



**MICHIGAN STATE  
UNIVERSITY  
EXTENSION**



**Intergovernmental Cooperation in Michigan:  
A Policy Dialogue**

**White Paper D**

**Special Districts: A Growing Trend. Does the State  
Want to Encourage or Discourage the Activity?**

**By**

**Joseph Martin, M.S.  
Michigan State University**

**Nicole Bradshaw  
Michigan State University**

## **Special Purpose Governments: Overview and Historical Evolution**

Special districts are both unique and mysterious. Their prevalence has grown over 150 percent in the last half century and yet they are virtually unknown by the communities which they serve. In the bi-decennial Census of Governments, the US Census Bureau identifies five types of local district governments: county, municipal, township, special district, and school district. The Census Bureau has differentiated special districts from the other district types in three specific ways. First, special districts must be fiscally and administratively independent from any other entity. Each unit of government must have the power to make all financial decisions, such as budgeting, levying taxes and debt service, without the oversight of another government. Additionally, special districts must have a popularly elected or appointed board that is distinct from any parent government, and the district must perform functions distinct from an existing general purpose government.

Secondly, special districts must show an existing organizational structure. The entity must provide evidence of current activity and organization, and must possess corporate powers, such as the right to make contracts, to sue or be sued, to have a name, and other similar powers. The third requirement of a special district government is that it must demonstrate government character. This can be proven by undertaking a number of functions, including having popularly elected or appointed board members, the power of taxation, right to incur debt, and by performing functions that are generally perceived as governmental in nature.

Special district governments are also unique in that they share both public and private sector characteristics and privileges. While special districts are able to enjoy many of the rights of public institutions, such as raising funds through bonds or property taxes, they are also exempt from basic powers, such as police powers, which are authorized to other types of governments. Special districts are powerless to receive funding from certain federal and state grants, and from many state and local financial supports such as gas taxes and license fees. They are also limited in that they must receive state legislative approval before they alter the function of the special district or before adding new services.

## *Evolution of Special District Governments*

Special districts gained significance as a service delivery tool for U.S. metropolitan regions dating back nearly two centuries. Originally created to supply increasingly interdependent and fragmented metropolitan areas with services, these specialized governments fostered regionalized efforts; including boards of poverty relief, health, police, port wardens, sewer/water, sanitation and education (Foster 1997). Following this regionalized service provision, a wholly different concept, the special-*assessment* district was introduced for its ability to localize, rather than regionalize service provision. Generally, these special-assessment districts were contained within municipal boundaries, and were responsible for provision of such items as road construction and street lighting (Foster 1997). Operated on the principle of proportional payment for proportional benefit, special assessment districts were considered fair, neutral, and above politics. This legacy would propel usage of these governments during the late 1800's on past the Great Depression.

Ignited by population decentralization, home rule movements, and macroeconomic boom-bust cycles, the second wave of special district government occurred between 1870 and 1920 (Foster 1997). As transportation and communication technology grew, population decentralization excelled and amplified demand for urban services outside the traditional municipal boundary. In response, additional region-wide districts connecting the city with the new and growing suburbs were formed.

As population continued to disperse outside urban municipal boundaries, rural and suburban controlled state legislatures sharply curtailed municipal annexation powers, while at the same time increasing the permissiveness of district formation. Resource-poor, but autonomy yearning unincorporated communities formed municipal coterminous special districts to service these areas. Special district numbers also spiked in response to property tax and debt limitations imposed on general purpose governments, advanced by a rising number of defaults or near defaults.

The last movement (1930s and 1940s) of special district governance resulted from significant incentives offered by the federal government (Foster 1997). Following the Great Depression, President Franklin D. Roosevelt advocated the neutral *non-taxing* public authority as a means to strip big city administrators of their power. This period also saw wide use of revenue bonds, not property taxes, as a means to finance public investments. No longer would a local

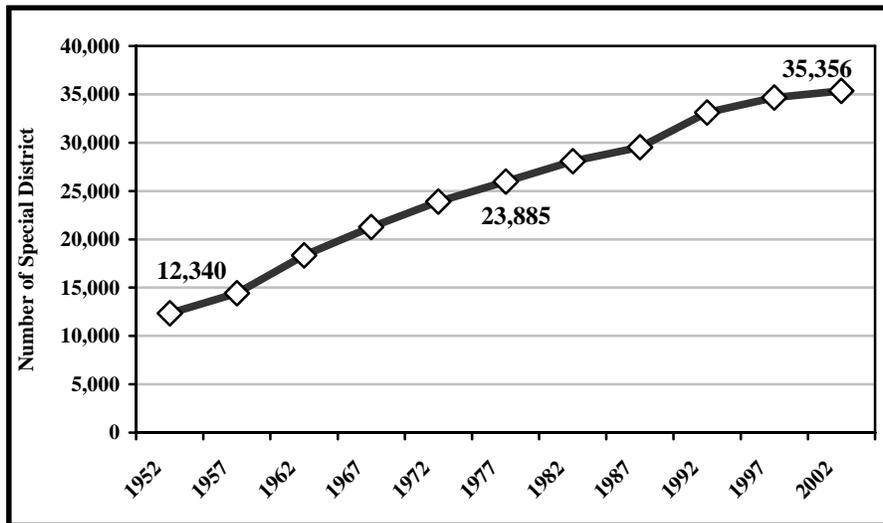
government have to pledge their “full faith and credit” to secure repayment of debt, rather revenue bonds allowed earnings from user charges, tolls, and rents to be used.

After World War II, rapid suburbanization to unincorporated areas yet again increased demand for services, bringing regionalized efforts in metropolitan transit, airports, highways, and sewers to some areas. More recently, developer initiated, subdivision sized, projects to provide sewer, water, drainage, road, street lighting have been utilized to spur economic development (Foster 1997). Lastly, struggling central cities continue to turn to municipal coterminous districts to handle controversial and costly decisions about housing, urban renewal, and other capital intense projects.

*Special District: Trends and Statistics since 1952*

The prevalence of special district governments has been rising over the last 50 years. Every US state, including the District of Columbia, has special districts. However, despite the rapid popularity, less than two to five percent of the electorates vote in special elections (Burns 1994). Few citizens are aware of special districts, and thus, most do not participate in the governance and politics.

**Figure 1: U.S. Special District Government Formation, 1952 –2002.**



Source: U.S. Bureau of Census, 2002 Census of Governments.

In 2002, the latest Census of Government surveys, 91 percent of all special districts were single function districts. 18 percent, or 5,725, of the single purpose special districts were fire

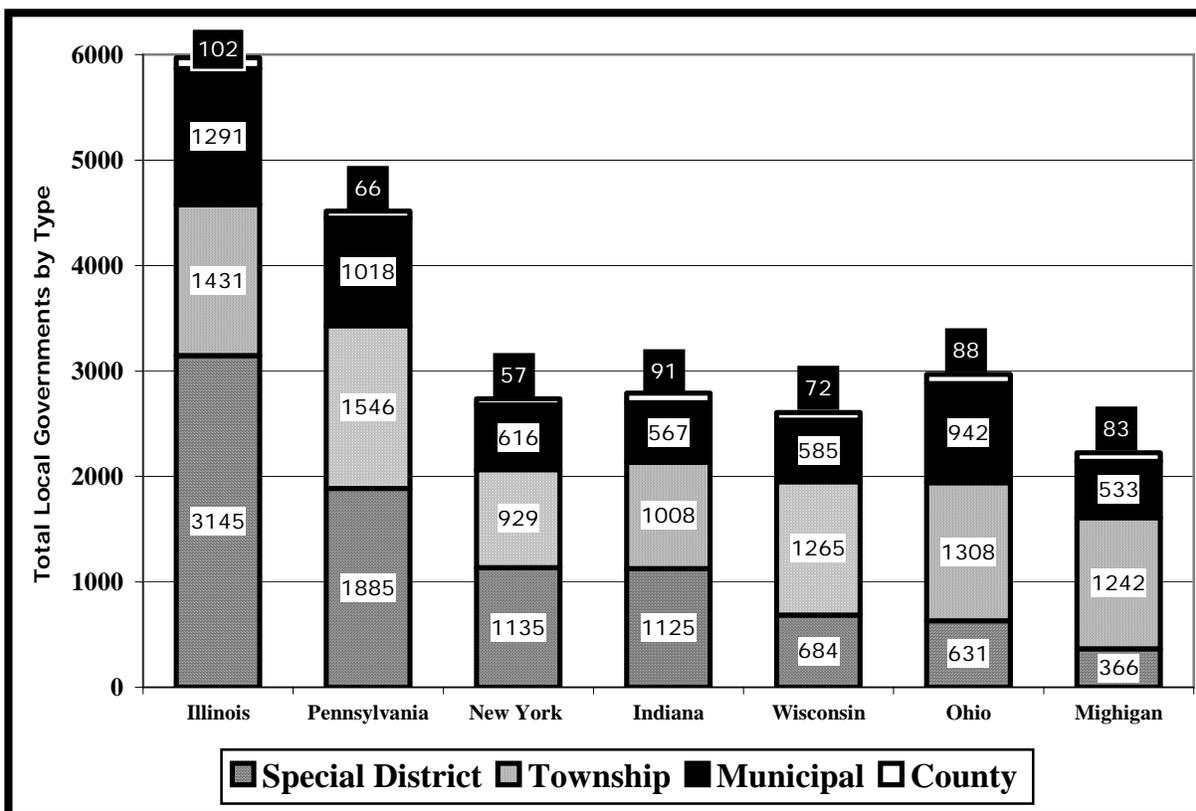
protection districts, the single largest district type. Since 1952, the total number of governments has declined, largely due to rural school district consolidation. However, both municipal and special district governments reported increases. Although the number of municipal governments has increased roughly 3,000 in the 50-years following 1952, currently totaling 19,431, what is most interesting is that special districts have nearly tripled from 12,340 to 35,356 during this same time period (see Figure 1 above). Special districts as a share of all governmental units have increased from 10.5 percent in 1952 to 40.2 percent in 2002.

In 2002, Michigan reported 366 special district governments, with the highest concentration of single function governments was for libraries followed by soil and water conservation authorities. Of the multiple function districts in Michigan, 84 percent are sewage and water supply authorities. 22 percent of special district governments have the same legal boundary as one county, while 30 percent of special district governments in Michigan are located within one county but the legal boundaries of the district are not the same as any county, city, village, or township.

Figure 2 compares the number of various government types (county, municipal, township, and special district governments) across the seven Great Lake states. The Great Lake States largely evolved to have similar government structures, mainly the presence of townships as the foundation of local government. Of the Great Lakes States, Illinois has the greatest number of local governments in each of the four categories, except for township governments where Pennsylvania has 115 more than Illinois. On the other hand, Michigan has the fewest total district governments, and the least in each district category except township governments where New York and Ohio have fewer.

It is important to note that the actual (or perceived) number of special authority governments in Michigan could vary greatly from the 366 listed in the Census of Governments. The first reason is that there could be failures by the special district to self-report to the Census Bureau. Secondly, and more likely, certain authorities in Michigan may not meet all three criteria outlined by the Census, yet are often considered a special purpose government by Michigan policymakers. One such example of an “authority” not meeting the criteria is Michigan’s Police and Fire Act (33 of 1951). This act allows cities and townships under 15,000 to levy special assessments for police and fire, but the board does not have the independence required to be a special district.

Figure 2: Total Local Government by Type in 2002, Michigan and other Great Lake States.



### *Michigan Special Districts Governments with Taxing Authority*

Special purpose governments *with* taxing authority comprise a significant portion of district governments in Michigan. In 2005, 221 special districts, or just over 60 percent of the 366 district governments listed by the Census of Governments, reported levying taxes, or the ability to levy taxes to the Michigan Department of Treasury (see Table 1)<sup>1</sup>. Some special district governments in Michigan may have the statutory ability to raise revenue through property taxes, but have not exercised this option for two primary reasons. The first reason is the 1978 Headlee Amendment requires a citizen to vote for any tax increase, and in general outside public safety and certain senior citizen and recreational activities tax questions, ballot measures

<sup>1</sup> The figures from the Michigan Department of Treasury and the U.S. Census Bureau are not directly comparable because of differences in special district definition. Also, some special districts may have reported to one agency and not the other. For example, the unit reported to the Michigan Department of Treasury and not the U.S. Census Bureau.

asking for increased tax revenue meet with mixed or limited success.<sup>2</sup> Secondly, most enabling statutes in Michigan permit revenue generation through charges, fees, revenue bonding, and other revenues such as transfers from parent government(s), making the levying of taxes unnecessary.

**Table 1: Political Coverage of Special Districts with Taxing Authority in Michigan**

<b>Political Coverage</b>	<b>Number</b>	<b>Percentage</b>
Countywide	21	9.50
Multi-Unit Districts	120	54.30
Single Unit Districts	80	36.20
<i>Total Taxing Districts</i>	221	100.00
Downtown Development Authority	54	-

**Source: Michigan Department of Treasury, 2005**

Slightly more than half of these taxing special districts were multi-unit collaborative efforts between cities, county, townships, and villages. An additional 36.20 percent were coterminous with the parent city, township, or village, while the remaining 9.50 percent were coterminous with county boundaries. County coterminous districts serve primarily to deliver transportation, busing and airport services. The Census of Governments does not classify Downtown Development Authorities (DDAs) as a special district government despite some degree of independence from the parent government. One principle reason is that the city council itself, and not the district board, has the authority to levy up to 2-mills to cover administration costs. Michigan has 54 DDAs with taxing authority.

When Michigan communities turn to taxing districts, they do so by an overwhelming majority to provide library services. Nearly 75 percent or 154 of the 220 taxing districts issued millages for library operation or debt. These library millages ranged from a minimum of 0.198 mills to a max of 3.995 mills (see Table 2). Fire district governments, or fire authorities as they are labeled in Michigan, comprise the second largest function with 20 fire districts levying taxes in 2005. Although by one count there are at least 65 fire districts filing independent annual audits with the State Treasurer. By an overwhelming majority, Township governments embrace

<sup>2</sup> The Headlee Amendment also restricts the number of tax questions placed before voter per year, and rollback provisions result in millage reductions to some communities.

the use of the taxing fire district. Out of the 54 governments participating in the 20 fire authorities listed in Table 2, only three city governments participate, with the remaining 51 governments are comprised of townships. The average fire authority tax rate is slightly greater than 1 mill.

**Table 2: Michigan Special District by Function and 2005 Millage Rates**

Type/Function	Number	2005 Millage Rates		
		Min	Max	Average
District Library	154	0.198	3.995	1.038
Fire Authority	20	0.300	1.991	1.003
Transit	18	0.140	3.000	0.877
Recreation	8	0.100	0.850	0.394
Airport	5	0.245	0.978	0.529
Ambulance	4	0.500	1.658	0.896
Cemetery	2	0.150	0.824	0.481
Police	2	0.249	2.924	1.587
Roads	2	0.929	0.973	0.951
E911	1	1.186	1.186	1.186
Medical	1	0.673	0.673	0.673
Seniors	1	0.496	0.496	0.496
Water	1	1.999	1.999	1.999
Unknown	1	3.561	3.561	3.561
<b>TOTAL</b>	<b>220</b>			
DDA	54	0.000	2.000	1.708

Source: Michigan Department of Treasury, 2005.

The third most common function performed by taxing districts is for transportation, which segments between rural and urban transit units. Transit millage ranges between 0.140 and 3.000 mills, and averages 0.877 across the 18 transit districts. Recreation, airport, and ambulance, in that order of use, represent districts in Michigan whose presence exceeds two special districts. The average millage rates for these functions are 0.394, 0.529, and 0.896 mills, respectively. The remaining 11 districts cover a broad range of functions, from emergency and medical services to capital or infrastructure projects.

### Special Districts: A Theoretical Perspective

Four theoretical perspectives, Institutional Reform, Public Choice Perspective, Metropolitan Ecology, and the Struturalist Perspective, have evolved in the social sciences to

explain the causes and consequences of using special districts (Foster 1997). Each theory views special districts uniquely, often with contradictory conclusions. For example, separate explanations are offered on the impacts special districts have on government spending and efficiency, resource sharing and equity, accountability, and citizen representation. Despite their shortcomings, each theoretical view enhances our understanding of special districts, allowing us to engage in more informed policy discussion leading to improved decision-making.

### *Institutional Reform*

As proponents of less fragmented or consolidated units of government, Institutional Reform scholars, emphasize how institutions ought to be arranged to achieve efficiency and equity of governmental services (Foster 1997). The progressive movement proposes that costs decline as governmental units grow via population, capturing the ensuing economies of scale and eliminating service duplication. Equity results from coordinating and regionalizing interdependent community activities, such as economic development and environmental protection. The current push for intergovernmental cooperation in Michigan may be seen as a testament to institutional-reform principles.

Institutional-reform literature largely gives special districts a negative treatment. They are especially critical of resulting fragmentation that occurs with heavy district reliance and the significant fiscal and political consequences they entail. From the reform perspective, higher per capita spending is inevitable in special district heavy areas, where uncoordinated activities lead to service duplication and missed opportunities to share resources, such as legal and central purchasing (Foster 1997). Compounding the cost inefficiencies is low citizen visibility and no budgetary competition with other general government (general fund) services within a single service government.

### *Public Choice Perspective*

At its core, Public Choice theory conditions that fragmented, or a series of small governments, are best suited to control costs and meet service demand by introducing market-type competition. Public Choice argues that in the case of local public goods, businesses and residents are able to vote with their feet, choosing locations that meet their tax-price and service package needs (Tiebout 1956 and Ostrom, Tiebout, and Warren 1961). Therefore, the larger the

amount of local governments to choose from, the more likely residents and businesses will reside in a community meeting their needs. The ensuing competition between service providers enhances efficiency, thus lowering per capita service costs, by threatening inefficient jurisdictions with emigration of taxpayers to a more suitable match (Miller 1993).<sup>3</sup>

In view of the fact that public choice prefers multiple units of government to enhance competition, and allow citizens to sort based on preferences, it should not be surprising they generally view special district in a positive light. Public choice perspective asserts scale savings come in many sizes and is a function of the service provided. Limiting service provision to coterminous boundaries of a central city, for example, is unlikely to capture efficiencies that span the continuum of government services. Choice perspective emphasizes that boundary flexible single purpose districts can meet these varied requirements. Consequently, local governments can search for the lowest cost method of meeting its service provision requirements by cutting across any number of governments in search of the greatest scale economies.

#### *Metropolitan Ecology Perspective*

The Metropolitan Ecology Perspective derives from the human ecology theories developed in the 1920s and uniquely focuses on the legal and institutional factors that revolve around special district formations. Metropolitan Ecologists are generally ambivalent about special district governments. On one hand, Ecologists often see special districts as distributing their services disproportionately across geographic areas, creating various levels of service quality. Additionally, as supporters of pure democracy, Ecologists see special district governments as a source of encumbrance to the participatory political process since districts have the potential to form a “politically insulated environment” (Foster 1997). On the other hand, special district governments are evidence of the adaptability of local governments and aid the preservation of local autonomy. Special districts allow coterminous municipalities the flexibility to creatively combat fiscal stress, service gaps, and meet constituent needs.

---

<sup>3</sup> Some Public Choice theorists note that because citizens will sort themselves in communities with individuals of like preferences, they will actually be more willing to accept higher municipal spending to meet the common service bundles.

### *Structuralist Perspective*

Dubbed the Structuralist view by Foster, this perspective is concerned with the impact of capitalism on metropolitan operation (1997). Structuralists take a dim view on the limited political visibility of special districts and see them as routes of avoiding constituent preferences and furthering the developmental goals of capitalists. Supporters of this perspective point out the close relationships of developers to districts and the lack of involvement from environmentalists and other anti-growth groups as proof of the pliability of special districts by capitalists. Structuralists, like Metropolitan Ecologists, believe that special districts allow general purpose governments to unnecessarily increase public outlays but take a more pessimistic view and see these budget increases as a way to meet short term needs while creating long term fiscal stress.

### **Empirical Evidence and Policy Implications**

The fiscal and social costs (and benefits) of special district governments have been a fashionable research topic because of the often contradictory results of the studies. For example, a study from the South during the 1970's showed that the creation of tax-based special districts helped to relieve property taxes and reduce fiscal pressures. However, in another study that used data from 1987, researchers found that metropolitan areas that relied heavily on special district governments had higher spending per capita than metropolitan areas that relied less heavily on special districts for service delivery. Although the consensus appears to be moving toward the later view, of increased spending in district-reliant areas, additional and more current research must be undertaken (Foster 1997).

Results regarding economies of scale in special districts governments are also mixed. A study of municipal authorities in the 1970s in Pennsylvania found that water provision costs were higher when controlled by special districts rather than private companies. Another study regarding utility districts found that larger regional districts were more efficient than smaller municipal districts. A 1988 study of fire protection in St. Louis County found no evidence of economies of scale. There have also been criticisms of special district's costly administrative inefficiencies (Foster 1997).

Prevalent in research aimed at special district government operation is exploring their low political visibility. In some instances, electorate participation has been as low as 2 to 5 percent

when special district votes or elections occur. Special-purpose governments are also criticized for holding irregular and infrequent meetings that are often poorly publicized and documented. Research has shown that citizens are unaware of who provides services, how they are funded, and who should be held accountable (Stephens and Wikstrom 1998).

In the metropolitan special district of Milwaukee, using data from 1993, researchers found that sewerage districts helped to enhance the equity of service between the city and the suburbs (Hawkins and Hendrick 1997). For this area, the city received more than its share in benefits from the treatment of wastewater relative to the amount of taxes paid, whereas the suburbs received less than the share of benefit for which they contributed. Other research has found that county districts have had the same effect as metropolitan districts in reducing inequality between city and suburbs (Hawkins and Hendrick 1997).

### **Special Districts in Michigan: Limited Use or Limitations in Use**

As a local service delivery option it isn't immediately clear why Michigan lags behind other local governments in the Great Lakes area in utilizing special district governments. Whereas other states, predominantly in the South and Southwest, utilize special districts to provide services in unincorporated county areas, Michigan and the other Great Lakes State have township governments to service these needs. Yet, despite this commonality, Michigan has at least 50 percent less special districts than the other five states analyzed. Illinois and Pennsylvania, for example, have long histories of strict debt and tax limitations, and have thus grown accustomed to special district to finance capital intense projects. The 1870 Illinois Constitution imposed a 5 percent debt limit on assessed valuation for each local government; half the debt limit allowed to Michigan governments. Creation of an additional special district brought an additional 5 percent in borrowing potential. Illinois relaxed this restriction 100 years later, but has still experienced substantial growth in special district governments.

One researcher (Foster 1997), commenting on why communities turn to special district remarked, "(d)istricts enjoy the financial reach, tax-exempt status, and quasi-monopolistic service delivery advantages of public governments, together with the political isolation, management flexibility, and financial discretion of private corporation." Yet, it is not apparent this holds true for Michigan special districts. Underlying Michigan's reluctance to use special districts is they have not been exempt to the degree other local governments are from state

imposed tax and debt limitation. As noted previously, the 1978 Headlee Amendment and Proposal A tax restrictions apply to Michigan special districts. Furthermore, on a national scope special districts tend to be less unionized and free from pension obligations (Foster 1997). Again, these features of a special district are not consistent with Michigan's experience of unionized urban government.

*Experience with Special Districts in Michigan: Emergency Services Authority, Act 57 of 1988*

Typifying a Michigan special district enabling statute is the Emergency Services Authority Act (57 of 1988). The Act permits counties, cities, villages and townships to form a joint emergency services authority, and is typically used to provide joint fire services. The Authority is a body corporate, and meets the three-pronged test to be classified as a district government; fiscal and administrative independence, has an organizational structure, and displays government character.

Advantages to forming an authority under the Act are immediately recognized by fiscally weakened local governments whom are able to remove fire services from the "books," freeing up financial resources in the parent government. Subject to voter approval, the authority is also permitted to levy property taxes of up to 20 mills for a specified number of years. However, citizens regardless of the delivery vehicle, general purpose or special district government, will be responsible for paying the taxes.

Fortunately, special district fire authorities have been observed to reduce cost and provide a better quality of service over a period of transition years. Over time, duplicative capital is eliminated through a single purchasing entity, and personnel redundancy is lessened through attrition. Additionally, by providing a consistent response protocol, and aligning resources more efficiently to the community as a whole, citizens may experience a decrease in their home insurance policy.

Despite apparent advantages to both local governments and citizens alike, we most often see fire authorities established in rural or less populated areas. In these more "manageable" instances, it is likely you are combining non-unionized and volunteer departments, with minimal existing capital, including stations and trucks. Equally likely, fire and other joint and contractual services have existed prior to forming the authority in these rural, thus smoothing the transition period.

Provisions within the Emergency Services Act allows the authority board to determine the number of positions necessary, and is not required to maintain unnecessary positions. Laid-off status is designated for removed employees, and they are to be rehired if a similar job becomes available within three years. However, for political expediency we frequently find is that all employees of a fire department transfer into the new government. The authority is also bound by existing labor agreements, including pensions, from the incorporating jurisdictions for the remainder the contract.

### *Conclusions*

For certain services increased use of special districts could benefit citizens of Michigan. No general rule can be applied to when it is, or is not, appropriate to utilize a special district government. Capital intense projects and services that span multiple jurisdictions, such as sewer, water, fire, and transit make good candidates. Generally, these are the service areas we already observe district governments take hold in Michigan. However, unless a comprehensive reform package was offered by the State, whereas districts received far greater administrative and financial flexibility than their general purpose counterparts (city, county, township, village), special districts are likely to remain an individual communities preference, rather than a statewide phenomenon.

## References

- Burns, N. 1994 *The Formation of American local government: Private values in public institutions*. New York: Oxford University Press.
- Foster, K. A. 1997. *The Political Economy of Special-Purpose Governments*, Washington D.C. Georgetown University Press.
- Hawkins, B.W. and Hendrick, R.M. 1997. Do Metropolitan Special Districts Reinforce Sociospatial Inequalities? A Study of Sewerage and Technical Education in Milwaukee County. *Publius* 27 (1):135-143.
- 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.A. Special District Governments: A Note on Their Use as Property Tax Relief Mechanisms in the 1970s. *The Journal of Politics* 43 (4): 1207-1214.
- Miller, G.H. Jr. 1993. Are There too many Government in the Tenth District? *Economic Review* 78 (2): 67-77.
- Ostrom, V, Tiebout, C.M., and Warren, R. 1961. The Organization of Government in Metropolitan Areas: A Theoretical Inquiry. *The American Political Science Review* 55 (4): 831-42.
- Stephens, R.G. and Wikstrom, N. 1998. Trends in Special Districts. *State and Local Government Review* 30 (2): 129-138.
- Tiebout, C.M. 1956. A Pure Theory of Local Expenditures. *The Journal of Political Economy* 64 (5): 416-24.
- U.S. Bureau of Census. 2002. Census of governments: Government Organization. Washington DC: US Government Printing office.