



# Consolidation of 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.
- Consolidations among Minnesota local governments are rare. When they do occur, they are typically initiated by local officials and residents.
- 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.
- In lieu of consolidation, cooperative service arrangements and incremental boundary adjustments are preferred methods to reconfigure local government services.
- There are opportunities to increase collaboration and consolidation among local governments around the state, particularly among smaller jurisdictions with capital-intensive services.
- 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.

## 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.
- Minnesota local governments looking for service delivery options should survey citizens to determine their interest in consolidation.
- The Legislature should amend state laws to allow the state's chief administrative law judge to waive select procedural requirements for mergers among cities.
- 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.
- 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.
- The Legislature should consider ways to encourage more collaboration and consolidation among local governments when funding capital projects and capital grant programs.

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

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

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**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 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.

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

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

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 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.

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

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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.

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

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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.

## Summary of Agencies' Responses

*In a letter dated April 10, 2012, Chief Administrative Law Judge Raymond Krause said that the OLA 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." He said that the roles state government might effectively play in the process is an important finding and that municipalities could use more information about consolidation. He said that should the Legislature decide that more state government supplied information or support be provided, the Municipal Boundary Adjustment Office would be happy to assist in that process. He also said that amending state law to allow for select process-related waivers does not pose significant issues for the Office of Administrative Hearings.*

*In a letter dated April 9, 2012, Association of Minnesota Counties Executive Director Jeff Spartz said that the OLA report was a "well-written, insightful examination of the challenges" involved in consolidation, as well as the opportunities that exist for increased collaboration among local governments. He said AMC supports the finding that consolidation efforts should continue to be led by local government representatives and citizens. He said AMC agrees that the Legislature should provide enhanced direction and support to local governments and that if the Legislature believes that 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 in this effort.*