

**A Comparative Analysis of the Effect of State Institutions on the
Proliferation of Special District Governments**

Tanya Heikkila
Earth Systems Science, Policy & Management Program
School of International and Public Affairs
Columbia University, Biosphere 2 Center
32540 S. Biosphere Road / P.O. Box 689
Oracle, AZ 85623
520-838-5008
th2063@columbia.edu

and

Todd L. Ely
School of Public Administration & Policy
The University of Arizona
McClelland Hall 405HH
1130 E. Helen
Tucson, AZ 85721
520-621-3128
Fax 520-326-5549
ely@eller.arizona.edu

Paper and Poster Prepared for the Third Annual Conference on State Politics and Policy: Causes and Consequences of American State Institutions on Political Behavior. Co-Sponsored by: The University of Arizona Department of Political Science and *State Politics and Policy Quarterly*, March 14-15, 2003.

Introduction

Special districts are generally described as functionally specialized forms of local governments, which can provide a variety of public services, such as water infrastructure, hospitals, fire protection, and housing and community development.¹ As shown in Table 1, despite declines or limited growth in the number of other forms of local governments over the past 50 years in the United States, “the number of special district governments has seen a nearly three-fold rise, from 12,340 in 1952 to 35,356 in 2002” (U.S. Census Bureau, 2002). While the overall number of special districts has risen, there is still substantial variation across states in the percentage increase in special districts. For instance, the number of special districts in Pennsylvania rose from 29 in 1952 to 1,885 in 2002, while in Virginia special districts increased from 42 to 196 in the same period (U.S. Census Bureau 2002). Why then have certain states witnessed larger increases in this form of government than others, and what factors explain the differences in development of special districts across states?

Table 1: Sub-State Governments in the United States 1952-2002

<i>Year</i>	<i>County Governments</i>	<i>Sub-County General Purpose Governments</i>	<i>School Districts</i>	<i>Special Districts</i>
1952	3,052	34,009	67,355	12,340
1962	3,043	35,141	34,678	18,323
1972	3,044	35,508	15,781	23,885
1982	3,041	35,810	14,851	28,078
1992	3,043	35,935	14,422	31,555
1997	3,043	36,001	13,726	34,683
2002	3,034	35,933	13,506	35,052

Source: U.S.Census Bureau, 2002 *Census of Governments, Volume 1, Number 1, Government Organization*, GC02(1)-1, U.S.Government Printing Office, Washington,DC,2002.

According to the Advisory Commission on Intergovernmental Relations (ACIR 1987), state laws and constitutional provisions make legislatures “the trustees of the basic rules of local governance in America” (p. 54). In order to understand more clearly the formation of special districts and their variation across states, this paper examines the impact of state-imposed policies and institutions on the use of special districts as a form of local government.

Although some studies have evaluated the role of state-level institutions in the formation of special districts, much of this research has been confounded with explaining the benefits or drawbacks of special districts. As such, the ensuing debate from many studies of special district formation has emphasized whether or not special districts are good or bad for effective representative governance. Some studies also have examined what state-level institutions make

¹ Special districts are most often independent of other local government entities. However, some are dependent either fiscally or administratively on other local governments. Like independent special districts, dependent districts are also likely to be used more commonly to provide local services (Porter, et. al. 1992), but the Census does not track this trend. Thus, for the purposes of this paper, we assess those districts that the U.S. Census Bureau (2002) deems to be “independent.” The Census Bureau excludes independent school districts from its definition of special districts.

the formation of special districts easier (i.e. the number of different types of districts authorized by a state). Yet, such information provides little understanding as to why some states rely on special districts more than others to provide or fund local services.

The goal of this paper, therefore, is to evaluate the types of state-level rules or arrangements that prompt the need to form special districts as an alternative to other existing local governments for providing public services. In doing so, we argue that this paper can help policymakers and policy scholars better understand the complex interplay of institutional arrangements at multiple levels of government. The next section of the paper will briefly summarize the existing literature that has explained the purposes and benefits of special districts; then it will examine more closely how existing studies and theory explain the impact of the larger institutional setting on special district formation. Building from these studies, the paper will then develop an empirical model to test the impact of various state-level institutions on the formation of special districts.

Understanding the Creation of Special Districts: Theoretical Foundations

In this section we review the literature on the incentives for special district formation. We first describe two prominent schools of thought on special districts that provide insights on special district formation – one coming from the reform tradition of public administration and the other coming from the public choice literature. These two bodies of literature, which have dominated much of the debate on special districts, emphasize functional explanations of special districts. In doing so, they offer diagnoses of the benefits and drawbacks of special districts. Although this paper is not intended to enter this debate, the discourse introduces us to a better understanding of what institutional incentives might influence special district formation. We then examine more specifically how the existing literature has described the role of state-level institutions in the formation of special districts.

Functional and Prescriptive Explanations

Some of the earliest literature that examines the incentives behind the formation of special districts comes from the reform tradition in public administration. The reformist literature argues that special districts arise in order to avoid limits on state and local debt (Bollens 1957). This functional view of the role of special districts is still common in the literature. As Porter, et. al. (1992) state: “Special districts are created primarily because existing general-purpose local governments are unable or unwilling to provide needed services in a timely manner” (vi). However, the reform school of thought expands upon the fiscal functionality argument to imply that special districts also reduce citizen control of the provision of services (Bollens 1957). The proliferation of special districts under this view creates confusion about the political process and allows for services to be priced disparately from their municipal and county counterparts. Reformers who examined the proliferation of special districts argued that consolidated metropolitan governance would be more efficient than the fragmented service provision that develops with multiple special districts (ACIR 1964). Thus reformers, in identifying why special districts form, suggest that special districts are not efficient or democratic means of governance.

On the other hand, public choice theorists have countered the reform view, contending that special districts form to provide a better match between jurisdictional boundaries and the

geographical scope of public problems (ACIR 1987; Oakerson 1999). As such, the normative view that comes out of this literature is that special districts typically provide functionally specialized services and facilitate economies of scale in service provision. Moreover, special districts can be tools for reducing the decision-making and information costs of local government by providing more opportunities for citizen input on service delivery choices (Hawkins 1976). These conclusions about the effectiveness of special districts evolved out of broader studies of local public economies, which explain that in municipal settings with overlapping jurisdictions, the potential for competition across units of government offers more efficient service provision, and responsiveness to citizen demands compared to consolidated governance (Ostrom, Tiebout et al. 1961).

This debate, however, has emphasized much more prominently the normative concerns about special districts, rather than answering the question: What factors facilitate the formation of special districts? More recently, Foster (1997) has delved into this question by comparing some of the contending schools of thought on special districts, finding that each of the traditional schools alone is limited in explaining the formation of special districts. Foster concludes that an institutional choice perspective that blends some of the insights from these different schools provides a more comprehensive explanation of the emergence and impact of special district governance.²

State-Level Institutional Incentives for Special District Formation

Focusing on an institutional choice perspective can help move away from the normative debate over special districts to an analysis of the conditions under which special districts are necessary. The likelihood of forming a district depends on how well a group of citizens can resolve the collective action dilemma of jointly providing a good or service (Burns 1994; Perrenod 1984). In theory, a collective action dilemma arises when any individual actor in a group lacks the incentive to invest in the set up time and costs of developing a new institution if others can free-ride and obtain the benefits of that institutional arrangement (Olson 1965). Some of the factors known to resolve collective action dilemmas and promote self-governing institutions include the trust and reciprocity among actors and the salience of the problem that a group faces. In addition, some scholars have started evaluating how the larger institutional setting in which actors are embedded can influence individual choices when resolving collective action dilemmas (Ostrom 1990; Ostrom 2001; Young 2002). This leads us to the question of how does the larger institutional setting impact the cost/benefit calculus that actors examine when considering whether to form a special district?

Many scholars acknowledge that state-level institutions are, as Burns (1994) finds, key to determining “the relevant solutions to the collective action problem because they make the rules for creating a new local government” (p. 17). In explaining the importance of the larger institutional setting on the formation of special districts, Foster (1997) similarly concludes:

² Foster’s (1997) study provides a comprehensive comparison of how different local and some state-level variables impact the formation of special districts, although her analysis uses data on special districts only in metropolitan regions. In this study, the unit of analysis is special district formation at the state level. Thus our findings may support or refute some of the relationships Foster finds between state-level institutions and the formation of special districts, but within the confines of the state-level analysis.

“Although demand-driven factors matter in accounting for district use, they do so within the parameters of a legal environment that enables districts” (p.142).

The divergent types of enabling legislation afforded by states to create special districts clearly play a role in the formation of special districts. Enabling legislation can determine district powers, how citizens can initiate a district, who can vote in district elections, and where a district can form. Empirical research logically has shown that states with more types of special districts authorized through enabling legislation are likely to have higher numbers of special districts in metropolitan areas (Foster 1997). The wide variety of enabling legislation for various types of districts across the states, and the rules of formation for each type, however, creates some difficulty in establishing meaningful comparisons across states on these factors (Porter, Lin et al. 1992).

State-imposed rules on the powers of general-purpose governments are also expected to shape decisions to form special districts (ACIR 1993). In particular, these powers can determine the relative suitability of existing general-purpose jurisdictions for addressing new service needs that may expand beyond the scope of their legal or desired jurisdictions. Scholars of special district governance have long recognized that the functional need for special districts largely depends on whether cities and counties are suitable for providing services that are either larger or smaller than their existing geographic boundaries (Bollens 1957).

Thus the effects of state powers to create local governments and to expand existing local government boundaries are also prominent factors in the literature (Burns 1994; Foster 1997; Austin 1998). For instance, in “home-rule” states, local governments are provided constitutional authority to control local affairs without legislative interference. As a result, empirical evidence shows that broad home-rule powers have a positive effect on the creation of special districts in metropolitan areas (Foster 1997). Likewise, the number of special districts has been found to be higher in states with greater degrees of decentralization (Stephens and Wikstrom 1998).

Decentralization of state power and home rule are often associated with higher numbers of municipal governments in urban areas. In such settings, public choice theories have explained that special districts arise in order to provide services across those jurisdictions with overlapping service demands. Foster’s (1997) study, in fact, shows that in urban areas, higher numbers of municipalities have a positive effect on the number of region-wide special districts and the number of districts that are coterminous with municipal boundaries. At the same time, some literature assumes that incorporation limits on municipal governments may make it more difficult for new municipalities to develop, thus encouraging the use special districts to meet growing service demands. Yet, Foster (1997) finds this assumption not to hold.

Where annexation authority is limited, urban settings would be likely to have more unincorporated regions or numerous municipal governments – and thus more special districts. On the other hand, where metropolitan governments have substantial annexation authority, the more likely a state will have larger centralized urban governments – and thus less of a need for special districts. Empirical research by Foster

(1997), however, does not necessarily support this assumption. As with incorporation limits, she finds that annexation limits negatively affect the number of region-wide and sub-county special districts, but have no significant impact on districts that are coterminous with municipal boundaries. As Foster explains:

Where boundary options are constrained, communities apparently turn first to nondistrict service options – perhaps annexation in the case of incorporation limits and incorporation in the case of annexation limits – before turning to special-purpose governments (Foster 1997, p.134).

In addition to the factors that determine the geographical scale of jurisdictions' powers, state institutions can determine the revenue raising limitations of municipal and county governments and thus influence the need for special districts (Bollens 1957; Porter et. al. 1992; Burns 1994; Foster 1997). The literature suggests that where taxing powers are limited, citizens and local officials may be more likely to rely on special districts to provide new public services. Likewise, where local jurisdictions lack the authority to fund services jointly with other local government entities, special districts are seen as a useful alternative for providing services that overlap multiple boundaries (ACIR 1993). While this appears to be an obvious and logical assumption, there is limited empirical evidence to support a positive relationship between low local government tax limits and the formation of special districts.³

The literature on special districts has clearly identified a variety of state-level explanatory variables that theoretically or logically would influence the formation of special districts. However, with the exception of Foster's (1997) study, few of the specific variables in these categories have been tested empirically. Moreover, in light of some of Foster's conclusions that conflict with theory, it appears that theories of local governance do not provide accurate explanations of how state institutions affect local government formation in practice. Finally, given that Foster's study assessed the total number of districts in a metropolitan region (versus across states) and that the research did not look at them in terms of the growth of special districts across states, we feel further empirical testing of state-level impacts is certainly warranted.

Examining the Influence of State Institutions on Special District Formation

This portion of the paper presents results of regression analyses that evaluate the impacts of different state-level variables on four different indicators of special district formation and activity. Before presenting the results of the model, we first describe the choice of variables for the models and data sources. After presenting the results of the regression analyses, we consider some of the weaknesses in the model and present some alternative explanations of special district formation using descriptive data.

³ Kathryn Foster (1997) in fact finds a negative relationship between heavy property tax limits and the formation of some types of districts in municipal areas. However she does find that moderate and heavy debt limits on local governments have a positive impact on the formation of some types of special districts.

Key Indicators and Data Sources

Based on the literature, three major categories of explanatory variables were included in the analyses, namely limits on the ability to expand or create general-purpose governments (incorporation and annexation restrictions), financial limits on sub-state level governments (debt limits, property tax limits, non-property tax limits, and expenditure limits), and local government structure (number of counties, number of sub-county general purpose governments, special district functional range, and a simple state centralization index). In addition, state population was included as a variable to control for the divergent public service demands across states.

Limits on the ability to expand or create new general-purpose governments

As suggested in the literature review, annexation and incorporation actions are closely related. Where annexation represents the expansion of a municipality's current territory and jurisdiction, incorporation is the creation of a new municipal government. Both can be effective responses to population and service demand growth in outlying areas, yet they produce very different local government structures. State laws governing the annexation process differ widely among states. Some states support the continued growth of existing cities by allowing unilateral annexation of adjacent areas. While this is not the most democratic method for adjusting government boundaries, it is believed to limit both the proliferation of municipalities in urban areas and increasing unincorporated populations in the counties.

In order to capture the impact of state annexation policy, we chose to use a dichotomous variable measuring whether a state requires a popular referendum and approval from the population in the area to be annexed. If the current residents in a geographic area are opposed to annexation, then this policy guarantees that they have the right to reject any annexation attempt by a neighboring city. They would then, as a community, be capable of pursuing incorporation as an independent strategy or they could use special district governments to provide services not provided by the county government. States requiring referendum and approval were coded with a '1', while the remaining states with less restrictive annexation policies were coded a '0'. This variable was taken from a 1993 ACIR report entitled State Laws Governing Local Government Structure and Administration (p. 24-25). This annexation policy did experience variation over time, an inevitable trait of state laws. Specifically, from the period of 1978 to 1990 the number of states with this type of policy was reduced by four states, from 23 to 19 (ACIR 1993, p. 25). We would expect this variable to be positively associated with special district formation since an unincorporated community is often served through special districts. If this type of policy leads to increased incorporation of communities, we would still expect a positive relationship with special district formation since multiple municipal governments bordering each other would theoretically benefit from the flexible boundaries of special districts to capture economies of scale in service provision to areas that overlap general-purpose government boundaries.

Incorporation can be limited by a number of factors that are all restrictive for those individuals attempting to form a new municipality. Specifically, these restrictions can be based on minimum population requirements, minimum land area requirements, minimum distance from existing municipalities requirements, or minimum tax base requirements (ACIR 1993, p. 22). We selected a general measure of limitation on incorporation, whether or not limits are imposed on

the incorporation of new local government units. Like the annexation variable, this is also a dichotomous variable with '1' signifying the presence of limits and a '0' representing the absence of limits on incorporation. The incorporation policy did vary slightly over time, shifting from 39 to 40 states between the years 1978 and 1990 (ACIR 1993, p. 23).

Incorporation limits are associated with a more limited growth in the number of municipal governments. This leads to the expectation of increased dependence on special districts in areas that are unincorporated, tempered by the smaller number of municipal governments that would result in less intergovernmental service delivery using special districts. The magnitude of these two impacts is unknown, so the expected direction of any causal relationship with special district formation is unclear.

Financial limits on sub-state level governments

The literature theorizes that financial limitations on county and municipal governments spur the formation of special district governments in order to escape state-imposed limitations. We have included independent variables that attempt to serve as proxies for the state policies related to debt limits, property tax limits, non-property tax limits, and expenditure limits. As counties and municipalities attempt to meet ever-increasing expectations for service delivery to their citizens, they will feasibly be constrained by state policies that limit their capacity to raise revenue from taxes (both property and sales) and through lending. On the expenditure side, any restrictions might keep the local government from being able to meet service demands if they are unable to increase spending beyond state prescribed limits. We therefore expect the presence of limited financial capacity at the local level to increase the reliance of general-purpose governments on special purpose governments. Depending upon the enabling legislation at the state level, the special district governments can operate using service charges or by levying a property tax on those benefiting from the district services. Financing for infrastructure projects is another useful function of districts since the debt does not appear as a liability to the local general-purpose government and reduces the likelihood that state-imposed debt ceilings will be reached.

MacManus derived a set of indices measuring "restrictions on municipal revenue-raising and borrowing powers" from 1980. The indices were based on data collected by ACIR in the late 1970s (MacManus 1983) and were used for the debt limit, property tax limit, and non-property tax limit variables. The indices were converted to dichotomous variables that represent either the presence of 'heavy' limitations on the financial activity (represented by a '1') or the absence of heavy limitations (represented by a '0').

The expenditure limit variable represents those states that have expenditure limit policies in place for counties and municipalities. States with expenditure limitations were coded '1' and the remaining states were coded '0'. States that impose limitations on general expenditure increases for school districts were not considered to have expenditure limits for the purpose of this analysis. The expenditure limits were enacted as early as 1921 in Arizona and as late as 1992 in Colorado. Data measuring expenditure limits was from a 1995 ACIR study on Tax and Expenditure Limits on Local Governments. We expect that limiting the ability of counties and municipalities to raise expenditure levels as they see fit will lead to increased use of special

districts to benefit from their financial flexibility. This variable might also act as a proxy for fiscally conservative states, since only a handful of states maintain this type of limit.

Local government structure

The local government structure variables measure both the presence of different types of sub-state general-purpose governments (counties and municipalities) and captures state-level policies by quantifying the number of functional types of special district governments in existence in the state and an index that quantifies state centralization. As other studies have noted, higher numbers of municipal governments might facilitate greater reliance on special districts, particularly those that are coterminous with municipal regions to facilitate coordination of overlapping service demands. However, the expected relationship between county governments and special districts is not as well examined in the literature. The number of county governments per state varies widely. For instance, Georgia and Florida are adjacent to each other, have roughly the same land area (54,157 square miles to 58,060 square miles respectively) and Florida has nearly double Georgia's population, yet Georgia has 156 counties to Florida's 66 counties. Contrary to sub-county governments, we expect the number of counties to be inversely related to the formation of special district governments since abundant, and smaller, counties would theoretically be able to accommodate overlapping demands of municipal regions within counties and respond more readily to rural needs.

Special district functional range is a count of the number of different types of special districts operating in a state, based on census general classifications in 2002. This number serves as a proxy for the number of special district types authorized by the state law. As shown in previous empirical work (Foster 1997), the more liberal the state enabling legislation, represented by the number of functional services authorized to be provided by special districts in the state, the more we expect to see the opportunistic use of special districts.

The simple state centralization index was created by dividing the state government direct expenditures by the local government expenditures to create a ratio measuring the division of service responsibility between the state and its local governments. The expenditure amounts were from 1990 data provided by the ACIR (1992, pp. 208-209, 216-217). As other studies have suggested, decentralization of state service delivery increases the likelihood of local governments utilizing special district governments as their burden of provision increases (Stephens and Wikstrom 1998).

Dependent Variables

The regression models for this analysis were developed using four different indicators of special district formation across states as dependent variables. The first indicator is the overall number of special districts in each state. A second model tested the effects of state level institutions on the change in number of special districts across states between 1992 and 2002 in order to account for the impact of recent institutional changes on special district formation. Finally, since measuring the total numbers of special districts may not be a good indicator of the overall fiscal or functional importance of these institutional arrangements (Foster 1997; Stephens and Wikstrom 1998), the third and fourth dependent variables for the regression analyses were

special district expenditures and special district outstanding debt across states. Expenditures and debts are useful variables since the two major uses of special district governments are service delivery (an activity that results in expenditures) and financing (an activity that results in debt).⁴

The data on the total number of special districts and their relative growth come from 2002 and 1992 Census figures. The data on expenditures and debt come from 1997 Census figures, which are the most recent reports available on these indicators. It is important to note that for classification purposes, the U.S. Census Bureau requires that a district 1) be formally organized entity with corporate powers, 2) possess governmental characteristics of elected or appointed officials and performance of government functions, and 3) possess substantial autonomy from other government units (US Census 2002). Given the wide variation in types of special districts and state enabling legislation for special districts, determining when a district or local government matches these characteristics may not be simple. In particular, a number of scholars have expressed concern over the differentiation between independent or autonomous districts and those that are dependent.⁵ Despite these potential data reliability issues, as Foster (1997) concludes, “the census data are the most appropriate thorough, timely, and internally consistent ‘devil we know’ for aggregate studies of special purpose governments” (p. 84).

Regression Model Results

The purpose of the regression model is to attempt to explain the presence, or growth, of special district governments based upon state-level variables and to test the theoretical explanations for why special districts form. The results from the regression analyses are presented in Table 2 below.

⁴ The problems associated with measuring special districts based solely on the number present in a specific area have been addressed in the literature through the use of an index of special district activity that includes not only the number of districts, but also the number of employees and level of expenditures of districts (Stephens and Wikstrom 1998). The activity index was not used in this paper since we are trying to better understand the recent growth of special districts in the past decade. The data necessary to construct the index is not yet available from the most recent census. Running the model using the expenditures and debt levels of special districts in each state as dependent variables provides insight for the different uses of special districts. It also serves a similar purpose as the index of special district activity during analysis and reduces the reliance on the number of special districts in each state as an indicator of government growth.

⁵ The Census Bureau may underestimate the number of special districts because many districts classified as “dependent” could be considered independent, and overestimate special districts because many are functionally inactive Leigland, J. (1990). The assumption that the Census overestimates the number of special districts comes from many districts reporting having no paid employees. However, Foster points out that this is not necessarily an overestimation problem since “some districts function as financing agencies or indirectly provide service through contracts” (Foster 1997, p. 83).

Table 2: Regression Analyses of State-Level Institutions on Special District Formation

N=50 States	Total Special Districts by State (2002)	Special District Expenditures by State (1996-97)	Special District Debt by State (1996-97)	Change in Special Districts by State (1992-2002)
	<i>Coefficient</i>	<i>Coefficient</i>	<i>Coefficient</i>	<i>Coefficient</i>
	<i>(t-statistic)</i>	<i>(t-statistic)</i>	<i>(t-statistic)</i>	<i>(t-statistic)</i>
Log of state population	162.65 (0.77)	4031.09* (3.47)	7887.17* (3.16)	-55.30 (-1.03)
Annexation requires referendum and approval in area	-61.56 (-0.42)	-651.53 (-0.82)	-974.79 (-0.57)	-39.57 (-1.07)
Limits on incorporation of new local governments	-41.60 (-0.20)	-411.40 (-0.35)	-3440.91 (-1.37)	101.72 (1.89)
Municipal borrowing constraints	42.00 (0.30)	627.87 (0.83)	648.26 (0.40)	-5.74 (-0.16)
Restrictions on municipal property tax	-418.26* (-2.42)	165.77 (0.18)	234.91 (0.12)	-8.11 (-0.19)
Restrictions on municipal non-property tax revenue-raising	-71.24 (-0.49)	-535.69 (-0.67)	-1594.49 (-0.92)	7.78 (0.61)
Expenditure limits on municipalities and counties	638.24* (2.47)	2723.17 (1.93)	3043.24 (1.82)	-7.09 (-0.11)
Number of sub-county general-purpose governments	1.23* (3.73)	-0.24 (-0.13)	-1.01 (-0.26)	0.08 (0.98)
Number of counties	-1.69 (-0.73)	-2.62 (-0.21)	2.96 (0.11)	-0.11 (-0.19)
Special district functional types in state	76.97* (4.67)	262.74* (2.91)	522.96* (2.69)	-2.76 (-0.66)
State centralization index	368.18 (1.95)	1814.09 (1.75)	2737.71 (1.23)	-31.29 (-0.65)
Intercept	-- (-1.46)	--* (-3.74)	--* (-3.23)	-- (1.12)
<hr/>				
	<u>Adjusted R-square</u>	0.62	0.46	0.44
				-0.003

* $p < .05$

The usefulness of these state-level institutional variables to explain the variance in special district formation across states is strongest when the dependent variable is the total number of special districts in each state (Adjusted R-square = .62). When using the same model to explain the expenditures and debt of special districts, the total explained variance is around 45 percent

for each dependent variable. However, the model clearly breaks down when attempting to explain the change in special districts over the last decade.

In looking at the variables that represent limits on the ability to expand or create new general-purpose governments, the models suggest that these factors do not have a significant impact on the proliferation and use of special district governments. As suggested in the literature review, annexation and incorporation are actions that are closely related. Where annexation represents the expansion of a municipality's current territory and jurisdiction, incorporation is the creation of a new municipal government. Given that Foster (1997) found a significant negative relationship between annexation constraints and certain forms of special districts and between incorporation constraints and certain forms of special districts in municipal areas, these results further suggest that theoretical predictions about the impact of local government boundary restrictions are inappropriate to apply across the board to the use of special districts as an alternative to other local government units.

Unlike the boundary restriction variables, the financial limits on general-purpose local governments do appear to shape special district use in some instances. For instance, the presence of restrictions on municipal property taxes negatively impacts the total number of special districts across states. Thus, contrary to theoretical predictions, yet supporting what Foster (1997) found across special districts in municipal regions, property tax limits on general purpose governments do not encourage moving the provision of public services to special districts. Expenditure limits on municipalities and counties, on the other hand, have a positive impact on the total number of special districts across states, as well as on the expenditures and debts incurred by special districts. Thus, it appears that states that support lower tax structures do so across all forms of local government, but states that impose expenditure limitations are more willing to allow service provision through special districts to provide fiscal flexibility.

Two of the four structural variables were identified in the model as having significant impacts on special district use across states. The number of sub-county general-purpose governments (municipalities and townships) leads to an increase in the total number of special districts in a state, but does not significantly impact the expenditures or debts of special districts. Thus special districts indeed may be valuable tools for meeting the overlapping service demands of multiple municipalities, which is supported by previous research (Foster 1997), but that does not mean that such districts will be substantially larger or more prominent than in those states with fewer municipalities. The number of municipalities in a state, as suggested by the literature, may be an indicator of states with higher degrees of decentralization or home-rule powers. Not surprisingly then, where states provide more expansive authority for different types of special districts, the number, the expenditures, and debt of special districts all increase.

Interestingly the structural variables that are not significant are the number of counties and the degree of state centralization, measured by the ratio of state to local spending. With the number of counties, although hypothesized to be inversely related to special district use, it may be more important to look at how counties relate to districts based on different boundary types, whether regional or sub-county, rather than total number of districts and expenditures. The centralization measure also warrants further examination, particularly since the direction of the coefficient for the number of special districts, district expenditures, and debt is opposite from what would be

expected in theory, and since the t-values for number of districts and expenditures are relatively high ($p < .10$). Theoretically, the higher the level of centralization the less likely states are going to rely on special districts, which the model does not support. However, it is possible that where the centralization indicator is low, it may actually be measuring the extent to which other local governments are more active in service provision and thus may have less need for special districts.

Addressing Limitations with the Model: Descriptive Trends

The regression analyses offer only limited insights into the ways in which state institutions and policies shape the use of special districts for providing public services. Where the model is most useful is in understanding the overall number of special districts, but it fails to provide any evidence of the factors shaping recent changes in special district formation. If state-level institutions are important to past special district formation, why are those same institutions no longer relevant factors in special district growth during the past decade? Here we attempt to supplement the explanations offered by the regression analyses by examining some of the descriptive trends in special district formation.

One important trend that the model fails to capture is the potential interaction effect of growth opportunities for various forms of sub-state governments. Counties are a mature form of government from the perspective of new growth. The geographic totality of the county government in each state leaves little room for growth. The number of school districts dramatically declined as a result of reform efforts and consolidation and their numbers continue to shrink. Sub-county government, including municipalities and township governments, declined slightly in the past five years. The number of these governments will likely continue to ebb and flow as calls for consolidation and metropolitan government surface, new municipal incorporations occur on the metropolitan fringe, and states continue to adjust annexation statutes in response to existing municipalities concerns over their piece of the state-shared revenues and counties searching for a solution to unincorporated urban populations and their service demands. The same factors that lead to expected minor changes in municipal governments also suggest the possibility of continuing growth for special district governments and their role in service delivery. The latest census data shows a slowing in the rate of growth of special districts. The last five-year period (1997-2002) saw an average special district growth of only 74 districts per year, while the preceding half-decade (1992-1997) witnessed an average special district growth of an astonishing 626 districts per year.

Another facet of special district governance that may help explain the why some states rely on these institutional arrangements more than other or why growth appears more pronounced in some areas is that special district governments are unique in the services they provide. No quantitative model can adequately explain why Indiana has 425 of the 518 or 82 percent of the education districts in the nation. The ability to generalize across states to explain special district formation is limited by the unique state-level special district enabling legislation and the creativity and objectives of politicians, bureaucrats, and citizens. Table 3 presents a breakdown of the changes in special district formation over the past decade by functional type, according to Census Bureau (2002) categories. It also indicates which states rely most heavily on certain types of districts compared to all other states, as of 2002. It demonstrates, for example, that

Georgia and Texas rely more heavily on special districts to provide hospital services than other states, whereas Illinois and North Dakota commonly utilize special districts for parks and recreation services.

Table 3: Special District Governments by Type and Function 1992 – 2002

		1992	2002	% Change	States with > 15% of 2002 districts
Total Special District Governments		31,555	35,052	11.08%	
Single-function Districts (All)		29,036	31,877	10%	
Education Services	Education	757	518	-32%	IN, PA
	Libraries	1,043	1,580	52%	IL, IN
	Hospitals	737	711	-4%	GA, TX
Social Services	Health	584	753	29%	
	Welfare	NR	57	-	MO
	Highways	636	743	17%	MO
Transportation Services	Air Transportation	435	510	17%	ND
	Other	235	205	-13%	PA, WA
Environment & natural resources	Drainage & flood control	2,709	3,247	20%	IL, NM
	Soil & water conservation	2,428	2,506	3%	
	Other	1,091	1,226	12%	CA
Environment & housing	Parks & recreation	1,156	1,287	11%	IL, ND
	Housing & community development	3,470	3,399	-2%	
	Sewerage	1,710	2,004	17%	PA, WI
	Solid waste management	395	455	15%	
	Water supply	3,302	3,405	32%	
Utilities	Other	461	485	5%	
	Fire districts	5,260	5,725	9%	NY
	Cemeteries	1,628	1,666	2%	CA, KA
	Industrial development & mortgage credit	155	234	51%	PA
	Other single-function districts	844	1,161	38%	CA
	Multiple-function districts (All)	2,519	3,175	26%	
Multiple- function districts	Natural resources & water supply	131	102	-22%	
	Sewerage & water supply	1,344	1,446	8%	TX
	Other	1,044	1,627	56%	NE

As shown in Table 3, the major services provided by special district governments are fire protection, water supply, housing and community development, drainage and flood control, and soil and water conservation. These categories make up approximately half of the total special district governments in the United States. Arguably, state policy makers can benefit from understanding new growth trends in special district governments and how such trends will impact the way in which cities and counties provide services. For instance, while the total number of special district governments grew just under 11 percent in the past decade, the number of multiple-function districts increased by over 26 percent. Stevens and Wikstrom also observed that during the 1962 to 1992 time period “the percent increase of multipurpose special districts

was much more dramatic than that for single-purpose special districts” (p. 129, 1998). The rate of growth has slowed for multipurpose special districts since 1992, but they continue to grow at a faster rate than that of single-purpose special districts. Given these differences in special district formation across district types and the apparent divergent needs across states for these types of districts, more in-depth qualitative analysis at the state level is certainly warranted, where political boundaries and services can be considered within the state institutions.

Conclusion

Special districts are essential institutional arrangements for the provision of many public services across the United States. Given the substantial growth in special districts over the past 50 years relative to other local governments, it is increasingly important that policymakers understand the conditions that are likely to prompt citizens and politicians to organize these forms of government. Although the impact of state laws and policies on special district formation has been recognized widely throughout the literature, the actual relationships between various state policies and the use of special districts have been only weakly explored empirically.

In the regression models presented in this paper, we found that restrictions on municipal property taxes actually can reduce the total number of special districts in a state. Heavy state restrictions on property taxes that cap overall combined rates might defeat the benefits of using special districts to impose service or debt related property tax levies. At the same time, municipal and county expenditure limits can increase the number of special districts in a state. Moreover, the number of municipalities and townships in a state will positively affect the number of special districts formed in a state. Logically, the number of types of districts authorized by a state will facilitate an increase in the overall number of special districts and greater expenditures and debt incurred by special districts. Also, although state population does not appear to influence the overall number of districts in a state (as small states may still have many small districts), population does influence how much districts are likely to spend and borrow. Although this evidence may be useful for explaining historical trends in district formation, it did not provide adequate explanations of recent changes in the number of special districts across states. More qualitative and in-depth case studies of these trends may better elucidate the relationship between state-level institutions and decisions to use special districts for public service provision.

The analyses in this paper clearly imply that state-level institutions alone do not explain the formation of special districts. As Foster (1997) has found: “Faced with an identical set of legal parameters, government actors in different metropolitan areas within the same state may make different choices about local government structure and the implementation of public services” (p. 143). The purpose of this study was not, however, to evaluate all relevant factors that determine the decision to use special districts. It was to compare how different state-level institutions can influence special district formation and thus to provide policymakers with some insights into the relative factors that will both make special districts more or less necessary and feasible as local government options.

The growing importance of special district governments in providing local services introduces many potentially instructive areas for further research. Specifically, distinguishing between the

role of the county government and that of the sub-county government in the formation of special districts might add to our understanding of political reactions to unincorporated populations.

References

- ACIR (1964). *The Problem of Special Districts in American Government*. Washington, D.C., Advisory Commission on Intergovernmental Relations.
- ACIR (1987). *The Organization of Local Public Economies*. Washington, D.C., Advisory Commission on Intergovernmental Relations.
- ACIR (1992). *Significant Features of Federalism Volume 2: Revenues and Expenditures*. Washington, D.C., Advisory Commission on Intergovernmental Relations.
- ACIR (1993). *State Laws Governing Local Government Structure and Administration*. Washington, D.C., Advisory Commission on Intergovernmental Relations.
- ACIR and Center for Urban Policy and the Environment, Indiana University (1995). *Tax and Expenditure Limits on Local Government*. Washington, D.C., Advisory Commission on Intergovernmental Relations.
- Austin, D. A. (1998). "A positive model of special district formation." Regional Science and Urban Economics 28: 103-122.
- Bollens, J. C. (1957). Special District Governments in the United States. Berkeley, University of California Press.
- Burns, N. (1994). The Formation of American Local Governments: Private Values in Public Institutions. New York, Oxford University Press.
- Hawkins, R. B. (1976). Self-Government by District: Myth and Reality. Stanford, Hoover Institution Press.
- Leigland, J. (1990). "The Census Bureau's role in research on special districts: A critique." The Western Political Quarterly 43(2): 367-380.
- MacManus, S. (1983). *State government: The overseer of municipal finance. The Municipal Money Chase: The Politics of Local Government Finance*. A. M. Sbragia. Boulder, CO, Westview Press: 145-183.
- Oakerson, R. J. (1999). Governing Local Public Economies: Creating the Civic Metropolis. Oakland, CA, ICS Press.
- Olson, M. (1965). The Logic of Collective Action. Cambridge, Harvard University Press.
- Ostrom, E. (1990). Governing the Commons: The Evolution of Institutions for Collective Action. New York, Cambridge University Press.
- Ostrom, E. (2001). Reformulating the commons. Protecting the Commons: A Framework for Resource Management in the Americas. B. D. Goldstein. Washington, DC, Island Press.
- Ostrom, V., C. Tiebout, et al. (1961). "The organization of government in metropolitan areas: A theoretical inquiry." American Political Science Review 55: 831-842.
- Perrenod, V. M. (1984). Special Districts, Special Purposes: Fringe Governments and Urban Problems in the Houston Area. College Station, TX, Texas A&M University Press.
- Porter, D. R., B. C. Lin, et al. (1992). *Special Districts: A Useful Technique for Financing Infrastructure*, Second Edition. Washington, D.C., The Urban Land Institute.
- Stephens, G. R. and N. Wikstrom (1998). "Trends in special districts." State and Local Government Review 30(2): 129-138.
- U.S. Census Bureau. 2002. 2002 Census of Governments, Volume 1, Number 1, Government Organization, GC02(1)-1. Washington, D.C.: U.S. Government Printing Office.
- U.S. Census Bureau. 1992a. 2002 Census of Governments, Volume 1, Number 1, Government Organization, GC92(1)-1. Washington, D.C.: U.S. Government Printing Office.

U.S. Census Bureau. 1992b. 1992 Census of Governments, Volume 4, Government Finances
Number 2, Finances of Special Districts, GC92(4)-2. Washington, D.C.: U.S.
Government Printing Office.