about \$5.8 billion, followed by cities (\$5.4 billion), and towns (\$260 million).⁴ Most county expenditures were for human services (27 percent of all spending), followed by public safety (18 percent) and streets and highways (18 percent). Similar to counties, two of the largest shares of city expenditures were for public safety (26 percent of all spending) and streets and highways (21 percent). Most townships in Minnesota provide a more narrow range of services and this is reflected in their expenditures, where 56 percent of all spending was for roads and bridges.

³ Ryan Yeung, “The Effects of Fiscal Decentralization on the Size of Government: A Meta-Analysis,” *Public Budgeting and Finance* 29, no. 4 (2009), 22-23. The 2009 meta-analysis looked at 61 studies that provided 749 statistical tests—including meta-regression analysis—on the relationships between spending and various measures of government fragmentation or decentralization. The meta-analysis found that most of the time there was no significant statistical relationship between spending and either fragmentation or decentralization.

⁴ Totals for counties, cities, and townships include spending from governmental funds as reported to the Minnesota Office of the State Auditor. For cities, expenditures include capital outlay for enterprise operations.

Table 4.1: Minnesota Local Government Expenditures, by Service Area, 2009

Service Area	Expenditures (In thousands)		
	Counties	Cities	Townships
Human Services	\$1,541,247	\$ n/a	\$ n/a
Public Safety/Fire	1,057,795	1,379,382	37,857
Streets and Highways/Roads and Bridges	1,026,201	1,126,682	144,248
General Government	983,359	555,582	46,739
Health	261,523	25,372	n/a
Culture and Recreation	227,010	615,772	n/a
Housing and Economic Development	153,419	476,497	n/a
Sanitation	87,531	24,916	n/a
Conservation of Natural Resources	84,626	3,957	n/a
Airport	n/a	46,172	n/a
Transit	n/a	23,880	n/a
All Other	55,920	151,543	16,196
Total Current Expenditures and Capital Outlay	5,478,631	4,429,756	245,040
Total Debt Service	329,289	952,813	14,544
Total Expenditures ^a	\$5,807,920	\$5,382,569	\$259,584

NOTES: Expenditures include calendar year 2009 data from 87 counties, 847 cities, and 1,736 townships. Expenditures for capital outlay (for the purchase, construction, or permanent improvements of buildings, equipment, machinery, and land) are included within each expenditure category; capital outlay totaled \$934 million for counties, \$1.2 billion for cities, and \$39.4 million for townships.

^a "Total Expenditures" may not sum due to rounding.

SOURCE: Office of the Legislative Auditor, analysis of 2009 local government financial data as reported to the Minnesota Office of the State Auditor.

Local government capital projects are sometimes supported by state funds.

To help sustain local government services and infrastructure, local governments in Minnesota have the authority to levy and bond for capital projects, such as the purchase, construction, or improvement of buildings, equipment, machinery, or land. Local governments can also request state funding for their capital projects through either state general appropriations for capital projects or through state bond-financed grants.⁵ As part of their overall spending,

- **Local governments' expenditures for capital outlay and debt service totaled about \$3.5 billion in 2009.**

For calendar year 2009, counties' expenditures for capital outlay and debt service totaled about \$1.3 billion.⁶ For cities, these expenditures were slightly higher—about \$2.1 billion (including capital outlay for enterprise operations). Meanwhile, townships' expenditures for these purposes totaled \$54 million. Some local capital projects were supported by state funds, where the Legislature's 2008

⁵ *Minnesota Statutes* 2011, 16A.86, and 16B.355.

⁶ Total capital outlay for counties, cities, and townships represents 2009 expenditures from various revenue sources. Seven cities and 50 towns did not report their 2009 finances to the Office of the State Auditor.

**Overall,
Minnesota
counties, cities,
and townships
relied mostly on
property taxes to
fund their
operations.**

capital budget for fiscal years 2009 and 2010 included about \$440 million for local government projects and state capital grant programs.⁷ Because this funding is typically project specific, the funding and benefits among individual local governments likely varied considerably.

Revenues

Local governments rely on a variety of revenue sources to fund their operations, including property taxes, fees and assessments for services, and grants and aids from other units of government.⁸ As we discussed in Chapter 3, local governments are required to assess the potential fiscal impact of consolidation on various revenues, in part because some of the state's grant and aid formulas are based on such factors as population and housing values. Any changes in funding could ultimately affect the sources of these revenues, including property owners and the state. When we reviewed local government revenues, we found that:

- **In 2009, Minnesota counties, cities, and townships relied mostly on taxes to fund local government operations, with state grants and aids representing a smaller share of overall revenues in recent years.**

Counties' revenues totaled \$5.7 billion in 2009, as shown in Figure 4.1.⁹ Counties relied mostly on taxes to fund their operations, where 45 percent of revenues came from property and other taxes and 25 percent came from state grants and aids. For counties, a significant share of grants was for providing mandated state or federal programs, such as food support or other human services programs.

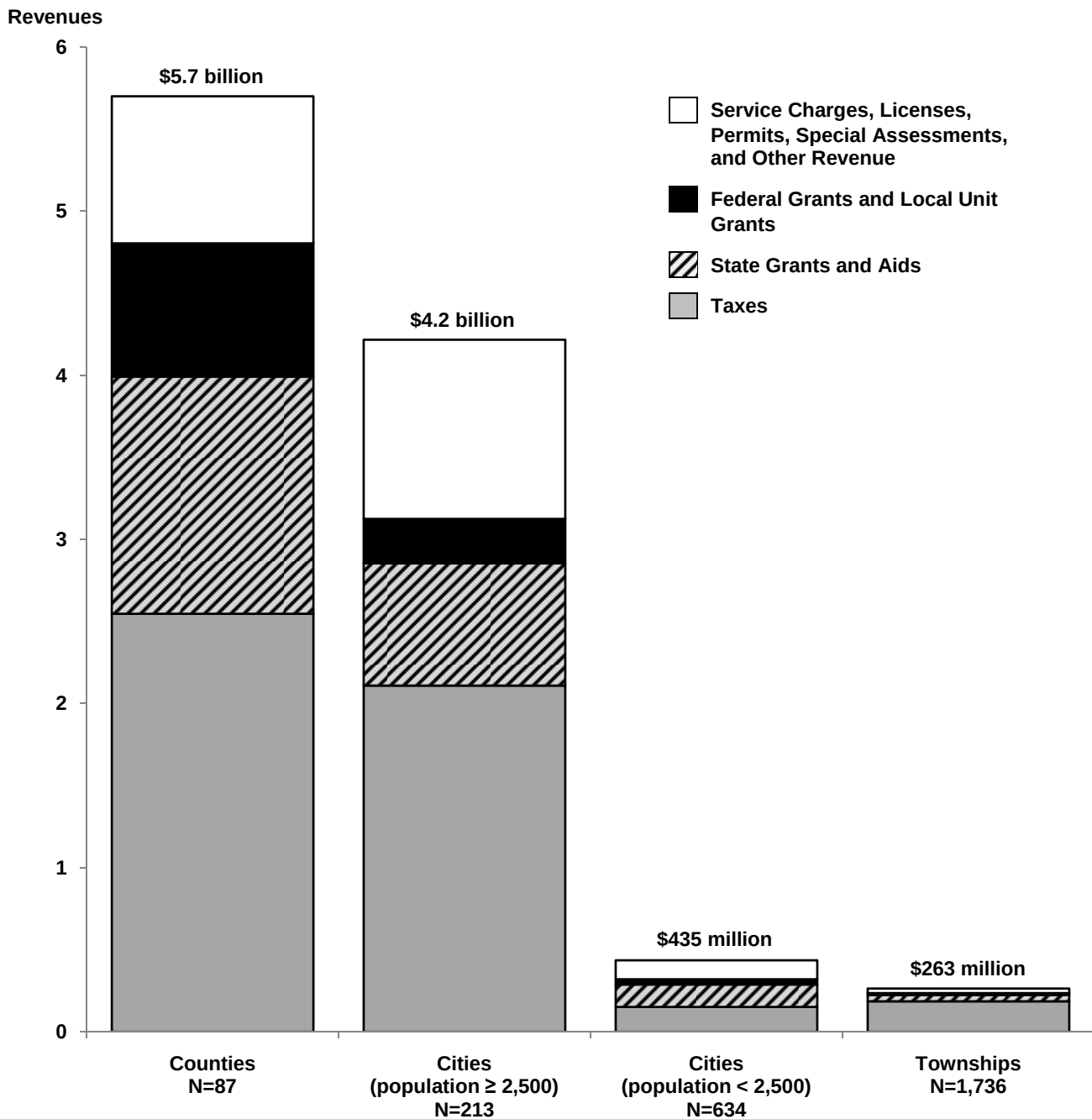
Among all cities, 2009 operating revenues totaled \$4.7 billion, and their primary sources of revenue were taxes (49 percent) and state grants (19 percent).¹⁰ However, cities with populations less than 2,500 relied more on state grants (about 32 percent of all revenues) than did cities with populations greater than 2,500 population (where state grants represented about 18 percent). Meanwhile, towns' 2009 revenues totaled \$263 million. Similar to counties and cities, their primary sources of revenue were taxes (70 percent) and state grants (15 percent).

⁷ Estimate is based on data compiled in: Minnesota House of Representatives, Fiscal Analysis Department, *A Summary of the 2008 Session Capital Budget* (St. Paul: July 2008). Funding for some projects was for multi-year projects.

⁸ State grants and aids for LGUs include grants from the state directly to counties, cities, and towns, and includes County Program Aid, Local Government Aid, State Aid for Streets, Disparity Reduction Aid, various other aids and homestead credits, and grant programs for human services and streets and highways. Grants among local governments are reported as a separate category.

⁹ Total revenues include: (1) financing considered as "revenue," which excludes other financing sources not typically considered revenue, such as borrowing and transfers; and (2) governmental funds only (general, special revenue, debt service, capital projects, and permanent funds), which excludes revenues from enterprise operations.

¹⁰ Totals include governmental fund revenues. These data represent financial reports from 213 cities with greater than 2,500 population and 634 cities with less than 2,500 population.

Figure 4.1: Minnesota Local Government Revenues, 2009

NOTES: Revenues include general revenues and special revenues. "Service Charges, Licenses, Permits, Special Assessments, and Other Revenue" includes fees, licenses, special assessments for infrastructure improvements, funds from interest and dividends, fines, forfeits, reimbursements, lease payments, and donations. "Federal Grants and Local Unit Grants" includes grants between local government units, for example, county grants to cities or townships for streets or roads. "State Grants and Aids" include the Market Value Credit, County Program Aid, Disparity Reduction Aid, PERA Aid, Police Aid, Local Government Aid, Taconite Relief and Aids, and funds for human services, streets, and highways. "Taxes" primarily includes property taxes, but also includes revenue from tax increments; penalties and interest on delinquent taxes; and franchise, lodging, gravel, gambling, and/or local sales taxes.

SOURCE: Office of the Legislative Auditor, analysis of 2009 local government financial data reported to the Office of the State Auditor.

For local governments, state grants and aids as a share of all revenues decreased between 1990 and 2009.

The proportion of local governments' revenues by source in 2009 shifted substantially from 1990. For counties, state grants and aids as a share of all revenues decreased from 34 percent to 25 percent during this time period. For all cities, state grants and aids as a share of total revenues decreased from 29 percent in 1990 to 19 percent in 2009. For townships, state grants and aids as a share of all revenues decreased from 36 percent to 15 percent.

IMPACT OF STATE FUNDING ON CONSOLIDATION EFFORTS

Both the state and local governments have a financial interest in how local government services are configured and delivered. The following sections discuss the perspectives of local officials and other stakeholders regarding the impact of state funding for LGUs' services and capital projects on their consolidation efforts.

State Grants and Aids

Although state grants and aids represented the second largest source of revenues for local governments in 2009, legislative actions over the past decade have reduced the state's support of some local governments through changes in aid eligibility and payment amounts. For example, the 2001 Legislature eliminated Local Government Aid (LGA) for townships.¹¹ In 2010 and 2011, the Legislature revised the state's funding formulas for its county program aid and local government aid to reduce the amounts LGUs received through 2012 and thereafter.¹² Further, a legislatively directed study group has been examining the principles and objectives of local government aid to cities; they are due to report their findings and recommendations in December 2012.¹³

We briefly looked at the impact of state aid on local governments' consolidation activities. First, we explored local government officials' perspectives on this issue and found that:

- **Most local government representatives were opposed to the idea that state aid to local governments be tied to consolidation efforts.**

Among our survey respondents, 72 percent of county representatives, 60 percent of city representatives, and 77 percent of township representatives disagreed that LGUs that receive local government aid should be required to consider consolidation.

¹¹ *Laws of Minnesota* 2001, First Special Session, chapter 5, art. 3, sec. 76.

¹² *Laws of Minnesota* 2010, First Special Session, chapter 1, art. 13, sec. 2; and *Laws of Minnesota* 2011, First Special Session, chapter 7, art. 6, secs. 15-18.

¹³ *Laws of Minnesota* 2008, chapter 366, art. 2, sec. 12; and *Laws of Minnesota* 2010, chapter 215, art. 13, sec. 12.

Reductions in state aid are pushing some local governments to pursue more cooperative arrangements and revisit the possibility of consolidation.

As one city official stated:

Implementing threats and mandates, such as taking away state aid, or increasing aid, for such efforts sends the wrong message as it paints a picture of winners or losers. The goal with consolidation is improvement of service delivery and to make that delivery more accessible and affordable....

However, some local government representatives said that reductions in state aid are pushing local government officials to pursue more cooperative arrangements and revisit the issue of consolidation. One city representative stated:

[Our city and two nearby cities] could very easily consolidate three ways. The cost savings would be immense without increasing services drastically.... The major obstacle remains the parochial identities of each city. But as LGA continues to remain unstable, the concept is building momentum. It just makes sense.

Other survey respondents recommended that the state impose stronger conditions for state financial support. For example, according to one city official:

The state should offer assistance, technical and financial, for very small entities. There should be disincentives via aid reductions to entities who SHOULD consolidate but refuse.

And another city official suggested:

If communities receive significant state aid or their tax rates are 15 percent greater than the norms for [their type of city], they should have to consider consolidation in order to keep receiving state aid.

However, other officials and stakeholders said that a more important priority than consolidation should be for the state to ensure that local government aid is structured in a way that encourages more efficient services and increases performance by local governments. Further, there may be many reasons—such as low population density combined with service needs—why some local governments have not dissolved or consolidated.

From a local perspective, the potential for receiving additional aid may impact how a local government configures its services, and possibly their consolidation initiatives. For example, some individuals said that the statutory 5,000 population threshold for receiving state aid for streets and roads had motivated some jurisdictions to pursue consolidating with others.¹⁴

¹⁴ *Minnesota Statutes* 2011, 162.09, subd. 1.

Local officials and residents have considered the impact a consolidation would have on state aid payments to their area.

From our eight consolidation case studies, however, we could not conclude whether projected changes in state aid impacted the *outcomes* of their consolidation efforts. Specifically, in accordance with state requirements, local officials had estimated the impact of their proposed consolidation on state aid to their jurisdictions. Officials then published these estimates in their consolidation plans to voters. In two initiatives that estimated state aid would increase, voters approved the merger even though the additional state aid was marginal or would not be received for several years. In two other cases, a majority of voters rejected the consolidation despite estimated increases in road aid or other aid. In one of these cases, residents said the increased aid would not benefit their jurisdiction. Rather, the merger would have meant a loss of aid to *their* area because most of the total aid—including the new aid—would have been redistributed to pay for services in the neighboring area.

From a state's perspective, some people suggest that the impact of combining two local governments on the state's budget would be relatively insignificant. We compared the state's general fund and transportation fund budgets to the amount of state grants and aids to counties, cities, and townships in 2009. For calendar year 2009, we estimated that the state's general fund and transportation fund budgets totaled about \$17.2 billion.¹⁵ In 2009, state grants and aids to these LGUs totaled about \$2.37 billion. The largest share of these funds went to counties (about \$1.4 billion), most of which was for state-mandated human services programs and for street and highway programs (\$818 million total). In addition, state grants and aids to cities totaled about \$882 million—including \$482 million for Local Government Aid—and state grants and aids awarded directly to townships totaled about \$39 million.

With more than 2,700 local government units in Minnesota receiving about \$2.37 billion in state aid, the impact of any one merger on the state's budget could be small or large, depending on the LGUs involved, the types and levels of services they provide, and the eligibility criteria of the aid program. For example, among the nearly 750 cities that received monies through the state's local government aid program in 2009, total amounts paid to individual cities ranged from \$86 up to \$80 million.¹⁶ A total of 69 cities received about \$1 million or more, and 352 cities received about \$100,000 or less. Among our case studies, consolidation proposals estimated a net increase in total state aid for some of the jurisdictions, but no change or a reduction in total state aid for some others.

¹⁵ Total state grants and aids for counties, cities, and townships are based on 2009 financial reports to the Office of the State Auditor by counties, cities, and townships, and exclude interlocal grants, such as county-approved state grants to townships for road and bridge projects. The general fund and transportation fund combined budget is estimated based on fiscal year 2009 and 2010 state budget data.

¹⁶ Totals represent 2009 amounts of local government aid paid to cities pursuant to *Minnesota Statutes* 2009, chapter 477A. Minnesota House of Representatives, House Research Local Government Aid Lookup, <http://www.house.leg.state.mn.us/hrd/lghist.asp>, accessed June 27, 2011.

State funding of some capital projects diminished the possibility of local governments collaborating or consolidating.

Funding Capital Projects

For any local government, state funding for their capital projects could represent a sizable share of their expenditures. In 2009, local governments' expenditures for capital outlay and debt service totaled \$3.5 billion. State funding for local capital projects totaled more than \$400 million for fiscal years 2009 and 2010. Among individual governments, these expenditures may have been for periodic maintenance, infrastructure improvements, or for new capital assets. Regarding the state's support of local projects, we found that:

- **State funding for capital projects may have a significant impact on the consolidation efforts of some local governments.**

Some local government representatives and other stakeholders told us that the state's funding of some capital projects—mostly in smaller jurisdictions—had diminished the probability of local governments merging in their region. Specifically, because state funds had supported and made it possible for these local capital projects to move forward, there was no longer an incentive for the recipient to collaborate with other local jurisdictions. The projects included a government center, roads, and wastewater infrastructure. These individuals also expressed concern about the financial ability of these communities to maintain these assets in future years.

On the other hand, some local officials advised us that state funding of local capital projects made it possible for their jurisdiction to carry out large scale collaboration or functional consolidation of some services. They also suggested that the state continue to provide funding for projects when they are developed jointly or benefit more than one local government.

RECOMMENDATION

The Legislature should consider ways to encourage more collaboration and consolidation among local governments when funding local government capital projects and capital grant programs.

However, state funding also helped local governments collaborate on large capital projects.

Local governments can obtain state funds or state-supported financing for their capital projects through either state bonds or capital grant programs. However, some state agency grant programs do not address or give preference to projects that are a collaborative effort by two or more jurisdictions. For the 2012 legislative session, preliminary requests for local government capital projects totaled \$720 million for 90 projects from 58 different local governments (although many of these requests were for multi-year projects). Some of these projects were proposed as joint investments with other communities, but there may be potential for more collaboration.

In Chapter 3, we observed that there may be greater potential for improved efficiencies among capital-intensive services, equipment, and capital projects than in labor-intensive services, particularly among jurisdictions with smaller populations. In addition, capital costs were a primary factor in recent consolidation efforts in Minnesota and a deciding factor for voters in either approving or rejecting some consolidation proposals. In the next chapter, we summarize local officials' perspectives on the potential for reducing local government costs, including capital costs, through consolidation.

Consolidation Prospects

In the previous chapters, we presented information on the extent of local government consolidation activities in Minnesota over the last three decades and discussed whether consolidation improves efficiencies and reduces local government costs. We also identified the reasons that local governments pursue consolidation and examined the impact of consolidation on various stakeholders.

This chapter summarizes local officials' perspectives on various service delivery options—including consolidation—and discusses obstacles to local government mergers. We also make recommendations to the Legislature and local officials regarding future consolidation efforts in Minnesota.

PERSPECTIVES REGARDING CONSOLIDATION

Consolidation is a controversial topic among state and local officials, residents, and other stakeholders. Throughout our study, many individuals offered their opinions on this topic. This section presents some of their viewpoints regarding the value of consolidating Minnesota local governments and if or when other approaches would be more appropriate for restructuring the delivery of services.

Circumstances for Exploring Consolidation

We asked local government representatives in Minnesota about the prospects of consolidation for their local government and the circumstances under which consolidation should be considered by LGUs. We found that:

- **Most local government representatives did not think that *their* local government would benefit from consolidating with another entity.**

As shown in Table 5.1, 78 percent of township respondents either somewhat disagreed or strongly disagreed that their local government would benefit from consolidation, compared with 56 percent of county respondents and 47 percent of city respondents. Some stated that a merger involving their jurisdiction would likely result in more cost shifting than cost savings, or that they had already reduced service duplication through collaborative efforts. Other local officials suggested that their LGU would not consider merging with an entity experiencing real financial “issues” because they did not want to take on responsibility for what they viewed as spending or debt problems in a neighboring jurisdiction.

Consolidation is a controversial topic among state and local officials, residents, and other stakeholders.

Table 5.1: Local Government Representatives' Perspectives on Consolidation, 2011

	Strongly Agree	Somewhat Agree	Neither Agree nor Disagree	Somewhat Disagree	Strongly Disagree
Our city, county, or township would benefit from consolidating with another local government.					
Counties	6%	25%	13%	32%	24%
Cities	6	19	28	17	31
Townships	1	7	14	12	66
All	3	11	18	14	54
Some counties, cities, or townships should consolidate.					
Counties	30%	38%	22%	6%	4%
Cities	19	37	28	7	9
Townships	3	15	34	13	36
All	9	22	32	11	27

NOTE: Percentages may not sum to 100 due to rounding.

SOURCE: Office of the Legislative Auditor, survey of local government representatives, 2011.

Most local government representatives reported that their local government would not benefit from consolidation.

Beyond reasons related to finances, many local officials expressed strong opposition to consolidation more generally, in part because of the impact it may have on residents. For instance, according to one city representative:

The bigger your jurisdiction gets, the less people feel they have a voice and the more political it becomes. We already have a problem engaging citizens to participate—the more removed citizens get the less chance you have to get them to participate...more consolidations will create more disengagement, especially if they feel the state is shoving something at them that wasn't their choice in this environment.

Similarly, one township representative asserted:

We believe it is important to keep our grassroots government at the local levels. We have a better handle on issues we face and the decisions to be made, therefore we are able to use funds to the utmost benefit for our residents.

However, many local government representatives said that *some* local governments should consolidate.

However, although the majority of survey respondents did not think that *their* local government would benefit from consolidation, we also found that:

- **Many survey respondents agreed that *some* local governments *should* consolidate or, under certain circumstances, at least consider consolidation.**

The majority of respondents from counties and cities—68 percent and 57 percent, respectively—either strongly or somewhat agreed that *some* LGUs in Minnesota should consolidate, as shown in Table 5.1. Meanwhile, only 18 percent of township respondents agreed that some LGUs should consolidate.

When asked about the conditions under which local governments should consider consolidation, the majority of county and city respondents agreed that LGUs with severely declining revenues should consider consolidation.¹ LGUs that have a lack of expertise for mandated services should also consider consolidation, according to 52 percent of county respondents and 42 percent of city respondents. However, less than a majority of county and city respondents said that LGUs that do not meet a minimum population threshold should consider consolidation.² In comparison, less than one-fourth of township respondents agreed that LGUs should consider consolidation under each of these conditions. As one local representative noted:

If citizens are happy with their local government and are willing and able to pay for the services they receive, the state should not intervene. If local revenues are inadequate and populations are dwindling, sharing of services and equipment should be encouraged and, possibly, consolidation considered.

Many survey respondents—from LGUs around the state—supported consolidation for other reasons, although these reasons varied somewhat among counties, cities, and townships.³ Both county and township respondents pointed to an overlap of like services for the same areas, particularly between counties and townships. Some township respondents said it was difficult to find citizens to serve as town officials, for example. City respondents suggested that some entities—including their own—were too small to adequately provide city services. According to one city representative:

As a small city...we don't have the resources to compete on our own. It is more difficult to survive and consolidation with our neighboring city may be a viable option.

¹ Fifty-eight percent of county respondents and 54 percent of city respondents strongly agreed or somewhat agreed that counties, cities, or townships with severely declining revenues should consider consolidation.

² We did not specify a minimum population threshold in our survey.

³ Statement represents 131 responses out of a total 1,106 open-ended responses, including responses from 16 counties, 73 cities, and 42 townships.

A township respondent wrote:

Our township would do well under county rule—if we would consolidate to [the] county. ... [It is] getting very hard to get citizens to run for township office.

Cooperative Service Agreements and Consolidation

Consolidations among counties, cities, and townships in Minnesota are a rare occurrence. In the next sections, we discuss possible reasons why more local governments do not consolidate. For example, according to survey respondents:

- **Rather than consolidating their jurisdictions, most local government representatives preferred using cooperative service agreements.**

Many local government representatives said that consolidation of departments or functions is a more appropriate and cost-effective approach than complete consolidation of local government units.

Among all survey respondents, 74 percent of counties, 62 percent of cities, and 68 percent of townships said that their cooperative service agreements are a better approach for streamlining services and/or reducing costs than consolidation.⁴ These arrangements allow LGUs sufficient flexibility to expand services and increase access to expertise, according to survey respondents. Further, less than 3 percent of county, city, and township survey respondents reported that their 2010 cooperative service agreements reduced the overall quality of services.⁵

Although consolidation of specific services among LGUs occurs less often than other types of shared service arrangements, many survey respondents said consolidating departments or functions is a more appropriate and cost-effective approach than full consolidation. For example, one county respondent stated:

It makes very little sense for [our county] to consolidate in total with another county. What does make sense is to consider consolidation by function or line of business. From that perspective, some functions more naturally align with [a nearby city], and some align better with counties.

Another survey respondent stated:

Consolidation of functions may make more sense. [For example,] combining police departments with [the] sheriff's department.

As we discussed here and in Chapter 2, it appears that many local governments in Minnesota work together to provide services to their residents through the use of cooperative service agreements. In addition, incremental boundary adjustments

⁴ These totals include responses from survey respondents who also had indicated that they did not have any cooperative service agreements in 2010.

⁵ These totals include responses from survey respondents with at least one collaborative service agreement in 2010.

On the other hand, some local officials were ready to progress beyond the use of collaborative agreements to full consolidation.

are used much more often than consolidation to restructure these local jurisdictions. Still, we suggest that:

- **Opportunities to increase collaboration and consolidation, and potentially reduce the duplication of services, persist around the state.**

Specifically, among our survey respondents, 26 percent of city respondents and 34 percent of township respondents reported that their jurisdiction did *not* collaborate with another jurisdiction for any services. Many LGUs also reported that the number of service areas in which they collaborated stayed the same between 2005 and 2011, and a small percentage of LGUs reported that their collaborative activities decreased during this time period.⁶

Some local officials told us that they were ready to progress beyond the use of service agreements, joint powers boards, or joint districts. They said that the work required to administer service contracts or coordinate with joint boards was quite time intensive—sometimes with minimal added value—and that full consolidation with one or several neighboring jurisdictions would be more cost effective. Among other drawbacks, local officials said that service agreements can result in less control over services and raise questions about service equity among partners.

Finally, many local government representatives supported consolidation, or said that there were opportunities for reducing duplication in services. In addition, many survey respondents from counties, cities, and townships either strongly agreed or somewhat agreed that their local government *would* benefit from consolidation.⁷ Some specific responses from city representatives included:

There is a tremendous amount of money spent for duplicate services and equipment in the area of fire, police, water, sewer, wastewater, and public works. When there are small cities within walking distance of one another it only makes sense to reduce costs and merge services.

And:

The cost of duplicative services amongst neighboring cities and/or townships is a grand example of truly wasteful government spending.

⁶ Among survey respondents that reported using at least one cooperative service agreement in 2010, 22 percent of county respondents, 47 percent of city respondents, and 65 percent of township respondents reported that they collaborated with the same number of LGUs as they did in 2005. Seventeen percent of county respondents, 28 percent of city respondents, and 52 percent of township respondents reported that they collaborated in the same number of service areas. About 1 percent of county, city, and township respondents reported that they collaborated with fewer LGUs or in fewer service areas.

⁷ Twenty-one county respondents, 134 city respondents, and 88 township respondents somewhat agreed or strongly agreed that their local government would benefit from consolidating with another local government.

Similarly, one township representative stated:

The state needs to take action on this. Township government has way too much duplication cost. Basic responsibility for township government is to maintain roads and general elections. To do this we need all the same equipment that the county already has. Lawyers, engineers, clerks, there is so much extra cost to the taxpayer.

According to local government survey respondents, there is potential for greater efficiencies in local government services.

Minnesota local governments have shown that they have a strong preference for shared service agreements—rather than consolidation—as a service delivery option. We do not recommend that local governments use one approach over the other; instead, a case-by-case analysis is needed to identify when consolidation would work better than the status quo or other options, including contracting for or sharing of services. From our survey responses it is clear that many local officials believe there is potential for greater efficiencies in local government services. In the next section, we discuss who—a state entity or local governments—should be responsible for initiating and facilitating the consolidation of local governments in Minnesota.

STATE AND LOCAL GOVERNMENT ROLES

Minnesota’s history of local government consolidation includes a mix of state and local initiatives to reduce the number of local governments. Most recently, voters rejected state actions by the Minnesota Municipal Board to consolidate various cities during the 1990s. Still, many individuals question why more mergers have not occurred, including whether the state should be doing more to encourage or direct more mergers.

Oversight of Consolidation

In Minnesota and in other states, discussions about consolidation often involve a debate about whether the state or local governments and their residents should have authority for initiating and directing the consolidation process. We found that:

- **Most local government survey respondents prefer that local jurisdictions retain control over consolidation efforts, rather than have the state determine which entities should merge.**

Many local government representatives, even those supporting consolidation, stated that it should be up to local jurisdictions to decide whether or not to pursue consolidation. As shown in Table 5.2, 42 percent of county respondents, 52 percent of city respondents, and 72 percent of township respondents said that the state should not be involved in identifying which local entities should merge.

Some suggest that a lack of vision and long-range plan for Minnesota contributes to local governments' reluctance to consolidate.

State laws appear to present conflicting purposes for restructuring the framework of local governments in Minnesota.

Table 5.2: Local Government Representatives' Perspectives on State Involvement in Consolidation, 2011

	County	City	Township	All
To what extent should the state—either the Legislature or a state agency—be involved in the consolidation of cities, counties, and townships?				
State should not be involved	42%	52%	72%	65%
State should be less involved	13	11	10	10
State involvement should stay the same	22	21	15	17
State should be more involved	22	16	3	7

NOTE: Percentages may not sum to 100 due to rounding.

SOURCE: Office of the Legislative Auditor, survey of local government representatives, 2011.

For many officials, considering options for restructuring boundaries—including consolidation—was an important part of their long-range planning activities.⁸ Local officials told us that their ability to coordinate decisions among neighboring jurisdictions about the strategic placement of housing, industrial parks, and capital infrastructure was key to helping local governments operate in the most cost-effective way. Among several recent mergers in Minnesota, local officials said that the improved coordination of planning and smarter growth policies were among the greatest benefits to residents.

On the other hand, skepticism about the state's involvement in local government consolidation was tied in part to what some local officials and other stakeholders said was a "lack of vision and long-range plan" for Minnesota. Some individuals pointed to the state's elimination of services provided by Minnesota Planning and the Local Planning Assistance Center as contributing to this problem. As another example, state laws appear to present conflicting purposes for defining and restructuring the framework of local governments, where statutes lay out processes to facilitate consolidation, but also allow for property owners to detach—some suggest too easily—from their local jurisdiction. As one local official stated:

Until the state has strong oversight of planning and priorities, [it is not clear] how it could effectively promote [local government] consolidations.

⁸ Currently, local governments provide long-range planning functions, where state law authorizes counties, cities, and townships to make development decisions about their communities. See, for example, *Minnesota Statutes* 2011, 394.21, 394.232, 463.353, 462.355, 462.3585, and 473.858.

Conflicts over long-range planning and development have been both catalysts and obstacles to consolidation efforts in Minnesota.

Another local official observed:

The State needs to set the tone and create a plan for reorganization. Then we will follow.

To address these concerns, some individuals suggested that the Local Planning Assistance Center (or a similar entity) be reinstated to help guide state and local community planning efforts. They said that this type of department would provide a neutral forum for representatives from counties, cities, and townships to gather and discuss consolidation and other statewide planning-related topics.

While some complained about the state's lack of planning, other officials said that the state should impose more stringent requirements on local government planning activities (although few had specific suggestions for changes). From our review of case studies, conflicts over long-range planning and development have been both catalysts and obstacles to city-city and city-township consolidation efforts in Minnesota. However, the majority of local officials we spoke with said that local governments were best suited to address these issues and plan for their jurisdiction and, thus, they should retain control over this function and their consolidation efforts.

RECOMMENDATION

Consolidation efforts in Minnesota should continue to be led by local government representatives and citizens. Further, local government officials should consider and pursue such opportunities.

National research has found that consolidation is more successful if implemented voluntarily, rather than mandated. The last initiative by the state to consolidate local governments was in 1997. Since then, the state has had minimal involvement in identifying or directing local governments to consolidate—an approach similar to that in most of the nine comparison states we looked at.⁹ Further, during the last three decades, more locally directed consolidation efforts than state-directed efforts resulted in consolidation. Some of this success may be attributed to the fact that determining potential cost savings and service improvements among potential partners requires knowledge of the government entities and their service arrangements, which is best provided when involving local government staff, officials, and residents.

In Chapter 3, we discussed the costs and benefits of consolidation and its potential for improving efficiencies, particularly for smaller jurisdictions that provide capital-intensive services. Even though there are challenges to consolidation and the outcomes can vary, consolidation still has value and should

⁹ For example, several states have a state-level entity designated to oversee consolidations, but only one of these has the power to initiate the action. Specifically, Wisconsin and Michigan have state-level entities with the authority to approve or reject local government consolidations; Georgia's General Assembly has the authority to both initiate and approve or reject local government consolidations. In practice, however, the decision to initiate or consolidate is "locally driven" in all nine states.

be considered by state and local officials and citizens as one approach to improving local government services and efficiencies. Local officials also should take note that in response to our survey, a fair number of local representatives supported consolidation and said their local government would benefit from combining with another jurisdiction.

In making this recommendation, we note that voters have also rejected some mergers initiated by local governing bodies and by residents. For more local governments to consolidate, local officials will need to clearly assess voter interests and reconcile their service demands when developing consolidation plans and proposals. The likelihood that consolidation yields costs savings for residents depends on the potential partners involved, but also the extent to which local officials administer and adhere to consolidation plans to improve efficiencies following a merger.

Assistance and Grant Funding

Merging two or more local governments requires planning, analysis, and developing a proposal for voters to weigh in on. Further, most survey respondents said that local jurisdictions should evaluate and decide for themselves whether or not to consolidate. However,

- **Many stakeholders said that the state should provide technical expertise and funding for feasibility studies to local governments that were interested in consolidation.**

Specifically, many city and township survey respondents stated that they were interested in consolidation, but they did not have information about the state's processes or how to evaluate consolidation prospects. They asked that the state develop financial models and process models to help guide local governments' efforts. Further, some LGUs may be more likely to consider consolidation if the state or another entity provided education, advice, or financial assistance.¹⁰ For example, one county official stated:

Meaningful financial incentives, commitment to reform at the state and local government levels, and well seasoned technical expertise that has actually assisted with and helped lead consolidations is especially needed.

Similarly, one township clerk wrote:

If the state feels it's in the best interest of the State of Minnesota, then the state should try to influence voluntary consolidation by promoting it through informational programs.

Well-seasoned technical expertise is needed to help evaluate and lead local government consolidation efforts.

¹⁰ Nearly 200 survey respondents said that the state or other entity should provide education and assistance to local governments interested in consolidation. In addition, nearly 150 survey respondents stated that the state or other entity should provide financial incentives or financial assistance to local governments interested in consolidation.

In Minnesota, there is no central resource with information about the various processes to consolidate counties, cities, and townships.

In addition, most of the individuals we spoke with who were involved with consolidation efforts in Minnesota emphasized that they would not have been able to work through the process without the assistance of knowledgeable consultants and volunteers experienced in local government consolidations. Other local officials said that they would not undertake a merger effort without first thoroughly evaluating the costs and benefits, but that they had neither the time nor expertise to sufficiently assess the value of such an effort. They also said that, given current fiscal constraints, it would be difficult to divert monies from services for citizens to study consolidation. Entities with smaller populations in particular noted that they would not have the resources to undertake such an effort.

Minnesota's Municipal Boundary Adjustment Unit provides some information about consolidation processes and statutes through its Web site, but the information does not include financial or other evaluation models. The public can access consolidation plans and studies for some past efforts to use as examples; however, the information on the MBAU Web site is limited to state-administered consolidations initiated under *Minnesota Statutes*, chapter 414. The MBAU Web site does not include information or documents pertinent to initiatives pursued under the locally directed process (*Minnesota Statutes*, 465.81-465.86) or county-county or township-township mergers.¹¹ Further, the MBAU office is not staffed to provide planning or other technical assistance. In contrast, we found that some of the other states we looked at—such as New York, Michigan, and Wisconsin—provide guidebooks, case studies, and/or in-depth planning assistance to those interested in consolidation.¹²

RECOMMENDATIONS

- ***The Legislature should provide grant funding—to be administered by counties—for cities and townships to evaluate consolidation proposals.***
 - ***The Municipal Boundary Adjustment Unit and counties should make available more information and technical materials about consolidating local governments in Minnesota.***
-

The state could help facilitate local government consolidation efforts by addressing local officials' concerns about needing technical expertise and information. First, the Municipal Boundary Adjustment Unit and counties should make available to residents and local officials more comprehensive information

¹¹ MBAU does not provide this information in part because local governments do not report the information to this entity. Historical documents and information regarding consolidations handled through the previous Board of Government Innovation and Cooperation are stored at the Minnesota History Center.

¹² Such assistance varied among states we looked at, but in most instances, the state or another organization provides some materials available in hard-copy or online versions, consultation over the phone, expertise on statutory requirements, and some in-depth planning assistance.

about consolidation, including guidebooks, financial models, and examples of consolidation studies.

In addition, for two or more local governments demonstrating an interest in consolidating with each other, the Legislature should provide grant funds for feasibility studies.¹³ These grants could be administered and awarded by counties, possibly through the Department of Administration as the state's fiscal agent. Under state law, counties play a unique, local role in overseeing requests for boundary adjustments from township residents and are often involved in city and township planning efforts. Thus, counties should have a better understanding of consolidation prospects—including local interest among jurisdictions—and ways to help local grant applicants than a state-level entity.

OBSTACLES TO CONSOLIDATION

We identified some factors that may explain why consolidation does not occur more often in Minnesota. These obstacles are often unique to a jurisdiction and its population, or are specific to state processes and statutory requirements. We discuss these factors in the following sections.

Local Factors

Initiatives to consolidate more local governments face a range of challenges.

In Chapter 3, we highlighted several issues that posed challenges to recent consolidation initiatives in Minnesota. In particular, voters had strong concerns about preserving existing zoning and land-use ordinances and fairly allocating property tax burdens. These issues were important enough to voters to influence how local officials developed the consolidation proposal and the outcomes of the referenda. Further, research has found that consolidation efforts that focus primarily on reducing costs may not be approved by voters. Through our survey, local officials also identified other factors that may impede consolidation efforts, as shown in Table 5.3. Based on our research, we found that:

- **Consolidation may not be appropriate for all local governments. For jurisdictions in which consolidation may be a viable option, they still may face numerous challenges.**

¹³ Four states we looked at currently have a grant program that partially or fully funds feasibility studies or the implementation of local government consolidation. In Minnesota, the previous Board of Government Innovation and Cooperation provided grants to help local governments study the feasibility of merging; these monies also helped local governments prepare information for voter review and consideration.

Table 5.3: Percentage of Local Government Survey Respondents Indicating Issue is a Significant Obstacle to Consolidation, 2011

Issue	County	City	Township	Overall
Loss of control and authority over services	70%	55%	65%	62%
Loss of identity with current jurisdiction	65	56	60	59
Resistance by citizens	64	52	56	55
Resistance or lack of interest by elected officials	62	47	45	46
Differences among potential partners in how services are financed	59	41	42	43
Inability to agree with potential partners on purpose and goals of consolidation	53	40	40	40
Unwanted changes in services	46	43	50	48
Lack of funding for the upfront costs of consolidating	45	47	37	40
Lack of funding to evaluate the feasibility of consolidation	43	46	34	38
Possible increased ongoing costs	42	40	48	45
Statutory constraints	35	17	24	22

SOURCE: Office of the Legislative Auditor, survey of local government representatives, 2011.

According to local representatives, concern about the loss of control and authority over services is a primary obstacle to more consolidation efforts in Minnesota.

As we discussed in Chapter 3, there are many factors that may affect whether consolidation would improve the efficiencies of local governments. In addition, some jurisdictions may be too large—either in population or geographic size—to benefit from consolidation.¹⁴ Many survey respondents and other individuals we spoke with, even those that supported consolidation, suggested that the resources required to overcome geographic distances for services that require in-person interaction would largely offset any potential cost savings from a merger of larger entities with sparse populations. A 1997 study of the feasibility of merging Minnesota counties supported these assertions and found that consolidation could increase per-capita costs for some counties.¹⁵

Table 5.3 shows several other factors that survey respondents viewed as significant obstacles to the consolidation of local governments in their region. In particular, respondents identified two factors pertaining to the governance of LGUs—loss of control and authority over services and resistance or lack of interest by elected officials—more often than most other factors. Two other obstacles cited most often pertain to residents’ reactions to mergers in their

¹⁴ Sixty-two percent of county respondents, 49 percent of city respondents, and 49 percent of township respondents said that some LGUs were too large—by either population or geographic size—to consolidate.

¹⁵ Minnesota Board of Government Innovation and Cooperation, *The Feasibility of Adjusting County Boundaries in Minnesota* (St. Paul, 1997), 42.

Very few local governments reported that they surveyed citizens about their interest in consolidation.

community: loss of identity with current jurisdictions and resistance by citizens.¹⁶ As one city official noted:

Without significant financial assistance, few cities will consider consolidation—it is costly and a sensitive subject with residents of any community and requires a lengthy process to reach consensus and a community-wide comfort level that allows forward movement.

At the local level, each of these factors varies depending on the potential partners in a merger. There is no one-size-fits-all approach for jurisdictions to overcome perceived obstacles in their community, and reconciling these issues should be considered on a case-by-case basis.

Regarding local officials' concerns about resistance by citizens, we note that in response to our survey, only a handful of local government representatives reported surveying citizens in the last five years about their interest in consolidation. Local officials' perceptions that citizens—as voters—may resist a consolidation effort may be based in part on the relatively low success rate of past consolidation referenda in Minnesota.

RECOMMENDATION

Minnesota local governments looking for service delivery options should survey citizens to determine their interest in consolidation.

It may be useful for local governments seeking to reconfigure their services and improve their fiscal situation to determine whether there is sufficient citizen support to pursue either functional or structural consolidation. Further, assessing the level of citizen support is important because, in many cases, voters have the final say about a consolidation proposal through referenda. Surveys or focus groups of residents could help guide jurisdictions' efforts to reform how they deliver services.

State Processes

From our review of case studies we learned that some local stakeholders involved in consolidation efforts in Minnesota preferred the locally directed process—under *Minnesota Statutes*, 465.81–465.86—over the process administered through the state's Municipal Boundary Adjustment Unit under *Minnesota Statutes*, 414.041. They cited several benefits of the process under *Minnesota Statutes*, 465.81, including greater buy-in by local officials and residents—because it is locally directed—and more flexibility in determining the time frame, path, and resources necessary to carry out the initiative.

¹⁶ These and other issues were identified in national research and by representatives from other states as reasons more local government mergers have not occurred. For example, nearly half of the representatives from other states said that an uninformed or misinformed public was a major obstacle to local government consolidation; some said that deliberate efforts to spread misinformation had successfully stopped some consolidation attempts.

With regard to the state process through MBAU, local officials and other stakeholders viewed two requirements as too restrictive. First, they suggested that the schedule for selecting and appointing candidates for a consolidation commission to study the consolidation proposal, hold hearings, and report back to the chief administrative law judge was too rigid. Second, ensuring the correct composition of the commission—a minimum of five individuals from each jurisdiction and one from outside the jurisdictions—for the duration of the process was viewed as challenging to comply with, particularly for smaller jurisdictions.¹⁷ Current law does not permit local units of government to deviate from either of these provisions.

RECOMMENDATION

The Legislature should amend Minnesota Statutes 2011, 414.041, subs. 2-3, to allow for process-related waivers by the state’s chief administrative law judge.

Some state requirements for consolidating cities may be too challenging for small jurisdictions to accomplish.

The process administered by the Office of Administrative Hearings Municipal Boundary Adjustment Unit under *Minnesota Statutes*, 414.041, provides an important resource for local jurisdictions and citizens interested in pursuing consolidation. The statutes governing this process also outline important factors that help local officials assess whether consolidation among two jurisdictions is a worthy pursuit. However, the aforementioned process-related requirements may be too difficult for some jurisdictions to comply with. We think that allowing jurisdictions more flexibility in their initiatives, upon showing of good cause to the chief administrative law judge, may be helpful for jurisdictions demonstrating an interest in consolidation.

County Consolidations

In Minnesota, there have been no significant changes in county jurisdictions for many decades. In Chapter 2, we observed that county mergers are governed by several different statutes that provide minimal guidance for counties to consolidate, particularly when compared with their statutory responsibilities and their range of services.

There may be many explanations for the lack of mergers among Minnesota counties. Among the possible reasons, some counties may have determined that consolidation is not appropriate for their residents, and officials have sought other ways to streamline services and reduce costs. As we described earlier, all of our county respondents reported that they participated in cooperative agreements and other shared service arrangements, and counties reported having a median of twenty such agreements.

¹⁷ Members must serve on the commission until it issues its report to the chief administrative law judge; the report must be submitted within two years of the initial appointment of the commission.

Unlike some other states, Minnesota allows voters to initiate consolidations among counties.

Another possible reason could be that a county-county merger in Minnesota could be quite complicated. For instance, counties' extensive use of cooperative service arrangements would likely require time and resources to renegotiate and reconcile services among their local partners. Minnesota counties also act as agents of the state and administer many services as part of state and federal programs. Regarding these responsibilities, local officials specified several factors they would need to address as part of a merger, including funding formulas for state-supervised services and state-county coordination of some services, such as corrections programs. County representatives also were more likely than representatives from cities and townships to point to statutory constraints—such as requirements pertaining to county attorneys and sheriffs, and high voter threshold requirements—as significant obstacles to consolidation.

We compared two of Minnesota's requirements for county mergers to those in our nine comparison states. In doing so, we found that only six states have laws or constitutional provisions that explicitly allow counties to consolidate, and only four of these states provide some guidance about the process.¹⁸ In the three other states, neither state statutes nor the state constitution address how or whether county mergers may occur.¹⁹ In examining these states' processes, we found that:

- **Minnesota imposes a higher voter threshold to initiate and approve consolidations among counties than most comparison states.**

In Minnesota, residents can petition their governing body to initiate consolidation proceedings by compiling the signatures of a requisite number of voters. Some Minnesota officials said that Minnesota's threshold is too high for county mergers. Among our nine comparison states, only three states—Indiana, Pennsylvania, and South Dakota—explicitly allow voters to initiate a county consolidation, as shown in Table 5.4. However, Table 5.4 also shows that compared with these three other states Minnesota had the *highest* threshold—25 percent of the votes cast in the last general election—while the thresholds for the other three states ranged from 5 percent to 15 percent. In comparison, Minnesota was at the lower end of the spectrum for city consolidations, requiring signatures of at least 5 percent of the votes cast for governor in the last general election.²⁰

¹⁸ Georgia, Michigan, Indiana, Pennsylvania, South Dakota, and Wisconsin explicitly allow county-county mergers. The latter four provide some statutory guidance for county mergers.

¹⁹ The three states are New York, Ohio, and Washington. Representatives from these three states said that new legislation would be required to allow and address the processes for consolidating counties.

²⁰ In Minnesota, requirements for initiating a consolidation involving a county or city differ from those for townships. Generally, mergers among townships may only be initiated by a petition of voters. Under certain conditions, a county board may dissolve a township and merge the area with another township.

Table 5.4: Petition and Referendum Requirements in Minnesota and Comparison States, 2011

State	Threshold Required to Initiate Consolidation by Voter Petition		Referendum to Approve Requires Majority Vote in Each Entity
	County-County Consolidation	City-City Consolidation	
Minnesota	25% of county residents voting in the last general election^a	5% of votes cast for governor in last general election	X^b
Georgia	County consolidations allowed but voters cannot initiate	City consolidations allowed but voters cannot initiate	X
Indiana	5% of votes cast in the last election for Secretary of State	5% of votes cast in the last election for Secretary of State	X
Michigan	County consolidations allowed but voters cannot initiate	5% of total population of each entity	X ^c
New York	County consolidations not explicitly allowed	City consolidations not explicitly allowed	
Ohio	County consolidations not explicitly allowed	10% of votes cast in last gubernatorial election	X
Pennsylvania	5% of votes cast in last gubernatorial election	5% of votes cast in last gubernatorial election	X
South Dakota	15% of registered voters in each entity	15% of registered voters	X
Washington	County consolidations not explicitly allowed	10% of votes cast in last municipal election	X
Wisconsin	County consolidations allowed but voters cannot initiate	City consolidations allowed but voters cannot initiate	X ^d

NOTES: Thresholds may differ for consolidation of townships or other combinations of entities. Among all states, state laws require that jurisdictions be contiguous, adjacent, and/or overlapping for most types of mergers.

^a Consolidation of two or more counties in Minnesota can also be initiated by filing a resolution unanimously adopted by the board of each affected county under *Minnesota Statutes* 2011, 373.51, with the Secretary of State.

^b In Minnesota, consolidation of counties requires approval from 60 percent of voters in each county—the highest threshold among our comparison states. However, consolidations pursued through *Minnesota Statutes* 2011, 465.81-465.86, may involve a different threshold as determined by the reorganization plan.

^c In Michigan, voters must petition for a final referendum for city consolidations; if they do not, the consolidation is final if approved by the state boundary commission.

^d In Wisconsin, a final referendum is not required for consolidations attempted through cooperative boundary agreements among cities under *Wisconsin Statutes* 2011, 66.0307. Residents may petition for a referendum, but it is advisory only.

SOURCE: Office of the Legislative Auditor, summary of state statutes, constitutions, and interviews with other state representatives.

Among the six other states that explicitly allow county-county mergers, most of them require that residents have the final say on a consolidation proposal through a referendum and vote, as shown in Table 5.4. In most of these states, including Minnesota, a majority of voters in each entity must approve the consolidation.²¹ Compared with six other states that require voters to approve county-county mergers, Minnesota's 60-percent voter approval threshold was the highest.

²¹ Some states allow for a different voter threshold, where approval is based on an affirmative vote by a majority of voters from the entire area under consideration, rather than a majority from each entity.

These higher voter thresholds pose additional challenges for county officials seeking to initiate and develop consolidation proposals that are satisfactory to residents.

RECOMMENDATION

The Legislature should provide funding for a county-administered pilot project to (1) develop a more comprehensive process and guidelines for consolidating counties in Minnesota, and (2) facilitate consolidation among two or more counties demonstrating significant interest in combining their jurisdictions.

Consolidation proposals should be evaluated on a case-by-case basis to determine the potential for improved services and outcomes.

We think that proposing a consolidation would be a large undertaking for any Minnesota county, in part due to a lack of experience and statutory guidance. The counties' role as administrative agents of the state and providers of many state-mandated services also would require the involvement of various state agencies and, thus, likely complicate any merger attempt. Further, the financial investment required to carry out an initiative and present the question to voters is of concern to county representatives, particularly when voters may reject the proposal.

More work by state and local officials is necessary to address stakeholders concerns about state requirements and to further develop the process and guidelines for consolidation initiatives by counties or their residents.²² This work could be completed separately or as part of a pilot project involving two counties interested in consolidating. For such a project, the Legislature should provide financial support to help facilitate the merger. Finally, as we have noted elsewhere in this report, consolidation proposals should be evaluated on a case-by-case basis to determine the potential for improved services and outcomes.

²² County officials and community leaders have previously suggested that, if the state wished to encourage boundary adjustments or consolidations among counties, the state should work with local officials to remove legal and fiscal barriers to their implementation. See Minnesota Board of Government Innovation and Cooperation, *Summary Report: The Feasibility of Adjusting County Boundaries in Minnesota* (St. Paul, 1996), ii.

List of Recommendations

- The Legislature should consider ways to encourage more collaboration and consolidation among local governments when funding local government capital projects and capital grant programs. (p. 59)
- Consolidation efforts in Minnesota should continue to be led by local government representatives and citizens. Further, local government officials should consider and pursue such opportunities. (p. 68)
- The Legislature should provide grant funding—to be administered by counties—for cities and townships to evaluate consolidation proposals. (p. 70)
- The Municipal Boundary Adjustment Unit and counties should make available more information and technical materials about consolidating local governments in Minnesota. (p. 70)
- Minnesota local governments looking for service delivery options should survey citizens to determine their interest in consolidation. (p. 73)
- The Legislature should amend *Minnesota Statutes* 2011, 414.041, subds. 2-3, to allow for process-related waivers by the state’s chief administrative law judge. (p. 74)
- The Legislature should provide funding for a county-administered pilot project to (1) develop a more comprehensive process and guidelines for consolidating counties in Minnesota, and (2) facilitate consolidation among two or more counties demonstrating significant interest in combining their jurisdictions. (p. 77)

Factors for Considering Consolidation

APPENDIX

Minnesota law lays out several different processes to consolidate local governments. The following tables outline key requirements for some of these processes. Table 1 shows the analyses and procedures that local officials must address for consolidations pursued under *Minnesota Statutes* 2011, 465.81-465.86, the locally directed process. Table 2 shows the analysis that local officials must address when merging under the processes in *Minnesota Statutes* 2011, chapter 414.

Table 1: Contents of Cooperation and Combination Plan, 2011

The plan for cooperation and consolidation must address:

- The specific cooperative activities the units will engage in during the first two years;
- The steps to be taken to effect the merger, with completion no later than four years after the process begins;
- The steps by which a single governing body will be created or, when the entire territory of a unit will be apportioned between or among two or more units, the steps to be taken to provide for the representation of the residents of the apportioned unit;
- Changes in services provided, facilities used, and administrative operations and staffing required to effect the preliminary cooperative activities and the final merger, and a two-, five-, and ten-year projection of expenditures for each unit if it combined and if it remained separate;
- Treatment of employees of the merging governments, with specific provisions for reassigning employees, dealing with exclusive representatives, and providing financial incentives to encourage early retirements;
- Financial arrangements for the merger, specifically including responsibility for debt service on outstanding obligations of the merging units;
- One- and two-year impact analyses, prepared by the granting state agency at the request of the local government unit, of major state aid revenues received for each unit if it combined and if it remained separate, including an impact analysis, prepared by the Department of Revenue, of any property tax revenue implications associated with tax increment financing districts and fiscal disparities;
- Procedures for a referendum to be held before the proposed combination to approve combining the local government units, and specifying the voter approval threshold requirements for the referenda; and
- A time schedule for implementation.

SOURCE: *Minnesota Statutes* 2011, 465.82, subd. 2.

Table 2: Factors for Considering Consolidation, 2011

Factors for Consideration of Consolidation:

- Number of households; past, present, and projected populations.
- Quantity of land within the area; the natural terrain including physical features, general topography, major watersheds, soil conditions and such natural features as rivers, lakes and major bluffs;
- Present pattern of physical development, planning, and intended land uses in the area, and the impact of the proposed action on those uses;
- Present transportation network and potential transportation issues, including proposed highway development;
- Land use controls and planning presently being used in the subject area, including comprehensive plans, select plans and policies of the Metropolitan Council, and any inconsistencies between proposed development and existing land use controls;
- Existing levels of governmental services being provided to the subject area, including water and sewer service, fire rating and protection, law enforcement, street improvements and maintenance, administrative services, and recreational facilities; and the impact of the proposed action on the delivery of the services;
- Existing or potential environmental problems and whether the proposed action is likely to improve or resolve these problems;
- Fiscal impact on the subject area and adjacent units of local government, including present bonded indebtedness; local tax rates of the county, school district, and other governmental units, including, where applicable, the net tax capacity of platted and unplatted lands and the division of homestead and nonhomestead property; and other tax and governmental aid issues;
- Relationship and effect of the proposed action on affected and adjacent school districts and communities;
- Whether delivery of services to the subject area can be adequately and economically delivered by the existing government;
- Analysis of whether necessary governmental services can best be provided through the proposed action or another type of boundary adjustment;
- Degree of continuity of the boundaries of the subject area and adjacent units of local government; and
- Analysis of the applicability of the State Building Code.

NOTES: *Minnesota Statutes* 2011, 414.0325, reference the requirements listed in *Minnesota Statutes* 2011, 414.031, subd. 4. *Minnesota Statutes* 2011, 414.041, reference the requirements listed in *Minnesota Statutes* 2011, 414.02, subd. 3. Among the various processes, some factors differ slightly.

SOURCES: *Minnesota Statutes* 2011, 414.02, subd. 3; 414.031, subd. 4; 414.0325; and 414.041.

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April 10, 2012

Mr. James R. Nobles
Office of the Legislative Auditor
140 Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155-4708

Dear Mr. Nobles:

Thank you for the opportunity to respond to your report on *Consolidation of Local Governments*. Our office was glad to be of assistance in assembling some of the materials used to produce the report. As the most centralized source of information on consolidations, annexations and detachments, the Office of Administrative Hearings Municipal Boundary Adjustment Unit (MBAU) has a keen interest in this subject.

Having reviewed the report, we appreciate the thorough study and analysis that shed some light on a subject that suffers from many misconceptions. Notably, your report highlights the complexity involved in the consolidation process and the non-economic factors that play a large role in whether communities decide to consolidate. Another important finding of your report is the roles that the state government might effectively play in the consolidation process.

We agree that municipalities could use more information regarding the consolidation process. As the report notes, however, the MBAU is not staffed to provide in-depth support services and its role is limited to the more infrequent consolidations governed by *Minnesota Statutes* Chapter 414. Should the legislature decide that more state government supplied information or support be provided, the MBAU would be happy to assist in that process.

We would also like to comment on your recommendation to amend Minn. Stat. § 414.041, subds. 2-3, to allow for process-related waivers by the Chief Administrative Law Judge. The OAH does not take positions on policy initiatives and therefore has no position on this recommendation. Nevertheless, we believe that this would be workable and does not pose any significant costs or legal issues for the OAH.

Finally, our staff appreciates the positive working relationship developed during the data search process. We look forward to responding to any additional questions you or the legislature may have on this important topic.

Sincerely,

A handwritten signature in black ink, appearing to read "Raymond R. Krause", is written over a horizontal line.

RAYMOND R. KRAUSE
CHIEF ADMINISTRATIVE LAW JUDGE



April 9, 2012

Mr. James R. Nobles
Office of the Legislative Auditor
Room 140, Centennial Building
658 Cedar St.
St. Paul, MN 55155

Dear Mr. Nobles,

Thank you for the opportunity to review and comment on your report on local government consolidation. We appreciate the thoughtfulness of the report, and believe you and your staff produced a well-written, insightful examination of the challenges involved in the process of government consolidation, as well as the opportunities that exist for increased collaboration among local governments. Most importantly, we are pleased that your report supports AMC's position that consolidation efforts should continue to be led by local government representatives and citizens.

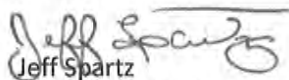
Too often, consolidation is viewed as a panacea for the rising cost of providing government services. But, as your report notes, consolidation of local governments does not guarantee cost savings or more efficient operations, and can have a major impact on service delivery, government responsiveness and citizen representation. AMC believes that local elected officials, citizens and property owners are best equipped to weigh the potential costs and benefits of consolidation, as compared to the savings and efficiencies that can be achieved through improved collaboration, cooperation and other redesign initiatives.

We are also proud of the reform and redesign efforts counties have undertaken in recent years, and appreciate the fact that your report highlights the fact that *every single county* that took part in your survey is utilizing cooperative service agreements and other collaborative agreements to improve efficiencies, enhance the quality of services and reduce costs. Since 2003, AMC has been working with our member counties to cultivate a culture of innovation and to explore and embrace innovative proposals. Our efforts have been fueled by the belief that while our political boundaries may help identify us, they certainly do not define us, nor should they serve as an impediment to collaboration and reform.

Lastly, we agree with your report's finding that the Legislature should provide enhanced direction and support to local government units that may be considering consolidation. If, as your report suggests, the Legislature believes counties should play an active role in administering state grants and providing education for locally-led consolidation efforts, AMC will gladly partner with the Legislature and the state in this effort.

Thank you again for the opportunity to comment on your report. Our organization appreciates the work of you and your staff in this important evaluation.

Sincerely,



Jeff Spartz
Executive Director

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