

Institute for Public Policy
and Economic Analysis

**Municipal Economies of Scale &
Scope and Post-Consolidation
Economic Performance:
A Literature Review**

By:
Grant Forsyth, Ph.D.

November 2010

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With this latest monograph from the Institute for Public Policy & Economic Analysis, I welcome you to Eastern Washington University. I hope this research will inform your knowledge of the Inland Northwest. Efforts like this Institute monograph series are manifestations of this University's commitment to serve the region. I applaud the initiative of Eastern's Board of Trustees to launch this Institute.

Teaching remains our core mission at Eastern Washington University. Increasingly, teaching and research are interwoven. Our faculty members stay professionally current when publishing in peer-reviewed journals. These achievements, in turn, allow them to better convey the evolving knowledge base of our academic disciplines.

Our students receive an enhanced education if their classroom experience is informed by the content and enthusiasm of their professor's research. Increasingly, we ask students to conduct research projects of their own. Whether conducting their own projects or assisting professors, our students acquire a richer learning experience through research.

Research for academic journals is not the only area our faculty members target, however. Our University also asks its faculty to engage the communities and region from which we draw our students. This research provides a greater sense of place and a commitment by our faculty to it. It also translates academic methods and findings into a broader, and ultimately more relevant, arena: the lives of the residents of the Inland Northwest.

The overarching goal of the Institute for Public Policy & Economic Analysis is to serve the region by translating knowledge. It does this through a variety of activities, including this series, annual economic forecasts, contract research and its community indicators initiatives. I invite you to explore its web site (www.ewu.edu/policyinstitute) to learn more.

I have tremendous optimism that by collaborating with EWU's faculty, staff and partners, I will continue to ensure our institution will be anchored into the daily course of life throughout the Inland Northwest. During these difficult economic times, our collective future depends on an educated and informed citizenry. Helping our region reach higher levels of knowledge is something this University can and will do.

My office and that of the Institute director welcome all comments on how we might better serve.

A handwritten signature in black ink, reading "Rodolfo Arévalo". The signature is written in a cursive, flowing style.

Rodolfo Arévalo, PhD
President

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Executive Summary

This study reviews the academic literature focused on the relationship between (1) the size and scope of municipal service providers and production costs, and (2) the post-consolidation development of counties that underwent consolidation. Of particular importance are answers to the following questions: “Does increasing the size or scope of public service producers lead to lower costs per citizen served?” and “Is a county’s post-consolidation economic development significantly better than pre-consolidation development?”

The major findings follow:

- The majority of studies focused on scale economies suggest that there are limited or no cost efficiencies associated with larger municipal police, fire, and waste management departments. When cost efficiencies exist, they are exhausted at relatively low population levels, where population is frequently used as the proxy for scale size. Although contracting for services appears to result in lower costs, there is a potential trade-off in terms of service quality. If scale economies do exist, they can be obscured by bureaucracies capturing and spending cost savings before they can be passed on to tax payers.
- Measures of community wealth and density were often important variables in explaining the observed cost structure of a public service. High wealth communities tend to have higher service costs than poor

communities, indicating that as income increases, the demand for higher-quality services also increases which, in turn, drives up average unit costs (AUC). High density communities tend to have lower waste management costs, but higher policing and fire service costs, indicating that increasing density will not automatically lower the AUC of all services.

- Although few in number, studies of scope economies indicate that cost reductions are possible through the merger of like-services. In particular, scope economies have been found in both protective (police & fire) and waste management services. Scope economies, and not scale economies, may offer the most likely source of cost savings.
- Time-series studies of post-consolidation effects find that service consolidations have potentially significant effects on the distribution of tax burdens within a county, while having no significant impacts on county economic development and limited impacts on social development.

The preponderance of evidence from the reviewed studies suggests: (1) there would be limited or no efficiency gains associated with consolidating key county services, and (2) consolidation would not substantially alter the county’s economic development.

With respect to the first point, the available studies imply that for the larger cities in

Spokane County, the increased scale size resulting from service consolidation would not likely produce significant cost reductions because these cities are already operating independently at scale sizes that have exploited any of the limited cost advantages found in the literature. In addition, as discussed in the paper, population growth, increased density, and income growth—which are viewed as desirable outcomes in most communities—can create an operating environment that makes it more difficult to maintain or lower service costs, especially for protective services.

The conclusions above warrant an important caveat: scale and scope studies looking at non-protective and non-waste management services are few in number. That is, there are many services that municipalities provide that have never been analyzed for scale or scope economies—for example, these include programs related to social assistance, snow plowing, parks and recreation, youth programs, and environmental programs. Therefore, additional research into these areas may reveal possible cost savings.