Financial Performance in Connecticut's Municipalities: A Comparison of Manager, Mayor-Council and Selectman Forms of Government

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Introduction

During the last two decades, municipalities have experienced increased financial pressure hastened by urbanization, demographic changes, technological advances and the proliferation of federal and state mandates as well as declining intergovernmental revenue. Local governments, faced with citizen demands to do more with less, are continually seeking ways to economize and make more efficient their operations. In the midst of taxpayer revolts, a century-old debate regarding the best form of government continues as some municipalities consider whether a change in their form of government is able to provide the sought efficiencies. This paper assesses the relative performance of the council-manager versus the two predominant political models of government in Connecticut: Mayor-Council and Selectman forms of government. All three will be assessed in terms of their capability to provide for greater efficiency in Connecticut's municipalities. To our knowledge, no study of this type has been made which includes the comparative performance of the Selectman form of government. While this question has been explored in other states and localities, there is a dearth of empirical data on Connecticut.

Connecticut municipalities display widely varying financial performance capabilities. To explain such variation, we consider several plausible explanations including 1) form of government, 2) demographic characteristics

such as population size and wealth and 3) fiscal factors. This study draws from 2005 data collected on Connecticut municipalities by the Connecticut Economic Resource Center and uses a statistical model to perform a comparative analysis. Financial performance will be primarily measured in terms of property taxes, bond rates, total expenditures and the grand list. The findings of this study are potentially generalizable throughout the New England region with its shared history and local government structures.

Literature Review

The debate regarding the optimal structure of municipal government has been explored in numerous scholarly works dating back to the Progressive era when reformers prescribed a new model for good governance (Knott and Miler 1987, Nalbandian 1991). Citing the pervasive corruption associated with urban political machines governed by the strong-mayor form of government at the turn of the 20th century, the reformers set out to separate politics from administration and create a form of government based on "neutral competence." Among the reforms, the council-manager provided for an elected city council with a professionally trained manager to administer various municipal departments. Freed from political constraints and daily pressures of having to pacify various political constituencies prevalent in the strong mayor model, the professional manager could ideally make decisions based on economy and efficiency.

The relative merits of both models have been argued at length by their proponents. Embedded in each type of government structure are choices about dominant values that are exhibited to varying degrees in all three forms: representativeness, nonpartisan technical competence and executive leadership (Aronson and Schwartz 1994). The intrinsic values of the political model called upon this form of government as providing for the most responsiveness towards citizens, inherently beneficial in a democracy. Adherents of the strong mayor form of government cite its ability to incorporate a variety of demands particularly from ethnic groups prevalent in urban centers. Cost efficiency was a

secondary if not remote consideration of these administrations. But neutral competence obliges professional managers to contain costs and often gives them a freer hand to make policy decisions since they are not beholden to political constituencies such as unions, business interests, and racial and ethnic groups.

Moving beyond the conventional arguments which are presented in a dichotomous fashion, .i.e. politics versus administration, Deno and Mehay (1987) explore the notion that both manager and mayor forms of government have incentives to promote efficiency as both seek to be responsive to the median voter. The manager, hired by the elected council and serving at the pleasure of this body, is often expected to provide professional policy advice and run operations efficiently. The manager's job performance centers on efficiency and productivity achievements (Hayes and Chang, 1990). The mayor, concerned with reelection, also must seek to satisfy voters by holding the line on taxes or risk being punished at the polls. However, unlike managers, mayors also are subject to countervailing pressures that militate against efficiency, such as satisfying various political constituencies which tend to drive government costs.

The connection between efficiency and structure of government is not simply an academic debate. Encountering the optimal structural arrangement for performance has been an ongoing concern of citizens who demand greater efficiency from their government. Home rule municipalities are empowered to change their form of government when citizen discontent reaches a critical mass. The quest for the optimal form of government is often viewed as a panacea for inefficiencies. Citizens often make informal assessments of how one or another form of government will deliver the promised for benefits when initiating charter reforms. The underlying dynamics of municipal reform is outside the scope of our inquiry. However, it should be noted that several Connecticut municipalities have recently undergone charter revisions; some moving to the council-manager form of government and in the case of the city of Stratford a reversion back from the council–manager to the strong mayor form of government.

Institutional Performance and Municipalities

Institutional performance has become a key consideration at all levels of government. With the advent of the Government Performance and Results Act in federal government have come trickle down effects to states and localities. Devolution has also spurred academic interest in municipalities an often overlooked level of government. One such project, the Government Performance Project based at the Maxwell School for Public Affairs provides ratings for state and local governments based on five key systems of government management: financial, capital management, human resources management, information technology management and managing for results.   The results of this study are published in an annual scorecard published by Governing magazine and has provided the impetus for some municipalities to improve their managerial capabilities. Another example of the popular concern for municipal performance is the annual issue rating Connecticut town's found in Connecticut magazine.

While there are a number of dimensions along which government performance can be measured, a heightened concern for efficiency has taken a central place in debate among scholars and practitioners. The authors examine performance in terms of efficiency; carrying out in the least costly manner the provision of government services. Fiscal efficiency as a measure of municipal performance has been explored elsewhere. Lineberry and Fowler (1967) found that reform governments lead to lower levels of taxing and spending. In a study examining the differences between city managers and strong mayor cities, Stumm and Corrigan found a strong correlation between cities with professional managers and lower property taxes and expenditures (1998). They found that cities with professional management achieve measurable efficiencies compared to cities without such management. The authors measured efficiency in terms of reduced levels of municipal expenditures and property taxes. This study seeks to expand upon their findings by focusing exclusively on municipalities in

Connecticut. In addition, this study also will examine bond ratings to determine which form of government achieved greater overall levels of financial health.

Structure of Connecticut's Municipalities

Connecticut is often referred to as the land of steady habits. The reference, while somewhat pejorative, is telling of much of the inertia and glacial pace of change seen in government institutions. Nowhere is this more marked than at the level of municipal government which bears the same contours and structures inherited from colonial New England. This is evidenced by the fact that few municipalities employ the council-manager form of government. Yet, the growing realization that tradition may sacrifice a certain degree of efficiency has prompted some municipalities to add a managerial position without jettisoning the traditional town meeting form of government. Many smaller municipalities governed by the Selectman form of government begun to add a Town Manager position to administer municipal departments. In Connecticut, the three major forms of government are in use by municipalities are depicted in the table below.

Table 1

Forms of Municipal Government in Connecticut	
Selectman-Town Meeting	102
Selectman-RTM	7
Mayor-Council	30
Council-Manager	30
Total	169
CERC, 2005	

Mayor-Council

The Mayor-Council form of government is utilized in approximately thirty municipalities in Connecticut. It is generally found in small and large cities and large towns. This form of government, with its emphasis on

representativeness, consists of one top elected official, the Mayor, with an elected legislated body in the form of a Council or Board of Aldermen. The mayor provides policy leadership and executive management, including the hiring and firing of department heads.

Council-Manager

The Council-Manager form of government arose during the Progressive Reform era of the early 1900s to exclude politics and bring greater efficiency to local government. It consists of a full-time paid professional referred to as the City or Town Manager who is hired by the council to be the chief executive officer. In this form of government, the council serves the legislative function and appoints a manger who selects department heads and directs their activities. It is the most prevalent form of United States municipal government. As anticipated by Knoke's (1982) thesis regarding the spatial-temporal diffusion of municipal innovations, municipalities in Connecticut that have adopted the council-manager form of government tend to be clustered around the Hartford area.

Selectmen-Town Meeting

While relatively few municipalities in the United States are governed by this form of government, the vast majority of municipalities in Connecticut utilize a Selectmen-Town Meeting form of government which dates back to the colonial era. In this form of government, the legislative body is the representative town meeting. In a representative town meeting (RTM) where voters select a limited number of citizens to represent them at town meetings and vote on the budget. Additionally, the Board of Selectmen is a multi-member body ranging in number from three to five members and is responsible for executive decision-making. Day to day authority is given to the First Selectman who is the chief executive officer. This form of government, with its plural executive, diffuses authority between the selectmen and the boards and commissions that oversee various departments.

As Connecticut's municipalities towns grow and change, they have adopted incremental strategies to meet challenges without abandoning the town meeting form of government. The shortcomings of the town meeting form of government with its emphasis on representativeness over managerial capabilities has prompted many municipalities in New England to hire professional managers to perform the day- to-day operations of town government. Even smaller and rural municipalities governed by the Selectmen-Town meeting also display an increasing concern to augment their managerial capabilities. The changes have taken a variety of forms such including the creation of a chief administrative officer in the form of an administrative assistant, town manager, or executive administrator to provide professional support to the Board of Selectmen. In Mayor-Council forms of government the trend towards professionalization has taken the form of a chief administrative officer (Hansell 2002, Svara 2002 and DeSantis and Rennner 2002.

Municipal Finance in Connecticut: Dynamics and Modalities

In Connecticut, reliance on local property tax to fund the lion's share of municipal expenditures has placed tremendous pressure on citizens. Concerns about proposed educational finance reform and its implications for municipal finance have prompted calls for a property tax cap. No where is the pressure more felt than on municipal chief executives. Municipalities in Connecticut display varying levels of fiscal efficiency. Citizens in one locality experience routine increases in mill rates while others reside in municipalities that have held the line on property taxes. Citizens often question why one municipality with similar demographic characteristics manages to contain property taxes while a neighboring municipality experiences steady increases. Accounting for such variation will comprise the first portion of the empirical analysis

Another dimension of financial efficiency is captured by a town's bond rating. Many towns in Connecticut issue bonds to finance long term capital improvements. A bond rating by one of the rating agencies serves to assess the

credit quality of the municipality and determines the rate the issuer will pay on the debt. A municipal bond rating is a relative measure of risk to bondholders as well as a measure of financial strength which takes into consideration all of the resources of an issuer and the legal structure of the financing. Connecticut municipalities receive their bond rating from Moody's Investors Service which uses economic, debt, administrative and financial performance criteria.

Hypothesis and Empirical Methodology

The question of whether a manager form of government is associated with better performance than a mayor-council or selectman form of government is an empirical one that cannot be unambiguously established, ex ante. In part, this difficulty may reflect the fact that performance can be inherently subjective; it may range from the onerous nature of comparatively higher taxes to a gauge of arguably inadequate level of services, to difficult-to-quantify intangibles reflecting a town's quality-of-life attributes.

Given these manifold considerations, a researcher appraising performance can opt for one of two approaches. She can limit the inquiry, remove oneself from the semantic constraint and focus on one aspect of performance. For example, an examination limited to financial performance would require largely financial variables. Clearly, the results of such a narrow inquiry are limited in their generality; it would be impossible to conclude whether observed outstanding financial performance did not benefit from interrelated but possibly intangible factors such as attractive cultural events or the presence of many parks and recreational activities.

Alternatively, a researcher can construct a composite metric, drawing on increasingly popular data reduction methods such as factor analysis or principal components to construct a performance index that would aggregate the information content of a town's financial variables and qualitative elements. Although they command their own store of limitations, indices tend to capture the broader aspects of what is commonly understood as performance.

We use a town's bond rating as a proxy for performance. Municipal bond ratings are intended to provide investors with a guide to the relative investment quality of bond issues and thereby entail a composite measure of the financial strength of a township, city, county, schools or special districts. Municipalities issue two types of bonds, for the most part: general obligation bonds and revenue bonds. General obligation bonds are issued to finance a wide variety of municipal operations and repayment of debt is from taxation and other general revenue sources. The bonds are guaranteed by the full faith and credit of the local government issuing the bond. Revenue bonds are issued to raise funds to finance specific projects, for the most part long-term capital projects and public improvement projects. Repayment of revenue bonds is from revenue derived from the investment.

The precise nature of the bond rating process is known only to the agencies. Although raters focus primarily on financial variables, they systematically take into account all of the resources of the issuer, debt levels and debt structure, the legal structure of the financing and also intangibles such as leadership quality and management ability. It is not clear what weight financial variables command in the ratings process let alone how the intangible variables are quantified and the relevance, or weight, they are given.

Because it bodes well for someone appraising the likelihood of debt repayment, it appears to us that a bond rater is more likely to attach more favorable rankings to communities with a comparatively more efficient delivery of services, where efficiency is gauged as cost per unit of service delivered. Thus, to the extent that better performance is associated with a less costly provision of the services required by a community then increased performance is positively associated with favorable bond ratings. Previous empirical efforts examining the relationship between form of government and performance are inconclusive. Hayes and Chang (1990) examine expenditures for police, fire and garbage for 191 cities and find no significant difference in the expenditure levels for these

functions between managers and mayor-council cities. Stumm & Corrigan (1998) on the other hand, find a clear positive association between the manager form of government and several fiscal variables.

The Empirical Model

The empirical modeling approach is driven by particular features of the variables in the data set. First, because the dependent variable of interest, Moody's Bond rankings, takes on ten ordered values, we use an estimator for ordered outcomes. Ordered regression models produces coefficients that represent the effect of each independent variable net of all other included independent variables, as well as standard errors associated with these coefficients that allow for hypothesis testing. Ordered regression recognizes the ordinal nature of the dependent variable without assuming that the differences between one (bond) rating and the next are of uniform size across the variable's entire range. Parameters estimating the effect of independent variables on the dependent variable taking on a successively greater value are calculated using maximum likelihood techniques (see Winship and Mare 1984; Wooldridge 2000) and are readily generated with most commercial statistical software packages. The analysis presented was performed using Stata 9.0.

The second consideration is a sample selection problem. Table 2 contains a tabulation of the various bond ratings in the data set. Out of the 169 townships for which we have data, 18 do not report a bond rating. This omission may be a result of the fact that a non-reporting town has not had any reason to use bond financing; its level of services can be adequately met by tax revenues. Alternatively, the town may have failed to report a bond rating because the particular town may have anticipated not drawing a favorable rating and therefore it either did not solicit one or it decided not to issue the bond.

Table 2

Observations per Bond Rating

Bond Rating	Frequency	Percent	Cumm
A1	41	24.3%	24.3%
A2	20	11.8%	36.1%
A3	30	17.8%	53.8%
Aa1	8	4.7%	58.6%
Aa2	13	7.7%	66.3%
Aa3	22	13.0%	79.3%
Aaa	12	7.1%	86.4%
Baa1	4	2.4%	88.8%
Baa3	1	0.6%	89.3%
NA	18	10.7%	100.0%
Total	169	100.0%	

Thus, the dependant variable, bond ratings, is not always observed. We must therefore proffer a selection equation that determines whether a town makes it into the examination sample. The equation consists of a binary dependent variable set to 1 if a town has issued a bond and 0 if it has not. An examination of variables suggests that most small towns, characterized by smaller populations and appropriately less extensive levels of services, are less likely to issue bonds. Thus, we propose to identify those towns that do have bond ratings by using population as the selection variable. Linear predictions based on the estimated coefficients of the selection model allow us to construct the inverse mills ratio, $f(Z_i)/(1-f(Z_i))$, the ratio of the normal density and the normal cumulative probability function.

The mill ratio then enters the ordered regression model as an explanatory variable. This two-step treatment ensures that the probability of a bond issue is not necessarily established by the same set of variables used to distinguish the relationship between a particular form of government and bond rating (Sigelman and Lee 1999; Grier, Munger & Roberts 1994).

Accordingly, we can specify the empirical model as follows:

$$z_i^* = \beta_1 X_{1i} + \varepsilon_{1i} \qquad (1)$$

$$r_i^* = \beta_2 X_{2i} + \mu_{2i} \qquad (2)$$

$$y_i = m \qquad \text{if } \tau_{m-1} \leq y_i^* < \tau_m \text{ for } m = 1 \text{ to } J$$

Equation 1 is the sample selection equation where z_i^* is an unobserved variable, the likelihood of a bond issue. We do not observe this variable but do observe an indicator variable z_i that equals 1 if $z_i > 0$ and equals 0 otherwise. Equation 2 is an ordinal regression model that represents an underlying latent variable, $r,^*$ ranging from $-\infty$ to $+\infty$. The measurement model for ordinal outcomes divides r^* into J ordinal categories where the thresholds τ_1 through τ_{J-1} are estimated.

Thus, our selection procedure establishes the probability of a bond issues based on the size of a towns population using a probit model.

Prob(Bond Issue) = φ(level of services)

The dependent variable is a binary variable that takes the value of 1 if a town reports a bond rating and a 0 otherwise. We use an ordered probit estimator; the inverse mills ratio drawn from the selection process enters the ratings equation. We use data on the reported level of reported township expenditures as a proxy for the level of services; the reported expenditures variable is entered in logarithms.

Our ordered probit specification is presented in algebraic terms:

Performance =

φ(Manager, Population, mill rate,taxes, Industrial/commercial share of

grand list ,per capita income, Inverse Mill Ratio)

Performance is a town's Moody's Bond rating. Our variable of interest is *Manager*, a binary variable accounting for the presence of a manager type of government (Manager = 1) versus a non-manager (Manager = 0) type of government. The non-manager type of government – for which the binary variable is set to 0 - encompasses various political models typically found in use

by Connecticut's municipalities. The expected sign depends on the relative influence of the various interest groups in a township. We attempt to control for the relative influence of the business and commercial groups, unions and the population at large. *Share* is a variable that represents a town's Commercial/Industrial share of a township's grand list; thus we would expect this variable to be positively associated with bond ratings. The variable *Population* represents a township or municipalities' reported population in 200#. The variable *Mill rate* represents a town's fiscal burden; specifically the mill rate is the property tax valuation multiplier reported rate in 2002. The variable *Taxes* represents a town's per capita tax as a percent of state average. *Per capita income* represents a town's reported income per person and is considered a proxy for the wealth of the community. The *Inverse Mill ratio*: is the ratio of the normal density and the normal cumulative probability function, $f(Z_i)/(1-f(Z_i))$, derived from the selection equation.

Data and Data Treatment

Data was obtained from data collected on Connecticut municipalities by the Connecticut Economic Resource Center (2005). The bond rating variable was converted into an ordinal scale whereby higher ratings are associated with higher numbers; this facilitates interpretation. The variables for population, per capita income, per capita expenditures, share, mill rate and taxes were transformed into logarithms prior to its use in a regression to minimize heteroskedasticity.

We report the results for the ordered probit model without correcting for selectivity bias and the result for the Heckit procedure correcting for selectivity. The results of the selectivity model binomial probit can be found in an appendix to this paper.

Table 3

Ordered Probit Regression Results

Dependent Variable:	bond rating	
	Ordered	
Independent Variable	Probit	Heckit
Manager	0.742	0.662
	(3.15)*	(2.23*)
Mill Rate	-2.67	-2.37
	(-5.76)**	(-5.28*)
Industrial/Commercial Share		
of Grand List	-0.039	-0.087
	-0.33	-0.61
log tax (as a % of state		
average)	2.923	2.59
	(7.03*)	(7.28*)
log per capita income	-0.688	-0.139
	(-5.64)**	(-0.76)
Mills Ratio	4.316	
	(4.03**)	
Observations	147	166

Absolute value of z statistics in parenthesis

* significant at 5%; ** significant at 1%

The proposed hypothesis of the manager model is confirmed by the ordered probit analysis for the selectivity bias corrected model as well as for the uncorrected one. The dummy variable for the manager form of government confirms highly statistically significant and positive relationship to Bond ratings.

There are some inherent caveats about our general conclusion imputed by the Heckit procedure. The success of the sample selection bias procedure depends greatly on correctly specifying the selection model. The selection model is relatively parsimonious.

Concluding Comments and Future Research

When the concern is over performance, there are strong arguments in support and equally compelling critical counterarguments for both the mayor-council, and the manager form of government – especially among municipalities in Connecticut. Thus, the resolution of this controversy must clearly be empirical.

We find statistical support showing the manager form of government as being positively associated with higher municipal bond ratings and confirm the findings of Stumm & Corrigan (1998). Bond ratings offer a viable aggregate measure of not only a town's ability to service its debt but any number of other elements that reflect the presence of efficient mechanisms in the delivery of services. The positive association between a manager form of government and higher bond ratings would confirm the hypothesis that managers are better able to exert financial control due to their relative freedom from political considerations and their primary emphasis on efficiency as a result of their professional training and orientation.

Other possible explanations that require further analysis may be found in the form of institutional constraints such as the budget referendum. In towns which utilize a referendum, citizen concerns over taxes may act as a powerful check on expenditures. The relative weight of this factor has yet to be explored and may, in combination with professional managerial control, may contribute to higher financial performance as measured by bond ratings.

As we addressed earlier in our paper, performance encompasses multiple dimensions. Although finances are arguably among the most important considerations for a municipality, performance can be measured using a variety of factors such as education, the depth and breadth of services offered by a municipality including leisure and cultural activities. A future research agenda includes analyzing these other dimensions of municipal performance.

Finally, a major question, which is tacitly raised by our findings but lies outside the scope of this inquiry, is the issue of municipal reform and innovation. Given its apparent superiority in handling municipal finances, why is it the case that so few municipalities in Connecticut employ the council-manager form of government? A future research agenda includes an analysis of the dynamics underlying municipal reform as well as barriers to change. We can speculate that some possible explanations that militate against municipal reform are the strong traditions of local control that are embodied in the selectman and mayor forms of government. In instances where charter revision processes have generated proposals to alter the basic form of government and its attendant power structure, entrenched interests have often risen up to oppose the adoption of a professional manager.

At every level of government, the heightened concern for performance and accountability has prompted a number of managerial innovations designed to bring greater efficiency to administration. The issues raised in this concluding section will comprise a future research agenda that examines municipal performance in Connecticut with implications for municipalities throughout New England.

Table 4

Moody's Public Finance Ratings

Rating	Long-Term	Quality
Investment Grade	Aaa	Strongest Creditworthiness
	Aa1/Aa2/Aa3	Strong Creditworthiness
		Above-average
	A1/A2/A3	Creditworthiness
	Baa1/Baa2/Baa3	Average Creditworthiness
Below Investment Grade	Ba1/Ba2/Ba3/B1/B2/B3	Below Average Creditworthiness
	Caa1/Caa2/Caa3	Very Weak Creditworthiness

source: Moody's Investors Service

Table 5

Descriptive Statistics

Variable	Mean	Std Dev
Population	20931	25048
Household Income	70662	22969.55
Per Capita Income	10.4	12.3
Total Expenditures	50900000	67300000
Total Per Capita Expenditures	2369	428.9
Mill Rate (2002)	28.05	7.09
Per Capita Tax (as a percent of state average)	103.5	33.9
Commercial/Industrial Share of Grand List (2001)	11.2	7.29
SAT Scores	1031.8	79.8

Table 6

Correlation Matrix of Continuous Variables

Variable	Population	Per Capita Income	Total Per Capita Expenditures	Mill Rate (2002)	Per Capita Tax (as a percent of state average)	Commercial/Industrial Share of Grand List (2001)	SAT Scores
Population	1.00						
Per Capita Income	-0.47	1.00					
Total Per Capita Expenditures	0.12	0.08	1.00				
Mill Rate (2002)	0.45	-0.16	-0.09	1.00			
Per Capita Tax (as a percent of state average)	-0.14	0.25	0.75	-0.35	1.00		
Commercial/Industrial Share of Grand List (2001)	0.61	-0.53	-0.08	0.27	-0.26	1.00	
SAT Scores	-0.43	0.22	0.17	-0.35	0.39	-0.30	1.00

Table 7

Results of Probit Selection Model

Dependent: bond issue	Coefficient
Log Expenditures	0.709
	(4.33)**
Constant	-10.613
	(3.96)**
Observations	170

Robust z statistics in parentheses

* significant at 5%; ** significant at 1%

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