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MUNICIPAL REVENUES AND LAND POLICIES

Edited by Gregory K. Ingram and Yu-Hung Hong

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Governance Structures and Financial Authority in Submunicipal Districts: Implications for Fiscal Performance

Robert J. Eger III and Richard C. Feiock

The importance of governing bodies for promoting social welfare has been a fundamental axiom of American politics and law. The character of submunicipal public and private governance is shaped by the constitutional-level rules that define the positions, structures, and powers for these bodies (Ostrom 2005) and by the characteristics of the persons who occupy the positions. Together these two components define the preferences that form the basis of fiscal decisions and the institutions by which they are aggregated into public choices.

Submunicipal governments are notably unique compared to other public agencies due to their ability to exploit complex financial markets with the public purse, free from the political influences so often seen in government agencies (Doig 1983; Mitchell 1991; Smith 1974; Walsh 1978). Submunicipal governments encompass features of government departments, private corporations, and nonprofit agencies (Mitchell 1991). They are corporate in structure and established or chartered by the state or a substate unit of government. They possess characteristics that are similar to private corporations as seen in their oversight boards and their rights to adopt corporate names, make their own bylaws, establish their own offices, and sue and be sued. Most important, submunicipal governments have the power to raise funds from private money markets free from the political influences seen so often in government agencies (Doig 1983; Mitchell 1991; Smith 1974; Walsh 1978).

Submunicipal governments appear similar regardless of which sector is of interest, the public or the private. The benefit to the enabling government occurs as the submunicipal government isolates financial risk, reduces the cost of

financing, and removes debt or services from either the income statement or the balance sheet of the enabling government. These actions provide the enabling government with the ability to meet financial ratios, service expenditure goals, or address loan covenants.

The extant literature on the behaviors of submunicipal governments highlights the influences of the legal form, the degree of autonomy and power allowed by the enabling legislation, and the role of the legislation in their control (Eger 2006). This legal control has been sustained by litigation that has supported the legal separation of submunicipal governments from their enabling governments. The economic and financial literature on submunicipal governments focuses on debt issues (Axelrod 1992; Bennett and DiLorenzo 1982a, 1982b) and reliance on property taxes and service charges for revenue (Bauroth 2005, 2007, 2009; Walsh 1978), while the politics and policy literature focuses on the submunicipal government's ability to circumvent fiscal restrictions imposed by states (Bennett and DiLorenzo 1982b; Carr 2006; Mitchell 1999).

In this chapter we explore a set of measures to evaluate the impact of the submunicipal governing board's structure on both revenues and expenses, thereby exploring an unevaluated area of activity. Both public and corporate governance theories focus on the effects of governing board composition on organizational revenue and spending. Our framework builds on these distinct literatures on public and corporate governance. We focus on two distinct but related aspects of governing boards: their institutional structure and the demographic composition of board membership.

Institutional Structure of Governing Boards

Like constitutions at the national or state level or a municipal charter, the enabling legislation, covenant, or charter that defines the structure of a submunicipal government specifies the offices of the organization, the powers that are associated with these offices, and the procedures by which the holders of the offices are to be selected. As such, the system of representation specified for a submunicipal government provides rules of the game by which local actors gain and use public power (Clingermayer and Feiock 2001). These systems of representation reflect structural differences among single and multipurpose submunicipal governments, which may produce differences in how well citizens' interests are represented by the submunicipal governments. Where the system of representation works efficiently, the value of public services (net of taxes) perceived by the median voter will be comparatively high.

What we know about the relationship between the structure of democratic political institutions at the micro level and fiscal choices is limited. Systemic investigation of the influence of submunicipal governments' fiscal outcomes is conspicuously absent. We focus here on three key constructs that define governing bodies and their relationship with fiscal outcomes: (1) the size of the member-

ship; (2) the degree of board professionalization (whether board memberships are full-time positions and members' compensation); and (3) whether members are elected or appointed to their positions on the board.

THE SIZES OF GOVERNING BODIES

The size of the governing body presents an interesting trade-off between accuracy in representing constituency preferences on one hand, and monitoring and legislative decision costs on the other hand. A governing board with more members may more accurately represent constituent preferences, but this can be offset by increased bargaining costs in the governing body and the higher costs citizens incur from monitoring a larger number of seats on the governing board (Feiock, Ihlanfeldt, and McDonald 2008).

There are several ways in which the size of the governing body may affect fiscal decisions. Weingast, Shepsle, and Johnsen (1981) outline the inherent inefficiencies associated with dividing the economy into n political units (electoral districts). Their central tenet is that legislative decision making under majority rule and district representation can lead to decision situations similar to a common pool resource problem, because legislators view the tax base as a common pool from which to finance constituent-specific projects. Constituent groups internalize all of the benefits of the district-specific projects that their legislators propose, but they internalize only a fraction of the requisite costs imposed on the whole economy. This reasoning led Weingast, Shepsle, and Johnsen to posit their law of $1/n$: if district tax share is a declining function of the number of districts, the degree of fiscal inefficiency and the production of distributive goods increase with the number of electoral districts. This law suggests that as the number of representatives increases, the value of public services (net of taxes) perceived by the median voter declines.

The law of $1/n$ informs much of the literature on representation in legislatures. Recent work has explored the effects of state-level redistricting and how the patterns of constituency diversity that result from redistricting efforts affect pork barrel politics (Crain 1999). Strong support for the $1/n$ hypothesis has been produced at the state and city levels of government (Clingermayer and Feiock 2001; Gilligan and Matsusaka 1995). Board members for submunicipal government face incentives similar to representatives in higher-level governments. Though structural differences exist between cities and submunicipal governments, the law of $1/n$ should operate at micro levels for elected submunicipal governments as well. Langbein, Crewson, and Brasher (1996) found that city council size was positively related to overall expenditures and the number of city parks, but not to spending categories in other policy arenas. Bradbury and Stephenson (2003) report similar support for a sample of Georgia county commissions. They provide evidence to support the causal relationship between the size of any representative electoral body (regardless of whether representation is at large or by district) and government expenditures.

An additional way that the size of the governing board may affect fiscal decisions is by increasing the bargaining and decision costs on the board by increasing variation in members' positions. In the *Calculus of Consent*, Buchanan and Tullock (1962) define decision-making costs as resources, time, effort, and the opportunity cost of making decisions. Increased membership creates greater distances in policy positions among representatives, which heightens the time and resources needed to reach agreement on legislative refinements.

While the empirical literature in economics and political science has focused primarily on the costs to citizens that result from large governing bodies, constitutional analysis points to the benefits that accrue to them from greater representation. Cooter argues that representatives have better information and better representation of constituents' preferences as the number of seats on the governing body increases:

> More representation is better in two respects. First, the "Law of Large Numbers" asserts that random errors tend to cancel each other as the sample size grows. This principle implies that, under certain conditions, aggregation cancels the errors in factual judgment made by individual legislators. As the legislature increases in size, the probability diminishes that the majority will make a mistake when exercising independent judgment. Thus, under certain conditions, increasing the number of representatives reduces the errors in factual judgment made by the legislature. . . . Besides errors in objective facts, legislatures make errors in representing the subjective values of citizens. As the ratio of citizens to representatives increases, legislatures make more mistakes in representing the preferences of citizens. These mistakes prevent legislatures from exhausting the gains from political bargains. Consequently, a larger assembly makes fewer mistakes of fact and representation. (2000, 127)

The lower error cost that results from more seats on the governing body is a final mechanism by which board size affects fiscal choice.

Studies of private nonprofit governing boards provide empirical findings consistent with our expectation that monitoring and decision costs resulting from large boards increase revenue and expenditures. Pfeffer (1973) analyzed data on 57 Midwestern hospitals. Correlation analysis found a significant positive relationship between board size and hospital budget and the proportion of funds obtained from private donations. Useem and Mitchell (2000) support the positive effect of board size on the expectation of increasing equities in local pension plans, while Millstein and MacAvoy (1998) find increased financial performance in publicly traded domestic corporations as board size increases.

Monitoring costs (encompassing the law of $1/n$), decision-making costs, and representation error costs are mechanisms linking the number of seats on the governing board to revenue and expenditure choices. While representation errors might influence choices upward or downward, monitoring problems and

decision-making costs in larger boards will result in higher levels of revenues and expenditures. This leads to our first three hypotheses:

H_{1a}: Governing board size will increase local intergovernmental revenues (IGR).
H_{1b}: Governing board size will increase operating expenses.
H_{1c}: Governing board size will increase own-source revenues.

PROFESSIONALIZATION AND BOARD RESOURCES

Members of professional legislatures receive relatively high pay, have large staffs and other resources, and hold no other jobs outside of their positions as representatives. This is contrasted with citizen or amateur legislatures in which representatives serve part time, have small staffs, and receive relatively low compensation. Similar distinctions apply to the governing boards of submunicipal governments.

We expect appointed boards to be different from full-time professional boards for several reasons. Compensation and staff should change the incentives of members to provide policy and programs that are favorable to special interests. Moreover, full-time board members are often presumed to attend too much to their own interests at the expense of taxpayers. Fiorina (1994) argues that because members of less-professionalized legislative bodies are more likely to have nonpolitical careers, their outside income insulates them from interest group demands for revenues and expenditures. Members in more-professionalized bodies are full-time officials who develop expertise that is of value primarily in the political market rather than in the private sector. Since higher compensation increases the value of holding office, we expect members of professionalized boards to invest more time and money for distributive policy that will curry the favor of special interests that can assist them in retaining office. Both political and financial imperatives lead governing board members to accommodate special interest demands by increasing spending.

There have been several empirical studies of the influence of legislative professionalism on state expenditures (Grumm 1971; Owings and Borck 2000; Squire 1997). Owings and Borck (2000) examine the impact of professionalism on real per capita spending at the state level. Using data from the U.S. states, they find that government expenditure per capita is significantly lower in less-professionalized state legislatures. A one standard deviation increase in the professionalism index increases spending between 7 and 10 percent annually. This is consistent with the view that there is more pork-barrel logrolling and a greater chance of being captured by special interest groups in professionalized legislatures. Similarly, we expect that full-time board positions and board compensation will lead to greater revenues and expenditures at the micro government level.

H_{2a}: Full-time boards will increase local IGR.
H_{2b}: Full-time boards will increase operating expenses.
H_{2c}: Full-time boards will increase own-source revenues.
H_{2d}: Board compensation will increase local IGR.
H_{2e}: Board compensation will increase operating expenses.
H_{2f}: Board compensation will increase own-source revenues.

BOARD MEMBER SELECTION

Some submunicipal governing board members are elected to their positions, but other boards have some or all appointed members. A key question regarding governing board member selection is whether the selection process produces differences in the incentives of members that will shape their revenue and expenditure decisions. Howard Frant (1996) has argued that profits (in private enterprise) and votes (for elected officials) may act as high-powered incentives that motivate high performance in certain circumstances, but can encourage opportunistic behavior when it is difficult for their principals (e.g., shareholders, voters) to monitor the activities of their agents (board members). The high-powered incentives to maximize political support may then lead elected board members to extract funds to accommodate the special interests that benefit from the activities of a submunicipal government. McCabe and Feiock (2005) focus on constitution-level institutions in local government charters that create high-powered incentives such as reliance on elected rather than appointed executive officers. They argue that greater reliance on elected officials leads to fiscal behavior that corresponds to a Leviathan model of fiscal behavior—a model arguing that politicians strategically pursue political and personal gain by increasing government revenues and expenditures.

Bae and Feiock (2004) argue that local government structures shape incentives of local actors, who in turn influence intergovernmental grants and fiscal choices. They posit that when a city's constitutional-level institutions create low-powered incentives, fiscal behavior is more likely to correspond to a median voter model because political actors have fewer inducements and means of attaining individual goals at the public expense. Thus they expect the flypaper effect to exist to a greater extent in a mayor-council government than in a council-manager government.

Turnbull and Geon (2006) apply a principal-agent framework to argue that appointed county officials are more cost conscious than elected officials because they are less concerned with politics and less influenced by interest groups. Four decades earlier Booms (1966) predicted that spending levels in council-manager cities are lower than those in mayor-council cities because direct control by an administrator leads to more-efficient operation in terms of expenditures per capita for a given level of per capita services. Deno and Mehay (1987) and Hayes and Chang (1990) employ a median voter model to determine whether expenditure

behavior differs across cities with different government forms. They hypothesize that there is minimal or no difference of expenditure levels between two forms of city governments. These studies suggest that local officials' incentives are shaped by the institutional structures of local government such that high-powered incentives of elected office lead to greater revenue extraction and higher expenditure levels. This leads to the following hypotheses:

H_{3a}: The number of appointed board members will increase local IGR.
H_{3b}: The number of appointed board members will increase operating expenses.
H_{3c}: The number of appointed board members will increase own-source revenues.
H_{3d}: The number of other elected board members will increase local IGR.
H_{3e}: The number of other elected board members will increase operating expenses.
H_{3f}: The number of other elected board members will increase own-source revenues.

Demographic Composition of Governing Boards

Studies of local government officials, nonprofit boards, and corporate boards address the question of how race and gender representation influence fiscal decisions. Studies of race and gender gaps reveal that black and white and female and male Americans have significantly different policy priorities and issue stances.

There is some limited evidence that minority representation in local office translates into systematic fiscal policy differences. Karnig and Welch (1980) found that electing a black mayor led to increases in welfare expenditures; decreases in funding of parks, libraries, and fire protection; and increases in the amount of federal aid the city receives. Wolman, Strate, and Melchior (1996) found that black mayors pursued different fiscal arrangements than did white mayors.

A number of other studies report little effect of minority mayors on fiscal outcomes. Keller (1978) and Nelson (1978) found almost no differences in fiscal policies between white and black mayors. The most recent research by Pelissero, Holian, and Tomaka (2000) also failed to find any effect on fiscal policies by black mayors. Although the mayoral literature is limited, even less research has focused on board members. Clingermayer and Feiock (1995) found that policy differences from African American representation on city councils were mostly confined to redistributive services.

While some work has explored the public policy effects of women elected to state and federal offices, less attention to these issues has been given at the local level. Holman (2009) has investigated the relationship between gender and policy

choices in U.S. cities. Using budget data directly from 250 cities, she has investigated the impact of female mayors and city councilors on municipal-level fiscal policies and reports a positive effect on spending, but one limited to general redistributional programs and welfare programs. Zahra and Stanton (1988) found that minority representation (both female and racial) did not have a significant effect on corporate financial performance. However, most boards with female members had only one woman board member. Provan (1980) studied the impact of board power on board effectiveness of human services agencies as measured by the amount of funding received from United Way, non–United Way, and bequests and found there to be no statistically significant relationship between the percentage of male board members and measures of effectiveness.

When Fryxell and Lerner (1989) analyzed a sample of 113 firms rated by the Council on Economic Priorities, they found that the number of women on a board is significantly negatively related to change in return on investment (ROI) and firm liquidity level (as measured by the Acid Test). The number of minority members on boards was also found to be significant and negatively related to firm liquidity level. Using 240 YMCA organizations in the northeastern region, Siciliano (1996) found that gender diversity enhanced an organization's fulfillment of its social mission. The number of women on a board had a negative relationship with the organization's ability to raise funds. No relationship was found to exist between gender diversity and operating efficiency. Carter, Simkins, and Simpson (2003) argue that gender and minority representation can bring unique perspectives to the organization. In an analysis of 797 Fortune 1000 firms, a significant positive relationship was found between gender diversity and the ratio of market value of the company's stock with the value of its equity book value (known as Tobin's Q). A limitation of this study is that Carter, Simkins, and Simpson dropped boards with only one female or minority member from the analysis to avoid picking up the effects of tokenism. Given the lack of a clear direction of effect, the literature suggests that the effects of race and gender may differ for elected and appointed boards. The ambiguity in the literature leads to the following:

H_{4a}: Racial composition of the governing board members will not affect local IGR, operating expenses, or own-source revenues.
H_{4b}: Racial composition of the appointed board members will not affect local IGR, operating expenses, or own-source revenues.
H_{4c}: Racial composition of the other elected board members will not affect local IGR, operating expenses, or own-source revenues.
H_{4d}: Gender composition of the governing board members will not affect local IGR, operating expenses, or own-source revenues.
H_{4e}: Gender composition of the appointed board members will not affect local IGR, operating expenses, or own-source revenues.
H_{4f}: Gender composition of the other elected board members will not affect local IGR, operating expenses, or own-source revenues.

Data and Variables

The exploration of the hypotheses presented on board structure and composition are measured using financial data on own-source revenue, intergovernmental revenues, and expenses for submunicipal governments. The data are from the U.S. Census of Governments individual finance files covering fiscal years 1970 to 2002. Although the comprehensive Census of Governments occurs every five years, the U.S. Census Bureau samples submunicipal governments for the noncensus years. In these data, submunicipal governments are called "special district governments." As defined by the U.S. Census Bureau, special district governments are independent special-purpose governmental units that exist as separate entities with substantial administrative and fiscal independence from general-purpose governments. To be identified as a special district government rather than as a subordinate governmental agency, an entity must possess three attributes: (1) existence as an organized entity; (2) governmental character;[1] and (3) substantial autonomy.[2] The U.S. Census of Governments data were primarily used to assess the financial status of the submunicipal governments. To investigate how differences in governance structures among single-purpose and multipurpose submunicipal governments influence intergovernmental revenues, own-source revenues, and expenditures, we use a series of data that focuses on governing body and board characteristics. These data are inclusive of data from the U.S. Census of Governments, Government Organizations. The data were supplemented through both Internet and additional survey information to assess governing body and board composition.

1. Governmental character is implied when officers of the entity are popularly elected or appointed by public officials. A high degree of organizational responsibility to the public is also evidence of governmental character, which can be demonstrated by requirements for public reporting or for accessibility of records to public inspection. Governmental character can be met if either the requirement regarding officers or the requirement regarding public accountability is fulfilled. Therefore, the U.S. Census of Governments attributes this character to any entity having power to levy taxes, power to issue debt that pays interest exempt from federal taxation, or responsibility for performing a function commonly regarded as governmental in nature.

2. An entity is determined to have substantial autonomy when it has fiscal and administrative independence, subject to statutory limitations by a state or local government. An entity is fiscally independent when its budget is determined without being subjected to review and detailed modification by local officials or governments. Furthermore, fiscal independence includes the entity's ability to levy taxes for its support, to fix and collect charges for its services, or to issue debt without review by another local government. Administrative independence is closely tied to the selection of the entity's governing body. Administrative independence is determined when the entity has a popularly elected governing body or has a governing body representing two or more state or local governments. Administrative independence can also occur with an appointed governing body if it performs functions that are essentially different from, and are not subject to, specification by its enabling government.

To investigate the proposed hypotheses, all submunicipal governments identified by the U.S. Census as special districts and sampled during the time period were included in the analysis. We restrict our analysis to submunicipal governments—those governments that are not identified in the Census of Governments as subcounty governments. To address the issue of submunicipal governments, we identify all U.S. Census special districts with *county* included in their names or coterminous boundaries identical to the county boundary as subcounty governments. Using our submunicipal criteria, a sample size of 4,625 submunicipal entities is derived, about 19 percent of all special district respondents in the 2002 Census of Governments.[3]

Table 9.1 shows the breakdown of the submunicipal governments included in our data by function. We base our submunicipal government classification on the reported function of the Census of Governments question that directly asks for the amount, in percentages, of operations allocated to a given function. For all Census of Governments respondents, we base their function for aggregation on the respondents' stating that more than 50 percent of operations are assessed to the specified function. Composition of the submunicipal government titles is based on common budgetary breakdowns of municipal services in the United States.

METHODOLOGY

The data collected for this analysis include annual observations of submunicipal entities over a 33-year time period. Time series cross-sectional (TSCS) data challenge several of the assumptions of regression analysis, but can still produce accurate estimates if certain potential problems are addressed. To ensure that the methodological issues were taken into account prior to the analysis, the data were tested for heteroscedasticity, moving average, and contemporaneous spatial correlation. The results of a Durbin-Watson test indicated that first-order autocorrelation was also present in the data.

The estimation method used for statistical analysis is random effects panel estimation with a first-order autoregressive term. The choice of random effects is not arbitrary here. Commonly, the choice of method for panel data is a fixed effect estimator. Since our key variables of interest—the governing body, the composition of the board, and their individual characteristics—do not vary much over time, fixed effects estimation leads to imprecise estimates. This leads us to the choice of random effects as the estimator of choice.

As shown in Wooldridge (2002), we note that as time increases, the estimates provided by the random effects estimator approach the estimates of the fixed effects estimator. Following this outcome, we control for potential correlation between the unobserved effects; in the case of our data, we assume managerial

3. The 2002 Census of Governments identified 35,052 special district governments with a 70.3 percent response rate yielding 24,642 responding special districts.

Table 9.1
Data Composition

Submunicipal Entity	Functions	*N*	Number of Observations
Fire protection	Fire protection	1,456	6,084
Utility	Drainage, flood control, irrigation, sewage, solid waste management, reclamation, water supply, and electrical power	1,046	5,191
Other services	Parks and recreation, libraries, cemetery, and other single functions	888	3,613
Human service	Health, hospital, and public welfare	211	1,960
Transportation	Airport, highways, parking facilities, water and transport terminals, and mass transit	131	858
Environmental and development	Housing and community development, industrial development, other natural resources, soil and water conservation	116	296
Multiservice	Fire protection and water supply, natural resources and water, sewage and water, other multifunction	777	4,710
Totals		4,625	22,712

ability and quality, and the independent variables of governing body and board composition, by including dummy variables for the various provider types of submunicipal governments as shown in table 9.1. This allows our use of the random effects estimator to efficiently account for any remaining serial correlation due to the unobserved effects of managerial ability and quality.

Variable Definitions

Table 9.2 provides a description of all variables included in the analysis, as well as the hypothesized effect of each independent variable on each of the dependent variables. The dependent variables are local intergovernmental revenue received, operating expenses, and own-source revenues in constant 2002 dollars at the end of each fiscal year from 1970 to 2002. All definitions follow those articulated in the 1992 U.S. Census of Governments, Government Organizations to allow for consistency in the reported data.

Results

The simple statistics for all the variables appear in table 9.3. The average governing board is composed of about four members, of whom fewer than one member is a female; about 95 percent of the members identify themselves as non-Hispanic white. The average board includes about one appointed member.

Table 9.2
Variables and Hypotheses

Dependent Variables	Description	Hypothesized Effect		
Local IGR	Natural log local IGR in constant 2002 dollars			
Operating expenses	Natural log operating expenses in constant 2002 dollars			
Own-source revenues	Natural log own-source revenues in constant 2002 dollars			
Independent Variables		**Local IGR ('000)**	**Operating Expenses ('000)**	**Own-Source Revenues ('000)**
Governing	Total number of governing body members	+	+	+
Full time	Dummy variable indicating full-time board	+	+	+
Salary	Dummy variable indicating board receives a salary	+	+	+
Per diem	Dummy variable indicating board receives per diem	+	+	+
Expenses	Dummy variable indicating board receives expenses	+	+	+
Appointees	Total number of appointed board members	–	–	–
Other elect	Total number of other elected board members	+	+	+
White gov	Number of white governing body members	No effect	No effect	No effect
White app	Number of white appointed board members	No effect	No effect	No effect
White elect	Number of white other elected board members	No effect	No effect	No effect
Female gov	Number of female governing body members	No effect	No effect	No effect
Female app	Number of female appointed board members	No effect	No effect	No effect
Female elect	Number of female other elected board members	No effect	No effect	No effect

Table 9.2
(continued)

Control Variables	Description
State IGR	Dummy variable indicating receives state IGR
Federal IGR	Dummy variable indicating receives federal IGR
Specific municipality	Dummy variable indicating serves a specific municipality or township
Not coterminous	Dummy variable indicating not coterminous with a general purpose government
Tax	Dummy variable indicating tax revenue power
Assessment	Dummy variable indicating special assessment revenue power
Service charge	Dummy variable indicating service charges and sales revenue power
Gifts and grants	Dummy variable indicating gifts and grants revenue power
Age	Age in years
Age squared	Age squared in years
Wage expenses	Natural log wage expenses in constant 2002 dollars
Providers	Seven groups of providers to control for service provision influences
State controls	State influence controls 48 contiguous states (Hawaii and Alaska excluded)
Year controls	Thirty-three fiscal years to control for other yearly influences

Ninety-five percent of the boards included in the sample are part time, and 62 percent of them have some form of compensation consisting of salaries, per diem, or expenses paid. Geographically, 15 percent of the sample serves a specific municipality or township, while 69 percent of the sample organizations' boundaries are not coterminous with a general purpose government. We note that a large majority of the sample, about 79 percent, provides a single-purpose function. On average, our sample organizations are about nine years old with annual employee wage expenses of about $144,000. A large majority of approximately 95 percent of the organizations is authorized to use some form of tax revenue power; 35 percent have the revenue-generating powers of special assessments; 52 percent can generate revenues through user charges and fees; and 42 percent have the ability to accept gifts and grants.

We find that the total number of governing board members (where *governing board* is defined as the principal policy-making body) significantly increases both operating expenses and own-source revenues, supporting hypotheses 1b and 1c. Operating expenses increase by about 3 percent for each additional governing board member, and own-source revenues increase by about 8 percent for each additional governing board member. No significant positive effect is found on local IGR with an additional governing board member, thereby rejecting hypothesis 1a. The positive effect of board size follows the prior literature's positive relationship between board size and revenues; however, the insignificant positive finding for local IGR suggests that specific types of revenues may not follow this

Table 9.3
Simple Statistics

Variable	Mean	Standard Deviation	Minimum	Maximum
Local IGR	0.77	1.85	0	11.38
Operating expenses	6.01	2.45	0	14.38
Own-source revenues	6.61	2.25	0.69	14.41
Governing	4.11	2.71	0	23
Full time	0.05		0	1
Salary	0.19		0	1
Per diem	0.33		0	1
Expenses	0.10		0	1
Appointees	1.23	3.33	0	51
Other elect	0.06	0.31	0	5
White gov	3.90	2.73	0	23
White app	1.14	3.10	0	46
White elect	0.05	0.30	0	5
Female gov	0.60	1.01	0	13
Female app	0.24	0.91	0	13
Female elect	0.03	0.19	0	3
State IGR	0.41		0	1
Federal IGR	0.11		0	1
Single purpose	0.79		0	1
Specific municipality	0.15		0	1
Not coterminous	0.69		0	1
Tax	0.95		0	1
Assessment	0.35		0	1
Service charge	0.52		0	1
Gifts and grants	0.42		0	1
Age	8.67	7.50	1	33
Age squared	131.41	196.31	1	1089
Wage expenses	4.74	2.82	0	13.09

Total observations = 22,712; N = 4,625

generalized pattern. An explanation for this outcome may be that local IGR is a function of two important bounds, the budget constraints of the higher level of government and the collaborative effect between governments. Board size may affect revenue and expenses that are within the realm of the board, but have no effect on the limitations of the budget constraint for the higher government. Although sheer board size may indicate an opportunity to directly affect the collaboration between governments based on an increase in lobbying efforts, local IGR still must be allocated among several governments, thereby limiting the impact of large boards' lobbying efforts.

The effect of a full-time board is positively related to local IGR and negatively related to operating expenses and own-source revenues. No significant effect (using a traditional p-value of .05) is found with the negative effect on operating expenses or the positive effect on local IGR, thereby rejecting hypotheses 2a and 2b. A significant negative effect on own-source revenues is contradictory to hypothesis 2c and indicates that the difference between full-time and part-time boards in own-source revenues is about 11 percent, holding all other dummy variables constant at zero and the interval variables constant. On average this is about an $81,700 loss in own-source revenues for full-time boards. The lack of significant results for hypotheses 2a and 2b along with the negative finding for hypothesis 2c raise both theoretical and empirical questions about the effect of using the measure of full-time boards as a proxy for professionalization. It appears, using the empirical results, that the full-time status of submunicipal board members is not an indication of professionalization at this level of government. This may indicate that the extant literature related to city, county, or state level of government is not applicable to the submunicipal level of government, an ecological fallacy of the hypotheses. Alternatively, the results may lead to an argument that professionalization of boards is not indicated by the part-time or full-time status of the members for any level of government, which would lead to a potential conclusion that professionalization is a member-specific phenomenon. The result for the effect of full-time boards on own-source revenues is much more troubling than the insignificant results for both local IGR and operating expenses. The significant negative effect of full-time boards may indicate a loss of attention to the organization and a redirection of the board members away from the financial soundness of the organization. The potential explanation may be a focus toward self-interest and special interests as compared to part-time boards.

The relative effects of financial compensation offered in hypotheses 2d–2f is evaluated by jointly testing salary, per diem, and expenses. In the operating expenses model, the joint test is significant with a χ^2 of 14.87, supporting hypothesis 2e that compensation will increase operating expenses. Regarding the own-source revenue model, compensation has a significant positive effect on own-source revenue with a χ^2 of 170.06, supporting hypothesis 2f that compensated members would increase own-source revenues. Board compensation is found to have no significant effect on local IGR, rejecting hypothesis 2d. This insignificant outcome coincides with the finding that board status, as measured by full-time board, also

does not have a significant effect on local IGR. Since full-time boards and their compensation are measures of professionalization of the board, supporting evidence for an outcome that professionalization of the board does not impact local IGR is present in our analysis. Although much of the literature on board compensation supports the conclusion that a board that is compensated is believed to possess higher expertise and a higher value, it may be that compensation can lead members to focus on the immediacy of organization needs in own-source revenue generation and control of operating expenses, leading to less effort in addressing higher-level government needs that would affect local IGR.

Addressing the effects of appointed board members, we find that an additional appointed member increases local IGR by about 11 percent and increases own-source revenues by about 10 percent, supporting both hypotheses 3a and 3c. No effect is found on operating expenses by increasing the number of appointed members, rejecting hypothesis 3b. The expense outcome follows the literature of both Deno and Mehay (1987) and Hayes and Chang (1990), finding minimal or no effect on expenditures between different forms of government, and is counter to work by Turnbull and Geon (2006), in a principal-agent framework, that indicated that appointed officials are more cost-conscious because they are less concerned with politics and less influenced by interest groups. The revenue effects findings partially support McCabe and Feiock (2005), which indicated a Leviathan process by which revenues would increase with an increase in political appointees. Bae and Feiock (2004) argued a flypaper effect as political appointees increase, but no effect is found with expenses, thereby bringing into question the flypaper effect. Looking at the effect of other elected officials on the board, adding an additional other elected official to the board has no effect for local IGR, operating expenses, or own-source revenues, rejecting hypotheses 3d–3f. The results here indicate neither the Leviathan nor flypaper effect found in the prior literature. It may be with submunicipal governments that additional elected board members are inconsequential, since the governing board is the decision-making body.

The racial implications of governing boards, as measured by the number of non-Hispanic white members of the board, is that an additional non-Hispanic white member increases own-source revenues by about 3 percent, and no racial effects are found with local IGR or operating expenses for governing boards, providing partial support for hypothesis 4a. Given the inconclusive and minimal nature of the literature in this area, our results are not surprising. We find that an additional non-Hispanic white appointee reduces own-source revenues by about 6 percent, while no significant effect is indicated with either local IGR or operating expenses. The non-Hispanic white appointee effects lead to partial support for hypothesis 4b. Adding a non-Hispanic white other elected official to the board has no significant effect on local IGR, operating expenses, or own-source revenues, thereby supporting hypothesis 4c.

Assessing gender effects, we find that an additional female governing board member has no effect on local IGR, operating expenses, or own-source revenues, providing support for hypothesis 4d. When considering the gender composition

of an additional appointed member, an increase by about 4 percent is found with operating expenses; however, gender has no effect on local IGR or own-source revenues, partially supporting hypothesis 4e. We also find support for hypothesis 4f, indicating that gender composition of an additional other elected official is not related to local IGR, operating expenses, or own-source revenues.

Addressing our control variables, we initially focus on the functional types of submunicipal entities as described in table 9.1. Our comparisons of the functional types of submunicipal entities are presented in table 9.5. The first comparison, and the focus of this discussion of our controls, is all the single functional types compared to multiple-service (multiservice) providers. This comparison is identical to the results presented in the random effects regression in table 9.4.

Looking at single-purpose fire protection entities, the results indicate that fire protection entities on average have similar local IGR and operating expenses, while they have lower own-source revenues. When comparing single-function utilities to multiple-service providers, a significant decrease in local IGR, operating expenses, and own-source revenues is indicated for the utilities. Exploring the category of other single-function services, only own-source revenues are significantly lower for the other single functions compared to the multiple-service functions. Both local IGR and operating expenses for other single-function services are not significantly different than for multiple-service entities. The single-function human services entities are found to have lower local IGR but higher operating expenses and own-source revenues when compared to multiple-service entities. The results indicate that single-function transportation entities do not statistically differ from multiple-service entities when comparing local IGR, operating expenses, and own-source revenues. The final comparison of environmental and development with multiple-service entities shows that operating expenses are significantly higher for environmental and development entities, while own-source revenues are significantly lower. Environmental and development and multiple-service entities are not significantly different in local IGR. Exploring the other control variables, homeowners associations are not significantly different from non-homeowners associations

Table 9.4
Random Effects Estimation Results

Variable	Local IGR[a]	Operating Expense[a]	Own-Source Revenues[a]
Governing	0.0053	0.0323**	0.0806***
Full time	0.0123	–0.0298	–0.1140**
Salary	–0.0140	0.0726**	0.3972***
Per diem	0.0061	0.0984***	0.5872***
Expenses	–0.0627	0.0719*	0.1105**
Appointees	0.1134***	0.0312	0.1024***

(continued)

Table 9.4
(continued)

Variable	Local IGR[a]	Operating Expense[a]	Own-Source Revenues[a]
Other elect	0.3145	0.1215	0.1927
White gov	0.0114	–0.0119	0.0282*
White app	–0.0409	–0.0330	–0.0585**
White elect	–0.2722	–0.1076	–0.1711
Female gov	0.0213	0.0198	–0.0202
Female app	–0.0556	0.0393*	0.0153
Female elect	0.1722	–0.0142	–0.0479
Received state IGR	0.0988***	0.0855***	–0.0010
Received federal IGR	0.2738***	0.0669***	–0.0057
Specific municipality	–0.1465**	–0.0326	–0.2351***
Not coterminous	–0.1581***	–0.0194	–0.0980**
Tax	0.1087	0.1184*	0.2467***
Assessment	–0.0193	0.0091	0.0785**
Service charge	–0.0580	0.0474*	0.3704***
Gifts and grants	0.2119***	0.0152	0.1275***
Age	0.0034	0.0195***	0.0267***
Age squared	0.0001	–0.0006***	0.0000
Wage expenses	0.0254**	0.1490***	0.0532***
Own-source revenues	0.0315	0.7931***	
Operating expenses	0.1076***		0.3953***
Local IGR		0.0167***	0.0003
Fire protection	–0.0763	0.0309	–0.3521***
Utility	–0.1641**	–0.0935**	–0.1853***
Other services	–0.1087	–0.0187	–0.4271***
Human service	–0.5098***	0.4179***	0.8060***
Transportation	0.1246	–0.0179	–0.0124
Environmental and development	–0.0791	0.2275**	–0.3909***
State controls	Yes	Yes	Yes
Year controls	Yes	Yes	Yes
Constant	–0.4755	–0.0685	3.2900***

[a]All dummy variables converted to relative effects (see Halvorsen and Palmquist 1980 for details).
*$p < 0.05$; **$p < 0.01$; ***$p < 0.001$

Table 9.5
Relative Effects of Functional Type Services

Variable	Local IGR	Operating Expense	Own-Source Revenues
Comparative Group: Multiservice			
Fire protection	–0.0763	0.0309	–0.3521***
Utility	–0.1641**	–0.0935**	–0.1853***
Other services	–0.1087	–0.0187	–0.4271***
Human service	–0.5098***	0.4179***	0.8060***
Transportation	0.1246	–0.0179	–0.0124
Environmental and development	–0.0791	0.2275**	–0.3909***
Comparative Group: Fire Protection			
Utility	–0.2232***	–0.1206***	0.2575***
Other services	0.0301	–0.0481	–0.1157***
Human service	–0.5446***	0.3755***	1.7874***
Transportation	0.0449	–0.0473	0.5242***
Environmental and development	–0.1444	0.1908*	–0.0598
Multiservice	–0.0709	–0.0299	0.5434***
Comparative Group: Utility			
Fire protection	0.2874***	0.1371***	–0.2048***
Other services	0.3263***	0.0824*	–0.2968***
Human service	–0.4136***	0.5641***	1.2167***
Transportation	0.3453**	0.0829	0.2112**
Environmental and development	0.1015	0.3540***	–0.2523***
Multiservice	0.1963**	0.1032**	0.2274***
Comparative Group: Other Services			
Fire protection	–0.0293	0.0505	0.1309***
Utility	–0.2460***	–0.0761*	0.4221***
Human service	–0.5579***	0.4450***	2.1522***

(continued)

Table 9.5
(continued)

Variable	Local IGR	Operating Expense	Own-Source Revenues
Comparative Group: Other Services			
Transportation	0.0142	0.0008	0.7237***
Environmental and development	–0.1695	0.2509**	0.0633
Multiservice	–0.0981	0.0191	0.7454***
Comparative Group: Human Service			
Fire protection	1.1957***	–0.2730***	–0.6412***
Utility	0.7054***	–0.3606***	–0.5489***
Other services	1.2619***	–0.3080***	–0.6828***
Transportation	1.2942***	–0.3074***	–0.4532***
Environmental and development	0.8787***	–0.1343	–0.6627***
Multiservice	1.0401***	–0.2947***	–0.4463***
Comparative Group: Transportation			
Fire protection	–0.0430	0.0497	–0.3439***
Utility	–0.2566**	–0.0769	–0.1750**
Other services	–0.0140	–0.0008	–0.4199***
Human service	–0.5641***	0.4438***	0.8289***
Environmental and development	–0.1811	0.2499*	–0.3831***
Multiservice	–0.1108	0.0183	0.0126
Comparative Group: Environmental and Development			
Fire protection	0.1687	–0.1602*	0.0636
Utility	–0.0922	–0.2615***	0.3375***
Other services	0.2041	–0.2006**	–0.0596
Human service	–0.4677***	0.1551	1.9648***
Transportation	0.2212	–0.2000*	0.6211***
Multiservice	0.0859	–0.1854**	0.6416***

*p < 0.05; **p < 0.01; ***p < 0.001

within our database. Boundaries that are not coterminous with a general purpose government effectively reduce the two revenue sources, local IGR and own-source revenues, while having no significant effect on operating expenses. If the submunicipal government serves a specific municipality or township, both local IGR and own-source revenues are reduced, while operating expenses are not significantly affected. The other controls appear to follow prior findings.

Conclusions

This chapter reviewed the implications of board structure and composition on fiscal performance of submunicipal organizations. We empirically investigated how differences in governance structures influence intergovernmental revenues, own-source revenues, and operating expenses. Our findings leave us curious about the role of the board in submunicipal governments. What we find is a composite not found in the current literature and worthy of highlighting here.

Unlike the guiding literature, we find that the revenue source—local IGR—is on average unaffected by board size and professionalization (as measured by full-time status and compensation). This revenue source is significant and positively affected by the addition of appointed board members. Our results may be indicative of a Leviathan process whereby greater reliance on appointed board members leads to an increase in local IGR, a potential strategic pursuit of political influence, and personal gain.

Exploring own-source revenues, both increases in the size of the governing board and the number of appointed board members leads to an increase in own-source revenues. This may provide further evidence of a potential Leviathan process as a governing board size increases, the revenues of the submunicipal entity increase, and increases in the number of politically appointed board members also leads to an increase in own-source revenues. The potential for local political gain both personally and politically may be in itself a call for further research into these entities, as their revenue appears to be partially predicated on board composition. An alternative explanation may be that as the governing board and the number of appointees increase, the overall capability to raise both local IGR and own-source revenues increases. This may be an effect of the size of the organization: larger organizations have the internal capacity to seek more intergovernmental revenue and apply larger or more numerous fees, since the only available controls for entity size are the type of entity and employee expenses, thereby capturing only the internal capacity effect, but not the potential service size effect. This is an important issue, as the size and scope of government services is poised to increase.

Although our findings are mixed based on the demographic impacts of board members on revenues and expenses, we find little support for a gender effect, while the influence of board racial composition has negative impact on own-source revenues for submunicipal entities. The findings here support the corporate literature that women and racial diversity can affect both revenues and

expenses; however, the effect is small. This said, we did not take the position of Carter, Simkins, and Simpson (2003) and ignored the possibility of tokenism. In our analysis, 95 percent of board members are non-Hispanic whites, and less that one board member on average is a female. Ignoring the tokenism argument may have led to our outcome of the demographic effects found; however, further evaluation is needed to assess the impact if tokenism is taken into account.

Full-time boards and board compensation as the measures of professionalism are significant and inversely related to each other in terms of the submunicipal government's ability to raise its own-source revenue. Full-time boards negatively affect own-source revenues, while board compensation is positively associated with own-source revenues. The outcome is that full-time boards lead to a decrease in the ability to generate own-source revenues on average, while compensation of board members leads to increased revenues. This is an important outcome, as it may indicate that part-time governing board structures significantly increase own-source revenues while having no effect on either local IGR or operating expenses.

One reason for governments to introduce submunicipal entities is their ability to be self-supporting and remove the business of government from general-purpose government services. As governmental business corporations set up outside of the normal structure of traditional government, these entities offer governments continuity, business efficiency, and flexible management for the construction or operation of self-supporting or revenue-producing public enterprises (Axelrod 1992; Eger 2000; Gulick 1947). Submunicipal organizations often replace or enhance quasi-public-good production that was undertaken by private enterprises prior to the establishment of the governmental special-purpose entity (Walsh 1978). Although a submunicipal organization is wholly owned by the establishing government, and its mission and power are defined by the enabling legislation, it is legally distinct from the establishing government, and its method of operation for achieving its mission is beyond government control and the regulations and procedures typically applied to traditional government service organizations (Eger 2006). The outcomes in this analysis may indicate a structure for enhancing this proposed goal through the use of part-time boards that receive some form of compensation that may significantly enhance own-source revenues. As a chartered organization, a government establishing these organizations may want to explore the potential effects on revenue and operations when establishing the legislation that enables submunicipal entities.

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