

Revisiting the Brookings Research

**A Rebuttal to State Planning Office Implications regarding Local Government Efficiency
in Maine**

Maine Municipal Association

January, 2010

The Administration's Position

The Governor's proposed supplemental budget includes cuts to municipal aid programs. The presentation of the supplemental budget was accompanied by statements by the director of the State Planning Office (SPO), Martha Freeman, that the municipal cuts can be absorbed with greater municipal cooperation and regionalization. This document is a response to those statements.

Municipal officials understand that the state aid programs they rely upon, education aid and revenue sharing, are not going to be spared given the real and significant decline in state revenue. However, Ms. Freeman went beyond simply presenting those cuts as being the result of reduced state revenue. Instead, she trotted out the old and tired policy horse of this administration that municipalities should be able to absorb these cuts – without any reduction in service delivery – by engaging in regionalization. In this way, the cuts are not merely the unfortunate product of a poor economy; instead, these cuts are a necessary prod to get municipalities to stop wasting money.

What Was Said

Susan Cover of the *Kennebec Journal* presented Ms. Freeman's comments at the press conference announcing the Governor's proposed supplemental budget, as follows.

Martha Freeman, director of the State Planning Office, said the budget calls for \$27 million in cuts to municipal revenue sharing, cuts to General Assistance and reducing the Tree Growth fund.

She said that, with 500 municipalities in 16 counties, there's room for better coordination that will save money.

"That's a local government administration for every 2,500 state residents," she said. "We can keep services available locally and at less cost if we move to regionalize local administration."

Apparently, we can have it all – the same services at less cost.

Municipalities have grown accustomed to the current leadership of the State Planning Office lecturing municipalities about becoming more efficient. This document attempts to respond to this admonition about municipal consolidation with facts. Facts provided by objective, third-party analysis of data.

We do not expect SPO to change. These facts have been presented to the current administration many times and in many ways – without so much as acknowledgment of the data. However, we are hopeful that legislators, editorial boards and others interested in public policy who are simply trying to understand the current state of municipal affairs will review this information and be open to the information the data reveal.

This Report

This report is primarily a re-presentation of research that was commissioned as part of the Brookings Institution's 2006 report entitled "Charting Maine's Future". The research was done by Professor Philip Trostel of the University of Maine.¹ The purpose of the Trostel Report was to compare government spending in Maine to both national averages and the spending in so-called "peer" states. These are states that share Maine's demographic and geographic profile (e.g., rural, average-income). Furthermore, the Trostel Report directly addressed the oft-repeated allegation that Maine has too many units of local government, "*Particular emphasis is placed on possible excess costs and possible redundancy in providing state- and local-government services in Maine.*" (Trostel, p. 4). This is the exact allegation SPO has once-again leveled passively-aggressively with a new page on its website entitled "Local Government Cooperation."²

The data analyzed in the Trostel report were compiled by the U.S Census Bureau and covers the 2002 fiscal year.³ The Trostel analysis demonstrates three things:

- Maine municipal expenditures (other than education) are typically lower than both national and peer averages;
- The Census data disputes the notion that having a high number of municipalities is a cause of high spending;
- Maine's state-level spending is a much greater concern than local-level spending.

The Trostel Report analyzes 21 categories of government employment (e.g., police, schools, fire protection) utilized by the Census Bureau. The 21 categories are divided into three areas: those that are primarily local (8), those that are primarily state (5) and those that are shared (8). These categories are analyzed by three different metrics.

The first metric is employment and examines how many "full time equivalent" government employees Maine has in a particular service area compared to other states on a per capita basis. The second metric is payroll and focuses on how much does Maine government spend on its employees in a particular service area compared to other states as a percentage of total Maine income (the so-called "burden" metric). The third metric is a net expenditure analysis. The "netting" is of intergovernmental transfers. For example, the state government's transfer of school aid to local governments is netted-out of the state government's expenditures and is instead counted against local government.

The section of the Trostel Report that presents an analysis of combined state and local spending does so by the same three metrics used for analysis of local government spending: payroll, employment and net expenditures. Trostel then disaggregates one metric, payroll, into its state and local components and then provides another cross-state analysis. This report will only re-produce the latter.

¹ "*Maine's State- And Local-Government Payroll and Expenditure*", Philip A. Trostel, University of Maine (Orono), October, 2006. (Hereinafter, the Trostel Report.)

² On that webpage, SPO asks a series of "Did you know" questions including, "Did you know that Maine has almost 500 municipalities, plus 16 counties? That's a local government administration for every 2500 Maine residents."

³ The Census does limited annual surveys of government revenues and expenditures. Every fifth year the Census does a much more detailed survey called the Census of Governments. The most recent survey (of FY 2007 data) was completed in 2009 and the survey results are being released over the course of 2009-2010.

TOTAL GOVERNMENT PAYROLL (FY 2002)

Table 1 presents the aggregate payroll of government employees as a percentage of total personal income.

Table 2 presents the relative standing of Maine versus peer states and the national average.

TABLE 1⁴

Aggregate Payroll (As a percentage of total state income)	Local Government			State Government		
	Maine	National Average	Peers Average	Maine	National	Peers
Payroll - All Functions	4.31%	5.03%	4.66%	2.29%	1.98%	2.80%
Payroll - Excluding Quasi Functions (e.g. Hospitals)	4.17%	4.55%	4.19%	2.2%	1.77%	2.54%

TABLE 2

Aggregate Payroll Maine as a percentage of national and peer averages	Local Government		State Government	
	National	Peers	National	Peers
Payroll - All Functions	-14%	-7%	+16%	-18%
Payroll - Excluding Quasi Functions (e.g. Hospitals)	-9%	-1%	+24%	-13%

⁴ Trostel, p. 69-72, Tables 5 & 7.

TOTAL GOVERNMENT PAYROLL

Professor Trostel's report looks at three metrics of government spending: employment, payroll and expenditures.

Expenditures are probably the most important because they include all costs, both the administration of a service and its substantive costs. Employment level on an equalized "full-time-equivalent" basis is also very useful metric. Yet each of these measures has shortcomings as outlined by Professor Trostel in his analysis.

Professor Trostel placed his greatest emphasis on payroll as a percentage of state personal income, particularly in measuring possible redundancy. That is, if there were costly duplication it would appear in the area of personnel (too many police chiefs, clerks, assessors etc.).

On that basis, the Trostel Report's initial table should give state agency employees such as Ms. Freeman pause in fomenting the notion that it is local government in Maine that is in need of greater efficiency.

Maine local government is consistently below national and peer state averages in terms of payroll. And as the balance of this report will show, local government in Maine generally performs well by all metrics in almost all analyzed categories of spending. The notable exception is education, the largest local government service in Maine.

Maine state government has a mixed performance when compared to national and peer averages. Professor Trostel believes that slightly more of the responsibility for service delivery resides at the state level in Maine rather than at the local level as compared to other state's nationally. While there are reasons to doubt this hypothesis, even if one were to accept it, this argument would seem to further erode the notion that it is local government in Maine rather than state government that needs to focus on providing efficiencies. Why analyze the level of government doing relatively less rather than the one doing relatively more?

In any event, the issue raised by Ms. Freeman is whether there is redundancy in local government in Maine. The clear data provided by an objective third-party is that Maine payroll is below both national and peer averages. Given all the areas of state spending that are far above national and peer averages, wouldn't it make more sense for the State Planning Office to analyze state spending more closely and concern itself less with local government.

LOCAL EDUCATION SPENDING (FY 2002)

Table 3 presents data on payroll, employment and net expenditures on education at the local level.

By all three metrics, Maine is **higher** than both national and peer averages.

TABLE 3

Education ⁵				Maine as a percentage of national and peer averages		
	Maine	National Average	Peers Average		National	Peers
Payroll (as a percent of total state income)	3.03%	2.65%	2.84%		+12.5%	+6.3%
FTE Employment (per 1,000 residents)	28.73	22.18	24.75		+22.8%	+13.9%
Net Expenditures (as a percent of total state income)	4.46%	4.04%	3.77%		+9.4%	+15.5%

⁵ Trostel, p. 73, Table 8

Local Education Spending

Professor Trostel observed:

"Although Trostel and Reilly (2005) present strong evidence that Maine's relatively high cost of providing education is largely due to having very small school districts and hence unrealized economies of scale, the other rural states do not appear to have a cost disadvantage in providing public education. Indeed, the average net expenditure of the other rural states is almost 7% below the U.S. average. Moreover, the number of local governments per capita is not correlated with net expenditure relative to income. ... Although the magnitude is unclear, the data clearly indicate that Maine spends a relatively high amount on primary and secondary education . . . it does suggest that the costs of providing this service merit more in depth scrutiny." (pp. 17 and 19)

MMA Notes:

Local government spending and taxing in Maine is essentially a function of education spending. It dominates local spending in Maine – more than 70% of all local government payroll in Maine is in primary and secondary education according to Professor Trostel. Unfortunately, it is in this large area that Maine is more costly than national and peer state averages by all three metrics.

Yet, this is the area of local government expenditure with the greatest level of state control. Maine's state government has adopted special education standards that are more expansive than are the federally required standards. State government adopted the student laptop program. State government adopted the "Learning Results" standards. State government established a minimum teacher salary in Maine. Finally, following the Sinclair era of state-imposed consolidation, education in FY 2002 was one of the local services most often provided at a regional level.

And of course, the Governor's initiative to further consolidate local schools was enacted in 2007 and implemented in 2008. The result of the mandatory school consolidation will not be reflected in the FY 2007 Census data being released in 2010. However, those effects will appear in the FY 2012 data.

OTHER LOCAL SPENDING (FY 2002)

Table 4 presents data regarding net expenditures on seven local spending categories. Maine local governments compare fairly well with respect to national and peer averages.

TABLE 4

Net Expenditures (as a percent of total state income)				Maine as a percentage of national and peer averages		
	Maine	National Average	Peers Average		National	Peers
Police Protection	0.49%	0.73%	0.60%		-32.9%	-18.3%
Fire Protection	0.23%	0.29%	0.21%		-20.7%	+9.5%
Parks & Recreation	0.15%	0.34%	0.31%		-55.9%	-51.6%
Sewerage	0.29%	0.35%	0.27%		-17.1%	+7.4%
Housing & Community Development	0.06%	0.10%	0.03%		-40.0%	+100.0%
Solid Waste	0.28%	0.22%	0.19%		+27.3%	+47.4%
Libraries	0.07%	0.09%	0.09%		-22.2%	-22.2%

Other Local Government Spending

Professor Trostel observed:

Police Protection: *“Maine certainly spends less on police than most other states, but it is not clear to what extent this is due to better cost performance in Maine, lower crime in Maine, lower crime in rural states generally, or lower incomes in Maine.”* (p. 21.)

Fire Protection: *“Evidently, at least some fire ‘employment’ in Maine is really quasi-volunteer labor. Hence, despite having a relatively high number of fire departments, fire protection does not appear to be relatively costly in Maine... Comparison to the other rural states also reveals that the number of fire departments per capita does not appear to have an important influence on the cost of fire protection.”* (p. 22.)

Parks & Recreation: *“Having a relatively high number of governments evidently does not cause high costs for this service... There is no strong evidence that Maine has abnormally high costs in parks and recreation. In fact, Maine is abnormally low in this service category in both comparison to the national average and in comparison to other rural states.”* (pp. 23-24.)

Sewerage: *“The relatively high number of local governments providing this service in Maine and other rural states, does not appear to create a noticeable cost disadvantage.”* (p. 24.)

Housing & Community Development: *“The evidence on Maine’s spending for housing and community development is mixed...much of the difference is probably due to differences in per capita income.”* (p. 26.)

Solid Waste: *“Maine has the highest number of local government units providing this amenity, suggesting that there could be unnecessary duplication. The payroll and employment data, however, do not suggest excess costs or unnecessary duplication in providing this service.”* (p. 27.)

Libraries: *“On a per capita basis, Maine has the 6th highest number of local governments with libraries...Evidently, having a high number of local governments providing this service does not lead to high costs for this service....Indeed, Maine is relatively low cost in this service category.”* (p. 28.)

MMA Notes:

Overall: Time and again, Professor Trostel points out the high number of governmental units per capita providing a service in Maine. He also consistently refutes the notion that this fact leads to higher costs.

Sewerage: Approximately half of the sewerage providers in FY 2002 were municipal governments and half are special districts.

Housing & Community Development: There are only 26 municipal governments out of 492 providing this service. Another 22 special districts provide this service as well. While the relatively high cost of this service compared to peer states is a red flag, it is not credible to lay blame for that on Maine’s municipalities – 95% of which don’t provide the service directly.

Solid Waste: The payroll and employment data (not shown) demonstrate that Maine has fewer employees and lower payroll expenditures compared to national and peer averages. It is not the employees that are costly, it is the service itself. Possible explanations include the extensive level of state regulation (e.g., state-imposed closure of municipal landfills) and the high utilization of private-sector services. This is an area certainly worth further exploration.

MIXED FUNCTIONS (I)

Table 5 presents the payroll of state and local government employees as a percentage of total personal income in four mixed function categories.

TABLE 5

Payroll (As a percentage of total state income)	Local Government			State Government		
	Maine	National Average	Peers Average	Maine	National	Peers
<u>Highways</u>	0.16%	0.12%	0.17%	0.27%	0.11%	0.21%
Maine as a percentage of national and peer averages	-	+33.3%	-5.9%	-	+145.5%	+28.6%
<u>Public Welfare</u>	0.03%	0.12%	0.03%	0.19%	0.10%	0.15%
Maine as a percentage of national and peer averages	-	-75.0%	-	-	+90.0%	+26.7%
<u>Financial Administration</u>	0.09%	0.09%	0.10%	0.12%	0.08%	0.09%
Maine as a percentage of national and peer averages	-	-	-10.0%	-	+50.0%	+33.3%
<u>Other Government Administration</u>	0.11%	0.10%	0.09%	0.06%	0.03%	0.04%
Maine as a percentage of national and peer averages	-	+10.0%	+22.2%	-	+100.0%	+50.0%

Mixed Function Categories

Professor Trostel observed:

Highways: *“Being rural appears to create a significant cost disadvantage in providing highway services. Similarly, the number of local governments per capita involved in providing highways services has a noticeable positive correlation with measures of highway provision, suggesting that having too many local governments duplicating efforts contributes to the rural cost disadvantage. When simultaneously controlling for annual heating-degree days, though, neither of these conclusions appears to be supported by the data. That is, the observed correlations of highway costs with urban percentage and governments per capita are evidently mostly spurious. Urban percentage and governments per capita just happen to be correlated with cold winter weather, and evidently, that is what is really driving relatively high highway costs....Thus, despite most of the measures suggesting that Maine might have higher-than-necessary costs in providing highways services, apparently this is mostly a consequence of Maine’s winter weather...This service category probably deserves further scrutiny.”* (pp. 38-40.)

Public Welfare: *“Public welfare is mostly administered at the state level in Maine... Public welfare is provided by 56 governments in Maine: the state and 55 cities and towns. In terms of government per capita, this is a relatively high number of local governments (3.1 times the national average). It is also relatively high compared to most of the other rural states – 54 percent higher than the rural average....The [data] suggests that Maine has a high level of welfare benefits compared to the rest of the nation. Moreover, Maine does not appear particularly costly in administering welfare benefits in comparison to the national average....The per-single-mother measures also indicate that Maine has a high level of welfare benefits compared to the rest of the nation and to most other rural states.”* (pp. 40-41.)

Financial Administration: *“Despite having a relatively high number of local governments with financial administration, Maine’s relatively high level of financial administration occurs at the state government level and not in local governments...Evidently, the rural cost disadvantage in financial administration occurs at the state-government level and not at the local-government level.”* (p. 42.)

Other Government Administration: *“Maine is somewhat high at the local level...Rural states do not seem to have any cost disadvantage in other government administration at the local level. Nor does having a relatively high number of local governments per capita appear to cause a noticeable cost disadvantage...*

Maine is very high in other government administration payroll at the state level in comparison to other states....The rural cost disadvantage in other-government administration discussed earlier evidently occurs in state government...

The interstate evidence is inconsistent in other local-government administration....[In terms of ‘expenditures’] relative to income, Maine is relatively low – 23 percent and 29 percent lower than the national and rural averages, respectively. In local other-government administration payroll relative to income, however, Maine is relatively high...Hence the evidence on a cost differential in other local-government administration is inconclusive.” (pp. 44-45.)

MIXED FUNCTIONS (II)

Table 6 presents the payroll of state and local government employees as a percentage of total personal income in four additional mixed-function categories.

TABLE 6

Payroll (As a percentage of total state income)	Local Government			State Government		
	Maine	National Average	Peers Average	Maine	National	Peers
<u>Health</u>	0.02%	0.11%	0.05%	0.15%	0.08%	0.12%
Maine as a percentage of national and peer averages	-	-81.8%	-60.0%	-	+87.5%	+25.0%
<u>Judicial & Legal</u>	0.02%	0.12%	0.06%	0.09%	0.09%	0.10%
Maine as a percentage of national and peer averages	-	-83.3%	-66.7%	-	-	-10%
<u>General Public Buildings</u>	0.07%	0.09%	0.08%	0.16%	0.03%	0.04%
Maine as a percentage of national and peer averages	-	-22.2%	-12.5%	-	+433.3%	+300.0%
<u>Other (Unallocable)</u>	0.05%	0.11%	0.06%	0.13%	0.11%	0.16%
Maine as a percentage of national and peer averages	-	-54.5%	-16.7%	-	+18.2%	-18.8%

Mixed Functions (II)

Professor Trostel observed:

Public Health: *“Public-health services are primarily provided through the state government in Maine...Public-health services in Maine are provided by the state government and 127 cities and towns. This gives Maine the nation’s highest per capita number of local governments providing health services, 4.7 times the national average.”*

[In terms of aggregate state and local] payroll and employment, Maine is relatively low in comparison to the rest of the country but similar to most other rural states....In health net expenditure, however, Maine is very high compared to the rest of the nation and compared to the other rural states...Compared to the rest of the country, Maine is particularly low in health payroll at the local level and relatively high at the state level...This is to be expected given that health is much more of a state-government function in Maine than nationally....

[Because this is such a large area of expenditures] if interstate net expenditure data are to be believed, there could be a substantial cost differential.” (pp. 46-47.)

Judicial & Legal Services: *“Judicial and legal services are mostly provided at the state level in Maine, but a majority of these services are delivered at the local level in the rest of the nation.... Unlike every other service category with local-government provision in Maine, the rest of the nation has more local governments per capita providing judicial and legal services.*

Maine appears to be somewhat below the interstate norm in providing judicial and legal services.” (pp. 47-49.)

General Public Buildings: This category includes *“the construction, equipping, maintenance, and operation of public buildings not assigned to specific functions Some examples are general county office buildings, town halls and other multi-purpose office buildings. There is no employment assigned to this function; thus there are only expenditure data for this category.*

Evidently, Maine’s relatively high general public buildings expenditure is not due to its being rural. Nor is it due to Maine having a relatively high number of general-purpose governments....

It is at the state level that Maine is relatively high in general public buildings.” (p. 49.)

Other (Unallocable): *“This is a leftover category for activities that are multifunctional or not allocable to a specific function. Some examples are National Guard, insurance premiums, judgments and compensation, administration of multifunctional agencies, economic development, voter registrations and elections, etc.*

Maine is relatively low in this category in payroll and employment...Maine is relatively quite high in Other and Unallocable net expenditure though....Other and Unallocable is another difficult category to evaluate....This is not a trivial category [due to the large amount of expenditures.]” (pp. 49-50.)

STATE-ONLY CATEGORIES

Professor Trostel identified five categories of spending as predominantly state-level services. Those five are: Higher Education, Corrections, Natural Resources, Social-insurance Administration and Other Education.

TABLE 18

Expenditures				Maine as a percentage of national and peer averages	
	Maine	National Average	Peers Average	National	Peers
Higher Education	1.51%	1.75%	2.49%	-13.7%	-39.4%
Corrections	0.40%	0.62%	0.49%	-35.5%	-18.4%
Natural Resources	0.32%	0.22%	0.35%	+45.5%	-8.6%
Social-Insurance (Unemployment) Administration	0.02%	0.01%	0.02%	+100.0%	-
Other Education	0.35%	0.30%	0.49%	+16.7%	-28.6%

State Only Categories

Professor Trostel made several important observations regarding these data. Often, he introduced other metrics into the analysis in order to put these data in perspective:

Higher Education: *“Maine has the nation’s highest ratio of other-to-instructional payroll, by a considerable margin. That is, Maine’s percent of higher education payroll going to instruction is America’s lowest.”* (p.30).

Corrections: *“Evidence on Maine’s costs is conflicting. Relative to income or to the population, Maine’s costs are low in providing corrections services...Relative to the number of inmates, Maine’s costs are very high in providing corrections.”* (p.34)

Natural Resources: *“Being rural clearly matters for the level of provision of natural resources services. Thus, in this category it makes sense to compare Maine to the other rural states. Compared to other rural states, Maine does not appear to have higher-than-normal costs.”* (p. 35)

Social-Insurance Administration: *“Overall, the comparison states’ levels of employment-security administration suggests that Maine is high in this category.”* (p. 36)

Other Education: *“Other Education does not appear to be an area that may have significant unnecessary costs.”* (p. 37.)

Conclusion

The research by Professor Trostel is but one source of information regarding the relative efficiency of Maine's state and local government as compared to the nation. Others, including the Federal Reserve Bank of Boston, the Maine Heritage Policy Center, and well-known economist Charles Lawton, have conducted similar analyses of objective data and reached similar conclusions.

Generally, those conclusions are that at the local level Maine's spending on education exceeds national and peer state averages and that, as the largest segment of local spending, education is the most pressing local government issue. Other elements of municipal spending in Maine tend to be below national and peer averages in terms of payroll, employment and net expenditure.

At the state level, Maine generally exceeds national and peer averages in terms of payroll and employment. Social service spending in Maine exceeds national and peer averages. As the largest area of direct state spending, health and human services is the most pressing state government issue.

Maine's municipalities and the Maine Municipal Association championed the cause of regional service delivery by establishing a "regionalization" fund in state law. It was a much-overlooked portion of the citizen initiative to have the state meet its obligation to fund 55% of the costs of K-12 public education. Municipalities agreed to deposit 2% of their existing revenue sharing allotment into this regionalization fund. The goal was to spur innovation and collaboration in local government service delivery. The fund would remove the common barrier to such efforts; that is, the lack of resources to conduct the kinds of research and analysis or invest in the necessary infrastructure to implement system-based changes correctly.

The Legislature raided over 90% of the revenues dedicated to this fund and diverted them from municipal collaboration and to other state priorities.

In the 123rd Legislature, the Maine Municipal Association caused legislation to be introduced on behalf of its members that would have made the kind of data gathering and analysis that Professor Trostel conducted a regular government activity so that policy makers would have more than a snap-shot of government's performance. That bill was LD 804.

LD 804 was rejected by the Legislature.

Nevertheless, as we enter 2010 we look forward to more analysis and fact gathering and, hopefully, less rhetoric.