Does the Charter Form Improve the Fiscal Health of Counties?

Abstract: The public administration literature has paid attention to the relationship between the structure of a government and its ability to provide public services, reflected by its fiscal health. Although this literature has provided a useful understanding of government structures, it has largely ignored the charter form of government. As a formal written document that grants counties the power of self-governance, a charter frees the county from state control. Included in this freedom is the ability to establish its own tax policies and services. In this article, the effects of charter adoption on fiscal health are tested using Florida county data from 1980 to 2012. The results show that the presence of a charter can improve the fiscal health of a county, which, in turn, can affect overall service provision.

Practitioner Points

- County charters are mini-constitutions that help free the county from state control and give the power of governance to the community.
- A charter allows the county the opportunity to determine its own structure and service provision, creating unique governments that directly meet the needs of its residents.
- Charters provide public managers with more freedom in choosing the public services and forms of revenue they offer.
- The freedom provided by a charter allows public managers to address issues of fiscal stress by adjusting the county’s services or increasing its tax rates.
- Charters are useful tools for public managers and communities that are facing difficult financial times.

A key challenge facing the administration of local governments in the United States is their ability to meet their service commitments and obligations (Jacob and Hendrick 2013). This challenge became prevalent in 2008 with the commencement of what has been termed the Great Recession. During this period, administrators were faced with declining revenue while simultaneously addressing an increase in demand for goods and services in areas such as unemployment, health care, and housing (Kiewiet and McCubbins 2014; Scorsone, Levine, and Justice 2013). Constraints on the ability of a government to provide services create not only hardships in the daily management of the government but also tension between public administrators, who seek to sustain the organization, and the citizenry, who seek to reap the benefits of public goods. Evidence of the problem of constraints on local governments and the resulting tension can be seen in cases such as Detroit, Michigan; Boise County, Idaho; San Bernardino, California; and Jefferson County, Alabama.

Despite the growing concern about constraints on local governments, counties are limited in their ability to address this issue. Commonly viewed as administrative units of the state, the structure of a county’s government, including the services it provides and the revenue sources available to it, are frequently established by state mandate (Morgan and Kickham 1999). When state mandates are present, counties are forced into a policy regardless of the effect it may have on their ability to provide services. However, counties in many states are given the opportunity to escape state control through the adoption of a county charter (Hamilton 2004; McDonald and Gabrini 2014). Viewed as a mini-constitution, a charter is a formal written document that grants residents of the county the power of self-rule by conferring powers, duties, and privileges on the county (Martin and Nyhan 1994). Included in this freedom is the flexibility to establish its own financial policy, including revenue and service programs. Although there is a growing body of literature that has investigated the causes and consequences of a county’s fiscal health (see Hendrick 2004, 2006), the effects of charter adoption have not been studied.

In this article, the adoption of a charter and its effects on a county’s fiscal health are examined. It is
hypothesized that the adoption of a charter increases the county’s fiscal policy space (FPS), allowing the county the freedom to select a set of services and taxes that meet the needs of its citizenry. The freedom of self-governance provided by a charter also allows a county the opportunity to maximize its financial status through competition with surrounding counties. This combination of efficiency through competition and the establishment of a self-governed financial policy should lead to an improved fiscal position. To investigate the impact of a charter on a county’s fiscal health, a model that depicts the financial status of a local government is established. The model is then estimated using data from all 67 counties in the state of Florida (of which 20 are chartered) for the years 1980 to 2012.

The analysis shows that, once adopted, a county charter improves the overall fiscal health of a county, potentially effecting its service provision. After controlling for the various dimensions of a county’s financial position, the charter’s effect was demonstrated by a reduction in three key financial measures: the efficiency ratio, the intergovernmental revenue dependence ratio, and the debt service ratio. Because a charter provides the county flexibility in establishing its own revenue sources and service packages, the self-governance it produces sets the charter apart as an option for counties facing fiscal stress or that want to improve their current financial position.

The remainder of this article is structured as follows: The following section introduces the public administration literature on fiscal health, paying particular attention to the establishment of a theoretical foundation for the effects of charter influence. Next, a model is established of county fiscal health that accounts for the presence of a charter, and then the data and methodology necessary to estimate the model are presented. The next section presents the results of the estimation and discusses the findings. The conclusion closes the article with a series of comments on the importance of the findings, their implications for practitioners, and a recommendation for future work.

Theory and Background
As a discipline, public administration has always been concerned with the fiscal health of local governments (Dahlberg 1966; Fleischman and Marquette 1986). In the field’s infancy, the New York Bureau of Municipal Research paid particular attention to the finances of local governments, believing that it was the responsibility of a government as steward to use its resources in an efficient and effective manner (McDonald 2010; Sivers 2000). In more recent years, the issue of fiscal health has reemerged because of the Great Recession (Scorsone, Levine, and Justice 2013). Not only did the economic collapse increase the public’s dependence on social services provided by local governments, but also the reduced revenue of governments threatened their capacity to continue current levels of service provision (see Martin, Levey, and Cawley 2012; Pollin 2012). Because of the importance of a local government’s fiscal health, a number of studies have sought to clarify its causal mechanisms. These studies have typically focused on the influence of a government’s policies or socioeconomic conditions (see Clark 1994; Honadle, Costa, and Cigler 2004; Ladd and Yinger 1989). Hendrick (2004), for example, adopted a systems approach to understanding fiscal health. In this approach, she proposed that as an open system, a government is influenced by its institutions and the local and regional environment. Using a series of indicators to capture the dimensions of fiscal health (e.g., the characteristics and fiscal structure of a government’s environment), she tested the approach using a sample of 264 municipal governments in the Chicago metropolitan area. Hendrick’s results showed that fiscal health can be a function of its varying dimensions, including governmental and community characteristics.

In a more recent example, Maher and Deller (2013) investigated the relationship between a local government’s financial policies and its fiscal position. While much of the literature discusses the use of revenue diversification and enhancements as tools to address fiscal health problems (Carroll 2009; Carroll and Goodman 2011), many local governments operate with self-imposed tax and expenditure limitations (TELs) that restrict such policies. Using a cross-section of 779 municipalities in the United States, Maher and Deller controlled for demographic characteristics and form of management as key drivers of a healthy government. Their results showed that a city’s TEL policies can positively influence its financial position by forcing stronger fiscal management practices (see also Maher, Deller, and Amiel 2011).

While these studies provide useful insights, they cover only one side of the mechanism. Local governments are open systems, that is, they both influence and are influenced by their environment (Justice and Scorsone 2013; Tang, Callahan, and Pisano 2014). The basic structure of a county may be created by the state, but counties have some authority in establishing and expanding the types of services provided and their regulatory controls (Cigler 1997, 1998; Honadle, Costa, and Cigler 2004). These locally established services and regulations create financial responsibilities that the government must carry. Therefore, it is reasonable to assume that the underlying structure of a government can influence the financial policies it undertakes. One such structure whose role in fiscal health has not been investigated is the county charter.

What Is a County Charter?
Traditionally, counties were established as administrative branches of the state and were responsible for performing a variety of state-mandated duties (National Association of Counties 2008). These duties included property assessment, public safety, record keeping, and the administration of elections (see also Benton 2003b; Morgan and Kickham 1999). Counties provide a wide variety of services but have little autonomy, as the basics of their organizational structure, revenue streams, and service policies are determined by state statute (Benton 2003b). Such statutes restrict the ability of counties to increase their tax revenue and reduce their level of service provision, limiting their capacity to respond to financial problems. However, counties in 24 states have the option to deviate from their traditional role and state control with the adoption of a charter (National
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Adopted through citizen referendum and often referred to as a “mini-constitution” (Martin and Nyhan 1994), a charter are is a formal written document that grants residents the power of self-governance by conferring powers, duties, and privileges to the government (see also Maser 1998). Unlike traditional county structures, which have only the powers and rules explicitly granted to them by the state, charter counties have considerable freedom to decide which officers to include, what duties and powers will be assigned to them, and whether they will be appointed or elected (McDonald and Gabrini 2014). As an extreme form of home rule, a charter grants the county all powers not explicitly assigned to the state (Bunch 2014) or directly prohibited by the state’s constitution (Columbia County Charter Commission 2000). This flexibility in structure allows residents to shape and form the county government in such a way as to reflect the unique nature of their community. Charters effectively shift the burden of local affairs governance from the state to the local populace, granting decision-making power to those most affected by it and freeing legislators to focus on the business of the state (Benton 2003a).

An example of charters in practice can be observed in Florida, where 20 of 67 counties have adopted a charter (Florida Association of Counties 2009). The state generally authorized charters in Article VIII of its 1968 constitutional revision (Columbia County Charter Commission 2000). As a charter grants all powers to the county that are not explicitly granted to the state, Florida’s constitution contains a couple of limitations on chartered counties, including the inability to interfere with the independence of school districts and limitations on the ability of chartered counties to functionally consolidate or usurp municipal services without first receiving municipal approval.

If state control limits the ability of a county to respond to fiscal stress and a charter frees the county from this control, a charter allows for the opportunity to respond to financial issues as they emerge. This article explores that possibility. The discussion that follows establishes two hypotheses for how the charter effect occurs. The first hypothesis relates to the increase in fiscal policy space that a charter provides. The second hypothesis is related to competition between counties and the incentive to maximize resources.

**A County Charter as FPS**

The first means by which a charter can influence a county’s fiscal health is through an increase in its FPS. FPS refers to the set of parameters or internal arrangements within which government officials establish, amend, and implement financial policy (Brien 2014; Hendrick and Crawford 2014; Pagano and Hoene 2010). While local governments have the opportunity to establish their own service programs and revenue policies, these governments are constrained by the state in their capacity to change them. However, included in a government’s FPS is the range of options available to it as a means to address financial problems (Hendrick and Crawford 2014).

Heller characterized this relationship as “the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of government’s financial position” (2005, 3).
The underlying structure of a government’s FPS is determined by five dimensions or attributes (Pagano and Hoene 2010). These dimensions are the county’s (1) institutional arrangement with the state, (2) economic base, (3) financial policies and controls, (4) nature of service provision, and (5) political culture. The initial framework of the balance is established by the degree of the state’s adherence to Dillon’s rule, with the remainder being crafted by the choices that local officials make over time. Ultimately, the balance of dimensions adopted may increase the policy space for some governments and reduce it for others.

Knowing the limits of a government’s FPS provides an understanding not only of its institutional structure but also its capacity to address challenges to its fiscal health. Central to this capacity is the dimension of the local government’s relationship with the state. Of particular influence are the restrictions on revenue sources and mandates of program and service provisions. Restrictive state control leaves little room for local autonomy, allowing the state to set the direction of local government decisions. Evidence of such control can be seen in state policies that limit changes in tax sources, such as increases in the property tax rate. Ultimately, state-imposed limitations restrict the ability of a local government to increase its revenue to cover budgetary shortfalls (Maher, Deller, and Amiel 2011), limiting the space in which local governments can maneuver to address fiscal issues. This compares with governments with a broader FPS, which have more freedom to adopt new revenue streams or adjust existing ones according to the budgetary needs of the community.

A similar effect of FPS on a government’s fiscal health can be observed in its service provision. State legislatures frequently impose new public goods and services or expand the current provision of existing ones. With mandated services and a limited capacity to expand its revenue base, a county is limited in its options: it can receive additional funding from the state, eliminate or reduce other programs, or enter into a position of fiscal stress. Budgetary constraints of the state limit the resources it can contribute, and citizens are not likely to accept cuts or reductions, leaving a county no alternative but to become financially unwell. The nature of the FPS determines the impact of such impositions, with limited-space governments having to accept state decisions and broadly spaced ones having the ability to establish their own service provisions.

Understanding a county’s FPS is critical to this study because charter adoption can be viewed as an intentional change in the dynamics of that space. Once established, the structure of a government’s policy space becomes relatively fixed; however, as the constraints on a government change, so does the environment in which it makes policy decisions. The primary intent of charter adoption is to influence the constraints on the government, altering the dimensions of the established FPS. Specifically, a charter intentionally shifts the institutional arrangement between the state and the county because it pulls the county away from state control.

As the FPS of a county can influence its fiscal health, so can a change to the policy alter the county’s capacity to address financial issues. Such changes include the adoption of a county charter. A charter’s influence on fiscal health is accomplished by reducing or removing state restrictions on revenue streams and by limiting the capacity of the state to mandate public programs and services. With the broad space provided by the charter, a county is better able to implement the set of services and tax preferences of the population. As the financial environment of the county changes, broad space allows the county to adjust accordingly. This should result in a government that maximizes its fiscal health. Therefore, the following hypothesis is developed:

**Hypothesis 1:** The FPS provided by a county charter improves the county’s ability to manage its fiscal health.

### A County Charter as Competition

The second means by which a charter can influence a county’s fiscal health is through an increase in the county’s ability to compete. In his seminal work, Tiebout (1956) hypothesized that governments compete for residents by offering different combinations of public services and tax policies. People then express their preferences for public goods and tax levels by “voting with their feet” for communities where the combinations align with their own interests. That is, if there are a number of alternative communities where consumers can live and these communities differ in public goods provided, the choice of location is a clear signal of preference (Banzhaf and Walsh 2008). By witnessing this movement, local governments can respond and optimize their community size, revenue (prices of public goods), and expenditures policies, that is, the level of local public provision (Rosen 2004). As counties respond, competition for residents begins to occur.

As in the private sector, competition promotes efficiency (Feiock 2004). To increase their population base, counties must maximize the number of services provided while minimizing the taxes they collect. Without adjusting their efficiency, spending more while collecting less revenue would hinder the county’s fiscal health. However, fiscal instability is a factor in citizen preference (Bradbury and Zhao 2009; Ladd and Yinger 1989). If a government becomes fiscally unstable, it must either increase the tax base or reduce the services it provides. Both of these options lead the population to vote with their feet. The outcome of citizen choice is that local governments should adopt a more fiscally responsible set of policies and become more financially healthy. When counties lack a competitive nature or the ability to compete, they lack the incentive to strive for efficiency and fiscal health. A number of recent studies have demonstrated the competitive drive of local governments with the diffusion of policies (see Kim, Bae, and Eger 2009; McDonald and Gabrini 2014). As neighboring governments adopt policies that prove successful, local governments must either follow suit or face decline.

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**A charter intentionally shifts the institutional arrangement between the state and the county because it pulls the county away from state control.**
The notable of government competition applies to counties because a charter is the primary method by which counties can compete. The structure of county governance is commonly mandated by the state (Morgan and Kickham 1999). As counties maintain similar structures and financial policies, there is little to distinguish between counties for the “voting” population. This changes with the adoption of a charter, as chartered counties can select structures and service packages that best fit the needs of the community. With this freedom, counties are able to compete for residents and maximize their financial position. While a county’s FPS establishes an opportunity for a county to address fiscal health issues, competition between counties provides the incentive. As a charter promotes competition and competition drives fiscal health, the following hypothesis is developed:

**Hypothesis 2:** The competition provided by a county charter improves the county’s ability to manage its fiscal health.

**Model**

Having established a theoretical relationship between a county charter and the county’s fiscal health, the necessities of estimating the hypothesized effect are now discussed. The first issue of consideration is how best model to the relationship. Modeling the effects of a county’s fiscal health presents a challenge because the extant literature has tended to adopt an ad hoc approach, with each article developing a model to fit the circumstance or the available data (see Justice and Scorsone 2013). To move beyond this limitation, a systems approach to fiscal health is adopted here. A systems approach is beneficial in that it can produce a model of fiscal health that is consistent not only with the FPS and government competition literature but also with the literature on county charters.

A systems approach views local governments as open organizations; that is, they both influence and are influenced by their environment (Clark 1994; Hendrick 2004; Nollenberger, Groves, and Valente 2003). Within this approach, the outcome of a government is understood to be a function of both the environment from the surrounding community and the government’s policies and institutions. Of importance to this research, a governmental system allows for the separation of a charter’s effect on fiscal health from alternative influences (e.g., the community’s economic position), which is critical to this study.

According to Maser (1985, 1998) and McDonald and Gabrini (2014), the environmental characteristics that drive government action are the political, economic, and socioeconomic conditions of a community (see also Gabrini 2010; Wang, Dennis, and Tu 2007). The political conditions of a county establish the direction in which the government is headed, as the party composition of a governing body establishes the political equilibrium in which all policies must operate. Economic conditions refer to the wealth and income capacity of the population. These provide a strong tax base and allow for the expansion of the types of services provided beyond basic social services to include services such as economic development. Regarding the socioeconomic conditions, every demographic has its own household priorities, which creates variation in the expectation of the types and quantities of services provided.

The FPS literature adds to these points by accounting for the government’s role in the system. While community influences may determine the resources available to a government, the government’s role in the system establishes how those resources are used. Here, the government’s role is expected to be a function of its policies and other constraints on its behavior (Brien 2014; Hendrick and Crawford 2014; Pagano and Hoene 2010). Included in this role is the relationship between the county and the state, which outlines the capacity of the local government to adopt, change, and implement policies.

Utilizing the community characteristics (political, economic, and demographic) and the government’s role, the system produces the following model:

\[ F_{i,t} = \alpha + \beta_1 P_{i,t} + \beta_2 E_{i,t} + \beta_3 D_{i,t} + \beta_4 G_{i,t} + \beta_5 C_{i,t} + \varepsilon, \]

where the dependent variable \( F_{i,t} \) represents the fiscal health of county \( i \) in year \( t \). The variables, \( P, E, \) and \( D \), capture the political, economic, and demographic conditions, respectively, of county \( i \) in the given year. To best capture the influence of a charter on a county’s fiscal health, the presence of a charter is separated from the other governmental influences. Thus, the variable \( G \) accounts for all noncharter governmental influences, and the presence of a charter is captured by the variable \( C \).

**Data and Methodology**

The second issue of consideration is the appropriate data and method of estimation. To estimate the model, a sample of all 67 counties in the state of Florida is used for the years 1980–2012, for a total sample of 2,211 county-years. Using Florida counties is appropriate for this study because Florida has allowed counties to adopt a charter since 1968. During this time, 20 of 67 counties (about 30 percent) have elected to do so. The most recent adoption was Wakulla County, located in the Apalachee region of the state, in 2008. This provides a large sample with significant variation in the variable of interest. Furthermore, the economic and demographic diversity of the state has produced variation in county behavior and conditions, allowing for a stronger dissemination of the charter effect from other influences. In this sample, the variable signifies the occurrence of a charter is accounted for as 1 when a charter was present or as 0 when there was no charter. Data on counties adopting charters and the years of adoption were obtained from the Florida Association of Counties. Table 1 provides an overview the variables and their definitions. Table 2 reports the descriptive statistics.

Central to this sample is the measurement of fiscal health for each county in each year. Fiscal health is defined and measured in a variety of ways, each reflecting the concern and perspective of the parties involved in measurement (Maher and Nollenberger 2009; Wang, Dennis, and Tu 2007). Given that no clear and consistent measurement exists, three broad indicators based on the data available are adopted here. These are the efficiency...
Next, attention is turned to the measurement of the control variables in each of the four areas, beginning with the remaining noncharacter governmental conditions. Influencing a county’s governmental behavior are the presence and type of other governments within its border. This is captured by the number of municipalities and the number of special districts, as reported by the University of Florida’s Bureau of Economic and Business Research (BEBR). The county’s IGR is also included as a depiction of its relationship with the state and federal government. The last measures of governmental conditions are total government expenditures and property taxes, which account for the demand for services from the citizenry. All financial data are from the Florida Department of Financial Services’ Local Government Financial Reports and are expressed in 2012 constant dollars.

The second group of variables capture the political conditions of the county. Here, a series of proxy variables that serve as indicators of a change in circumstance are adopted. These are measures of the politicization of the citizenry through party affiliation (i.e., Democrat, Republican, or independent). Controlling for Republican Party affiliation, the remaining political affiliation variables are measured as the party’s respective share of total registered voters. Information on voter registration was available from the Florida Department of State’s Division of Elections.

The third set of variables are related to the economic conditions of the county. These variables are income, education, and unemployment. Income is measured as per capita personal income and was derived from the Regional Economic Accounts of the U.S. Bureau of Economic Analysis. Education is understood as the degree to which residents have pursued or obtained advanced understanding and knowledge, and it is operationalized as the percentage of the population with a bachelor’s degree. Data on educational attainment are from the U.S. Department of Agriculture’s Economic Research Service. Finally, unemployment is measured as the annual average of the unemployed share of the county’s labor population and was obtained from the BEBR.

The fourth and final set of control variables are related to the demographic conditions of the county. These are the minority population, the unincorporated population, and population density. The minority population refers to the nonwhite share of the total population, and the unincorporated population is the share of the population living in unincorporated areas. Population density refers to the population per square mile. The measurement of the minority population is from the BEBR. The remaining population estimates necessary for the these measurements were obtained from the Florida Demographic Estimating Conference. Square land miles are from the BEBR.

**Empirical Results**

Utilizing the data and statistical approach previously discussed, the model of a county’s fiscal health is estimated using each of the health ratios. The results of these regression analyses are provided in Table 3. Overall, the model of fiscal health developed for this study performs well. Not only does the model show significance with...
Consistently high explanatory value across each of the financial ratios (demonstrated by $R^2$), but also the variables commonly accepted as drivers of financial condition are significant and demonstrate a sign in the hypothesized direction.6

The most important of the results is the effect of a county charter on fiscal health. The results show that when a charter is present, the fiscal health of a county improves by reducing the corresponding financial ratios. According to the results, a charter reduces the efficiency ratio by an average of 3.7 percent. Reductions of 0.7 percent and 4.2 percent are also seen on the IGR dependence and debt service ratios, respectively. Given the impact on ratios dealing with both revenues and expenditures, it is reasonable to conclude that the flexibility provided by a charter allows for an increase in the county’s revenue and a decrease in its expenditures. This supports the hypothesis that the FPS provided by a charter positively influences fiscal health.

While the effect of a charter appears little, even a small change in a financial ratio can have a large impact on a county’s overall financial position. The relative impact of the effect can be demonstrated using the example of Miami-Dade County. In 2012, Miami-Dade had an efficiency ratio of 1.16, down from an estimated 1.2 had the county not adopted a charter. Given the process of calculating the efficiency ratio, the decline of the ratio by 3.7 percent can only be achieved by decreasing expenditures, increasing revenues, or some combination of the two. If the county maintained a consistent set of services provides and spending policies, the reduction in the ratio would be associated with an increase in revenue of $115 million (about 3.2 percent or $45 per capita). The increase in revenue would also affect the both the IGR dependence and debt service ratios. The relative effect of the charter reduces the IGR dependence ratio from 0.33 to 0.26, depicting a decrease the county’s dependency on other governments with a reduction in intergovernmental revenues by 18.9 percent. A charter would also be expected to reduce the debt service ratio from 0.11 to the current ratio of 0.06, depicting a 37.4 percent reduction in the county’s debt service.

These findings are important because they demonstrate the capacity of a county to respond to fiscal crises and to shifts in the preferences of the population. This importance can be seen in an example of intergovernmental revenue. When the IGR dependence ratio (measured as the IGR share of total revenue) is increasing, counties move toward IGR dependence. This dependence, when presented during an adverse fiscal shock, puts counties in a potentially inflexible position to raise additional revenue, forcing them to cut service, run a deficit, or delay payment to employees and contractors.

Aside from the effect of a charter, the results provide several other interesting findings. Previous research on local governments has alluded to a game at the county level in which the burden for services is passed on to the municipalities and special districts within its borders (Porter, Lin, and Peiser 1987). By reassigning its responsibilities, the county reduces its expenditures and improves its overall fiscal health. Presumably, the more of these governments there are within a county, the more opportunities there are to pass the service along. Surprisingly, this does not appear to be the case, as the number of municipalities within a county has no significant effect on these ratios. The number of special districts only marginally affects the efficiency ratio, with each special district decreasing the ratio by 0.05 percent. One possibility for these findings is that counties provide a baseline service as established by the state, and any additional program is passed off to municipalities and special districts. While additional governments within a county’s borders might mean that more services are provided, those services do not necessarily come at the county’s expense.

Concerning the influence of political characteristics on fiscal health, the estimates produce an interesting result.7 As the county becomes more Democratic, it becomes less healthy. A 1 percent increase in the Democratic share of registered voters increases the efficiency ratio by 0.06 percent. The effects of government expenditures and IGR, however, fluctuate in their directions across measures. These findings are not all that surprising, as the financial resources available to a government help determine its financial condition. Mathematically, any increase in IGR or property taxes should result in a reduction of the measures, assuming that expenditures are held constant. Ultimately, any increase in revenue or decrease in expenditures should produce a healthier financial condition for a county.

The remaining governmental variables provide consistently significant influence, with property taxes providing a negative effect across all three measures of fiscal health.7 For example, a $1 increase in per capita property taxes is expected to reduce the efficiency ratio by 0.06 percent. The effects of government expenditures and IGR, however, fluctuate in their directions across measures. These findings are not all that surprising, as the financial resources available to a government help determine its financial condition. Mathematically, any increase in IGR or property taxes should result in a reduction of the measures, assuming that expenditures are held constant. Ultimately, any increase in revenue or decrease in expenditures should produce a healthier financial condition for a county.

Concerning the influence of political characteristics on fiscal health, the estimates produce an interesting result.7 As the county becomes more Democratic, it becomes less healthy. A 1 percent increase in the Democratic share of registered voters increases the efficiency ratio by 0.07 percent, the IGR dependence ratio by 0.14 percent, and the debt service ratio by 0.24 percent. Presumably, this is tied to the Democratic values of social service and public responsibility over

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**Table 3** Regression Results of Fiscal Health Models

<table>
<thead>
<tr>
<th>Variable</th>
<th>Efficiency</th>
<th>IGR Dependence</th>
<th>Debt Service</th>
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<tr>
<td></td>
<td>Coef.</td>
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<td>.0005</td>
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<td>Intergovernmental revenue</td>
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<td>Government expenditures</td>
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<td>.000</td>
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<td>Property taxes</td>
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<td><strong>Political conditions</strong></td>
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<td>Democrats</td>
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<tr>
<td>Independents</td>
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<td><strong>Economic conditions</strong></td>
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Note: All $p$-values are given as a one-tailed test.

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The flexibility provided by a charter allows for an increase in the county’s revenue and a decrease in its expenditures.

The remaining governmental variables provide consistently significant influence, with property taxes providing a negative effect across all three measures of fiscal health.7 For example, a $1 increase in per capita property taxes is expected to reduce the efficiency ratio by 0.06 percent. The effects of government expenditures and IGR, however, fluctuate in their directions across measures. These findings are not all that surprising, as the financial resources available to a government help determine its financial condition. Mathematically, any increase in IGR or property taxes should result in a reduction of the measures, assuming that expenditures are held constant. Ultimately, any increase in revenue or decrease in expenditures should produce a healthier financial condition for a county.

Concerning the influence of political characteristics on fiscal health, the estimates produce an interesting result.7 As the county becomes more Democratic, it becomes less healthy. A 1 percent increase in the Democratic share of registered voters increases the efficiency ratio by 0.07 percent, the IGR dependence ratio by 0.14 percent, and the debt service ratio by 0.24 percent. Presumably, this is tied to the Democratic values of social service and public responsibility over
Republican values of financial control and constraint. This compares with the independent share of registered voters, which shows significant effects on fiscal health through the IGR dependence and debt service ratios. A 1 percent increase in the independent share is expected to increase the IGR dependence ratio by 0.22 percent and reduce the debt service ratio by 0.25 percent. The reduction in the debt service ratio may show a decline in an independent’s demand for services, whereas the increase in the IGR dependence ratio demonstrates additional funding from the state and federal governments. This may be indicative of political competition among the parties for independent voters.

There is mixed empirical evidence for the economic conditions. The results of the analysis suggest that as the unemployment rate rises, the fiscal health of a county changes. A 1 percent increase in the unemployment rate increases the efficiency ratio by 1.49 percent and the debt service ratio by 0.19 percent. Interestingly, the unemployment rate is also tied to the IGR dependence ratio, bringing a decline of 0.03 percent. This suggests that an increase in unemployment requires the county to provide more services, including unemployment benefits, to its residents. However, the county does not necessarily receive more assistance from the state or federal government. Education is shown to significantly affect both the efficiency ratio and the IGR dependence ratio, albeit in different directions. A 1 percent increase in the share of the population with a bachelor’s degree is expected to lead to an increase of 0.34 percent in the efficiency ratio and a decrease of 0.03 percent in the IGR dependence ratio. This aligns with the extent literature on educational attainment and preferences for public services (Coate and Knight 2011). Regarding income, areas with high per capita income are generally thought to have higher levels of consumption, producing more sales and property taxes for the county. It was hypothesized that an increase in income would lead to an improved financial position. Contrary to this expectation, income is not found to have a statistically significant impact on fiscal health.

Finally, none of the demographic variables has a consistently significant impact. Overall, however, the significant effects suggest that an increase in the demographic conditions of a county can improve its financial condition. This is shown with the minority share of the population, where an increase is associated with a decline in both the efficiency and the debt service ratios, such that a 1 percent increase in the minority share produced declines of 0.04 percent and 0.09 percent, respectively. Furthermore, its effect on the IGR dependence ratio is insignificant. While the unincorporated share of the population has no significant effect on the efficiency ratio, its increase is expected to improve the condition by reducing the remaining ratios. The population density of a county affects only the IGR dependence ratio, with an increase in density of one person per square mile reducing this ratio by 2.5 percent. These findings were expected. Each segment of the population has its own preferences for public goods and services (Tiebout 1956). The unincorporated population, for example, may prefer fewer services from the county, the result of intentionally living outside of a city. Given the relationship between large minority populations, population density, and economic success (see Frisbie and Neidert 1977), the public in these counties is more likely to focus on core services than on a broad package.

Conclusion

County governments are faced with a variety of challenges, such as changes in their demographics, new demands in public service provision, and state-imposed policies that limit the responses of the county. Each of these challenges affects the financial condition of the county and has implications for its continued sustainability. Previous work on local government fiscal health has provided a framework for understanding how fiscal health can be measured and how some of the characteristics of a community can affect its position (Hendrick 2004; Jacob and Hendrick 2013; Maher and Deller 2013). Absent from this discussion has been the role of the government’s structure.

The structure of a county is commonly established by the state and accompanied by a mandate in service provision and limitations on revenue streams (Benton 2003b; McDonald and Gabrini 2014). The adoption of a charter is a release from this state control, allowing the county the freedom of self-governance. A charter allows the county the opportunity to determine its own structure and service provision, creating unique governments that directly meet the needs of their residents. Using a study of all 67 counties in the state of Florida between 1980 and 2012, the financial impacts of this freedom are considered, and the effects of a charter on the fiscal health of a county are estimated across three models.

The results of the analysis show that a presence of a charter improves the overall fiscal health of the county. This is demonstrated through reductions in the efficiency ratio, IGR dependence ratio, and debt service ratio. Although the effects may appear small, even a little change in a financial ratio can have large impacts on the county, as has been demonstrated. Based on the results, the freedom provided by a charter allows the county to maintain a higher degree of fiscal health than nonchartered counties. This has important implications for counties undergoing fiscal stress, suggesting that the freedom provided by a charter makes it a useful tool during difficult times.

The data used in this study may be from counties in a single state, but the results are generalizable to counties elsewhere. Generalizability comes from the diversification of counties across the state. Florida may be known by its large and urban counties, such as Duvall, Miami-Dade, and Orange, but it also includes a number of rural and agricultural counties, such as Liberty and Hendry. The diversification of counties can also be witnessed by the variation in the data used in this study, as demonstrated by the descriptive statistics in table 2. Diversification provides the opportunity to see the impact of a charter while controlling for influences that are observable throughout the United States. Generalizability also comes from the tradition of best practices, whereby local governments observe the policies and practices of other governments with the intent of adopting those that are successful. Studying Florida provides a good opportunity for those interested in charters, as all 20 instances of adoption have implemented different structures and policies. This allows for local governments to observe and better understand the implications and outcomes of the charter without having to control for influence from multiple states.

While the results are promising, a degree of uncertainty remains. The findings of this study show that the presence of a charter improves
the overall fiscal health of a county, but it is unclear whether this is caused by the increased ability of the county to establish new revenue streams or expand current ones or by a decrease in the expenditures of the county. The adoption of a charter provides significant freedom to the county to enact its own financial policies, but the intricacies of charter adoption and the mechanics of a charter in practice are not yet understood. In her recent discussion of a new research agenda for public budgeting, Rubin (2015) noted that comparability across governments is a continuing problem in public administration research. This is particularly true for charters, as the structure of a chartered government is a function of the population’s preferences. Understandably, this creates significant fluctuation from one county to the next. We need a better way of accounting for this variation.

To begin to understand the variation and move forward in our understanding of charter counties and true government comparability, more work is needed. Through case studies of chartered counties and research into the governing charter documents, we can begin to clarify the aspects of the government that makes a county unique. Over time, this will lead us to classify the variation and control from its presence in multigovernmental studies. And, perhaps more important to the research at hand, this will help us understand where in the fiscal policy space the improvement in financial conditions occurs.

**Notes**

1. Currently, 25 states allow counties to adopt a charter, and 14 permit a more limited form of home rule (National Association of Counties 2010).
2. Alaska, although not shown, also permits counties to adopt a charter.
3. For more information on county charters, including the factors that determine why a county would elect to adopt a charter, see McDonald and Gabrini (2014).
4. Traditionally, the millage rate of a local government was established in accordance with the government’s financial needs (see Finkler et al. 2012; Mikesell 2014). This practice has been challenged, as many states have adopted property tax limitations that cap the rate that local governments may impose (Maher, Dellet, and Amiel 2011).
5. According to McDonald and Gabrini (2014), only 149 (about 5 percent) of all counties in the United States have a charter. Florida accounts for 13.4 percent of these instances. The state’s high rate of adoption may be unusual, but it allows for a charter effect that is more distinguishable than what may be observed in states where adoption is rare.
6. There is concern regarding the potential for endogeneity within the models. This was tested for using the Durbin-Wu-Hausman test. The results showed no presence of endogeneity within the models of the efficiency ratio ($F = 0.92$), IGR dependence ratio ($F = 1.07$), or debt service ratio ($F = 0.53$).
7. Given the potential for autocorrelation between the results and the data, a correlation matrix was drawn. No correlation above 0.50 was found between any of the variables for the model, including all three of the dependent variables.
8. Care and consideration should be given to the appropriate interpretation of the variables measured as a percentage. An interpretation of one unit would overestimate the effect of the variable, and thus the interpretation must be conducted on a scaled basis. For example, a one-unit increase in education would suggest that 114.6 percent of the population has at least a bachelor’s degree. Rather, an increase of 1 percent from 14.6 percent to 15.6 percent would be associated with 1 percent of the coefficients’ value.

**References**


