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Government Consolidation: A Case Study

As the country is enduring one of the worst financial crises since the Great Depression, Memphis is one of many cities who are looking to operate more efficiently and improve its own financial situation. Memphis is located in Shelby County and has a lot to do with the nearly \$2 billion dollar debt that the county is facing. An option that has recently been a topic for debate is government consolidation, where the city and county governments merge to create a totally new government that responds to the values of the community and the challenges of the 21st century. Shelby county mayor A.C. Wharton along with Memphis mayor Willie Herenton have both come out in favor of this consolidation, believing it will unite the county and provide more government efficiency. They are attempting to persuade suburban residents who have typically been against consolidation, believing that many of Memphis' problems will be shifted to the entire county and that their smaller communities will be overlooked in this newly consolidated government. Mayor Wharton has conducted several community forums to inform residents of the benefits of a consolidated government and also to hear what the communities have to say in regards to this issue. This report will give the benefits and possible risks of consolidation, along with a case study of previous consolidations and how they affected their respective counties.

Benefits

The basic form of consolidation is a merging of separate governments, and as with any merger, synergies are hoped to be obtained and duplications are hoped to be eliminated. Because the city and county governments often have people performing the same duties, such as clerks, registers and trustees, when uniting the two organizations cost savings should emerge through the downsizing of necessary employees. Also because creating a new government will require a re-drawing of boundaries that is more inclusive, this should eliminate any jurisdictional disputes. Mayor Wharton is proposing to merge city and county governments, but to keep the county's two school districts separate. This will allow county schools who are concerned about possible conflict between Memphis city schools to remain autonomous.

Risks

As with any new form of government there are possible risks involved. Although many tax payers believe government consolidation will save money, in actuality it is unlikely that this merger will lead to any cost savings. Mayor Wharton has stated that the purpose of wanting to unify the government is to boost efficiency and increase the county's ability to compete in a global economy, not to save tax dollars. There is also a possibility that throughout the process of the merger the main focus will be on the largest city, which for Shelby County would be Memphis. Typically when a county is considering consolidation there is at least one major city with serious economic problems that will benefit the most and is the main catalyst for consolidation. Smaller municipalities should be aware of the possibility that the main focus may be on the large city. Also, when merging two separate governments the services may not blend well if the quality of service varies between institutions. If one set of government employees receives higher pay than the other, the newly formed government will most likely match this salary level, another reason why many consolidated governments do not incur any cost savings.

Case Studies

Miami-Dade County (mid-1950s)

Miami costs were rising due to the wave of immigration; therefore, they sought federation (an organization formed by merging several groups). Tax revenues would be redistributed across the county and this allowed the city to support their rising population. The other independent units within the county remain autonomous but are able to choose which services they wish to obtain from the county. Miami-Dade is not formally considered a consolidation; rather, the merger of the City of Miami and Dade County resulted in a federation. While not governed by just one government like Lexington-Fayette, the two large municipalities are closely linked. Miami-Dade has a two-tier system of government that encompasses unincorporated areas and 30 incorporated areas. All municipalities function independently, with Metro-Dade as an additional tier of government. The results of the newly formed government concluded that taxes increased and that redistribution of expenditures occurred across the county. It was initially thought any increase in public expenditures would be offset by the savings from the economies of scale realized from the elimination of personnel duplication, but total net expenditures increased. The claim that tax revenues could be redistributed across the county was found to be true. Unlike the Indianapolis-Marion consolidation, the results indicated that the City of Miami was the largest net gainer; the unincorporated areas were the largest net losers.

Jacksonville-Duval County

In the post-World War II economic and housing boom, Jacksonville's city officials increased spending and budgets to pay for new buildings and improvement programs, while problems with education, sanitary sewerage, and traffic continued to plague the city. Consolidation of Jacksonville and Duval County was recommended as a solution to the issues troubling the area. In this arrangement four municipalities remained autonomous within the framework. All public

services were consolidated under the single government of Jacksonville-Duval, including police and fire protection, health and welfare, recreation, public works, and housing and urban development. Schools are countywide but remain governed by an independent school board. All parts of the consolidated area receive the same services. The four separate municipalities supply their own services, although they do have the right to contract with Jacksonville for certain services. Subsequent to this consolidation, the new government reduced property taxes by 29% in its first three years and continued to reduce taxes in each of its first nine years. It also undertook massive capital improvement programs on sewers and sewage treatment works, roads, street lighting, and other public services.

Ten years after Jacksonville-Duval consolidated, citizens were polled for their opinions of the consolidated government. Citizens who had lived in the city more than 10 years approved of the consolidation (68%) while those who had moved recently to the city approved by 83%. Seventy-seven percent of respondents saw improvement in city services, with 22% of those feeling strongly that services had improved.

Nashville-Davidson County

Prior to consolidation Nashville faced financial problems such as infrastructure deficiencies highlighted by the influx of commuters into the city, a declining tax base, large numbers of tax-exempt businesses, and a small per capita share of state and county taxes. Nashville is the city that comes closest to achieving true consolidation based on the proportion of county population served (96%). The charter provided a transition school board to implement the consolidation of the schools. Nashville's consolidation resulted in a new countywide government with an elected mayor and 40-member council that is elected every four years. It also attempted to address the concerns of the residents of the county who had been annexed by creating two service districts (General and Urban), to provide for a differential in tax levels. All residents of Davidson County received the services in the GSD while the USD encompassed the Nashville city boundary of 1962.

Results: (3 years later) Establishment of a metropolitan government significantly strengthened services to urban and rural residents. The rural resident obtained better schools, and additional police and fire protection. The central city resident obtained better schools through an enlargement of the system and a vast improvement in his access to recreational facilities. Most improvement was in the school system. The quality of education was equalized throughout the county and teachers' standards were improved. Major crime decreased 7% in Nashville, compared with a 5% increased nationally. Although taxes were higher, more people thought they were more fairly distributed.

Current situation: Though crime reduction was sited as a major accomplishment of consolidation, Nashville consistently ranks among the highest areas in crime. The most recent FBI statistics on crime place both Memphis and Nashville-Davidson County in the Top 10. Regarding schools, Nashville-Davidson county school district is ranked 37th with a graduation rate of 55%. They are the 49th largest school district in the country. Nashville schools are only one

of two systems within Tennessee that are on the “corrective action” list. In last year’s Report Card issue by the Nashville Area Chamber of Commerce -

“It is now time to consider systemic interventions or strategies that may be considered unconventional or even radical,” the Report Card states. “Greater state direction will happen should MNPS continue to miss NCLB targets. Put simply, the people of Nashville are in danger of losing control of their schools.”

Nashville Tennessean. Jan 22, 2008

Louisville-Jefferson County

Louisville had the same post-World War II economic boom as other large cities, and it also experienced the manufacturing decline and economic distress of the 1970s and 1980s. City and County government agencies were viewed as being in conflict, causing economic development efforts to be ineffective. For example, the Mayor of Louisville wanted a sports facility to attract a professional basketball team, while the County Judge-Executive did not. Louisville development officials expressed frustration that the two governments could not agree on what type of development they wanted, where they wanted to put it, and what types of incentives to offer. The two governments acted more as rivals than partners in economic development and this type of bickering was seen as a major reason the area lagged neighboring cities, such as Indianapolis, in growth.

Unifying the government and increasing the size of the City was seen as a way to bolster Louisville’s image and to boost economic growth. Via merger, Louisville would vault from the sixty-fifth largest city in the country to the sixteenth. Their slogan was America’s Newest Top Twenty City. The hope of course, was that having a larger population would be a selling point for businesses and firms looking to relocate. The Louisville-Jefferson County merger had three failed referendum votes before being approved in 2000 (54 percent to 46 percent). Adopted in a linked-functions compact, has contributed greatly to a strong development-oriented urban regime, tying the city and county government and business leaders together in a strong public private partnership. The compact greatly reduced city-county competition for economic development, annexation, and revenue, which otherwise precluded cooperation on development strategy. Louisville’s compact creates a flexible, metropolitan governance framework that lends itself to incremental building. A truly “regional” agenda would be to tie other cities in Jefferson County and other neighboring counties in the metropolis to the tax-sharing arrangements. Louisville didn’t promise tax cuts or smaller government budgets, but the two key strategies were economic growth and retaining Mayor Jerry Abramson.

Results:

“If I were a betting man, within six months you’ll see some significant announcements because we’re able to act more quickly and more decisively with one government and one public leader.”

-Metro Louisville Mayor Jerry Abramson

“I’ve seen the economy deteriorate rather than improve in this last year”

-Former Louisville Alderman Barbara Gregg

Since the merged government officially began the economic development picture has been decidedly mixed. Metro Louisville suffered some major setbacks by losing out on opportunities for major headquarters, along with many lay-offs and the closing of major companies. Although existing firms such as Citigroup and United Parcel Service (UPS) announced that they would be expanding operations, this was not the goal of the merger, which was to attract new businesses.

Recent budgets confirm that money was not saved when the governments merged. According to the FY2003 Comprehensive Financial Report, the FY2002 total expenditures for the city of Louisville were \$322.7 million while Jefferson County’s total expenditures were \$229.7 million for a total of \$552.4 million. However, the total expenditures for the Metro Government’s FY2003 year stood at \$560.2 million an increase of 1.4 percent. There was a marginal improvement in the FY2004 final expenditures as they fell to \$549.8 million, a decrease of less than one-half of one percent from the pre-merger level in FY02.

Indianapolis – Marion County

Indianapolis was looking to improve its image and spur economic development in the downtown area. Indianapolis merged with Marion County in 1970. The new government was called the UniGov. Unlike the merger of Louisville and Jefferson County, which was approved via referendum, the merger of Indianapolis and Marion County was accomplished through the state legislature. The Indiana law creating the merger allowed for the consolidation of powers of the mayor and county executive as well as between City and County councils, but left in place separate city and county budgets to pay for most local services. It did not mandate the merging of departments, agencies, or other taxing districts; therefore the number of townships, school districts, and police departments stayed the same. Post merger, the City of Indianapolis and Marion County still have several separate departments and separate budgets that must be approved by the consolidated 29-member council. There are four cities (of 22) that opted not to join the consolidation (Beech Grove, Lawrence, Southport, and Speedway). These cities all have their own elected officials and provide services to their own residents.

Results: The UniGov merger has had the desired effect of spurring publicly funded projects in Indianapolis in the three plus decades since its commencement, using a lot of tax money in the process. Thirty-five years after the UniGov experiment began, the current mayor of Indianapolis is calling for the consolidation of the remaining departments and townships because Indianapolis is facing a budget crisis. The two main reasons for this crisis are rising pension costs and continuous debt because expenses are increasing faster than tax collections, specifically property tax. While the population of Indianapolis has increased by 4 percent over the last decade, the counties surrounding Marion County have seen their population increase by 24 percent; therefore, property taxes are not growing enough within Marion County to cover these debt

Lexington-Fayette County

The population of Lexington had reached 100,000, which forced it to be categorized as a first-class city, meaning it must change governance regardless of the consolidation question. The consolidation of the City of Lexington and Fayette County resulted in a true consolidation of all governments and their services, meaning all services for taxpayers are provided across the county. The Lexington-Fayette County Urban County Government was the result of nearly four years of study and eliminated many duplicate services as well as the need for two separate property taxes. The government was able to reduce the number of government employees from one employee for every 85 citizens to one employee per 100 citizens. Since the merger, property taxes have decreased every year, but there was an expansion to the entire county of the citywide payroll tax of 2% to fund government services and later this increased to 2.5%. Additional fees and increases in payroll taxes have created the illusion of consolidation being responsible for lowering property taxes. But it appears that the cost of government has increased over the last three decades.

Conclusion

Consolidation is not a good option for those looking to incur cost savings, because as previous case studies have shown, even when overlapping is eliminated there are other sources that will need funding in order to support this new government. Alternatives to consolidation would be sharing services when appropriate, outsourcing city and county functions, and reducing per capita expenditures. Consolidation may be a viable option for some communities but the outcome is usually not predictable. What is certain is that if consolidation were to take place and be successful, it must be a system in which all involved parties have buy-in and are assured fair and equal treatment.

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