

# An Initial Assessment of Consolidation Feasibility for Fayetteville and Cumberland County North Carolina

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Carl Vinson Institute of Government  
University of Georgia

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## Executive Summary

The Carl Vinson Institute of Government completed the following activities in developing a study of the potential to consolidate the governments of the City of Fayetteville and Cumberland County:

1. Conducted interviews with managers and department heads of the Fayetteville and Cumberland County governments. Department heads and managers were chosen based on their knowledge of the community, their local governments, and their departments being heavily impacted by a consolidation (e. g, the potential for their departments to be merged with a parallel department in the other government).
2. Gathered and analyzed basic financial and personnel data from the two governments.
3. Sponsored a video conference between the representative of the Cumberland-Fayetteville governments and representative of the Athens-Clarke County Unified Government.
4. Consulted with David Lawrence, the legal adviser for the North Carolina Institute of Government, regarding key features of North Carolina law as they relate to consolidation efforts.
5. Conducted interviews with attorneys in other local governments in North Carolina that have attempted a consolidation (i.e., Charlotte-Mecklenburg, Wilmington-New Hanover, Raleigh-Durham).
6. Interviewed key citizen representatives who were identified by Cumberland County and the City of Fayetteville.

### Key Study Findings:

- Communities that have experienced consolidation have identified major advantages with regard to planning, economic development, service delivery consistency and quality, citizens' understanding of local government, and community identity. Few in these communities would choose to return to the non-consolidated form of government.
- Three service areas—Parks and Recreation, Senior Centers, and Economic Development are provided through joint city-county operations. These operations represent functional consolidation.
- Key direct service areas where there dual services are offered include: law enforcement; E911; GIS; community development; building inspections, permits, and code enforcement; public information, and planning.

- The support service areas where there is duplication include administrative such as finance, human resources, risk management, legal advice, engineering, and information systems.
- A macro-level examination of employee benefits suggests that the cost to equalize benefits would be zero to minimal in most benefit areas (e.g., medical, dental, sick and annual leave, etc.). However, further analysis is needed to determine the cost of equalizing the longevity pay benefit to the city's higher level.
- A preliminary analysis (based on a limited sample of positions) of the compensation gap between the two governments for positions with highly similar job duties suggests a pay differential of approximately 11 percent. It should be recognized that only a portion of the positions in the two governments would be considered parallel and would therefore be impacted by a demand for salary equalization. Moreover, it should also be recognized that local governments, particularly ones that exist in the same labor market, rarely maintain the same compensation and benefits over time. Rather, these governments will typically attempt to equalize compensation vis a vis one another over time. Consequently, the long-term cost of salary equalization is typically much less than the short-term cost.
- There appears to be a strong case for improved service delivery effectiveness and efficiency with regard to some specific and important services:
  - Geographic Information Systems or GIS
  - E-911
  - Community Development
- Other services that could potentially benefit from functional consolidation include:
  - Fleet management
  - Emergency management (Formerly the city relied on the county for this service, but the city evolved its own responsibilities in this area.)
  - Fire Marshall services
  - Telecommunications services
  - Transit services
  - Long-range planning
- Interviews with department heads indicated that functional consolidation, even when fairly complete for the specific service, does not necessarily eliminate the need for considerable amounts of coordination, dual reporting requirements, and joint problem-solving between the two governments. These represent fairly substantial administrative and opportunity costs for the functionally consolidated service. Such cost would be substantially lowered under a full governmental consolidation.
- In the current circumstances, while there are a number of instances of inter-fund transfers in the two local governments, the only inter-fund transfers that would have implications for consolidation are those between the city's utility-based enterprise funds and the city's general fund. Since the city does draw some

customers from the unincorporated parts of the county, there is a potential for the county residents to have a stronger financial interest in consolidation than the city residents.

- The governmental debts are relatively low for both jurisdictions. Consequently, the issue consolidation potentially resulting in an unfair adoption of debt by residents who did not volunteer to assume the debt should not represent a barrier to governmental consolidation.
- North Carolina consolidation law appears to be open to some interpretation, particularly because no city and county have previously consolidated. If desirable, Fayetteville and Cumberland County may wish to work with their legislative delegation to clarify these statutes and to address specific needs or concerns if deciding to proceed with consolidation.
- Because North Carolina does not allow existing cities to increase their share of telecommunications franchise fee revenues, but is mute regarding whether a new urban service district (as part of new consolidated government) could receive an increased share of these revenues based on the increased population level. A key legal question that would need to be answered in order to estimate the new telecommunications franchise fee revenues for a consolidated government would be: “Should the urban services district in a consolidated government be considered a new incorporation?”
- Both city and county use the same building codes (state) and have the same retirement system, so these do not represent barriers to consolidation. However, the city has a stricter housing code, and zoning ordinances are different. For example, there is a 30 foot setback in the county and a 35 foot one in the city for a similar zone.
- Data from the City of Fayetteville suggests that the State Street Aid monies by themselves are not sufficient to provide for a level of street maintenance that is congruent with the city’s standards for this service. If we extrapolate the findings to the unincorporated area of Cumberland County under a consolidated government that received State Street Aid, we would conclude that if the State Street Aid is insufficient in the case of Fayetteville, it would also likely be insufficient in the extended case of a consolidated government. However, when one adds all of the new revenue sources that would become available as a result of the consolidated government establishing a countywide urban services district (i.e., as a result of adding in franchise fee revenue), the road maintenance costs would be covered and provide surplus income under a 72 percent franchise fee recovery scenario developed as part of this study but still be insufficient under the 50 percent and 60 percent recovery scenarios employed in the study.

## **Perceptions of Public Managers and Citizens**

- The recent annexation appears to have left some citizens with a sense of unease regarding dramatic changes in the nature of the governance bodies and jurisdictional regulations that would rule in their part of the community. However, other respondents recognized that consolidation would essentially stabilize the form and jurisdiction of local government to the distant future.
- A large number of interview respondents indicated that they did not have a particularly strong interest in consolidation one way or another but that they were open to being convinced either to the value of the idea or that it was not appropriate for their community.
- There appears to be substantial doubt among those interviewed regarding the practical potential for achieving a unified government. Many respondents feel that the community may not have the energy and focus needed to follow through with what would be a good idea. As one respondent said: “There does not seem to be a critical mass of support for consolidation. The effort is a worthy goal but it is currently distracting to staff.”
- Perhaps the dominant feeling among respondents and that of their staff (respondents were asked to describe how their staff might feel about consolidation) was expressed by one person as “If the folks that make the decisions are for it, I will do my best to make it happen.”

## **Sample of Identified Benefits of Consolidation**

- Be better able to see ourselves as one community
- Have a larger pool of resources and be in the position of being able to better manage our resources
- A single set of ordinances would be good for everyone
- Economic development benefits to consolidation
- Professional interaction among staff would be much better
- Consolidation could remove duplication of services in the area of law enforcement
- Consolidation would allow better use of resources and creation of satellite offices throughout the county
- Transportation planning could benefit
- Better citizen access to government and less citizen confusion
- Consolidation would end the turfism and shirking of duty
- Consolidation could lead to better decisions about the community’s sense of place and more efficient use of facilities
- A single fire department could provide a higher standard of care that was equal across the county
- There would be benefits of joint purchasing
- Consolidation would provide some cost savings with regard to salaries
- There would be much more consistent services. You would not have 15 different computer systems. You could save by buying fewer systems.

### **Sample of Challenges that Consolidation Could Present**

- If individual city or county employees see themselves as being undervalued by the new consolidated government or believe that they are not being dealt with equitably, there will be severe morale problems.
- Figuring out how to organize Law Enforcement.
- Some degree of public outcry would probably be inevitable.
- The City of Fayetteville and Cumberland County have program and philosophical differences in some areas.
- From an African American viewpoint, in the current situation, some believe that blacks get two bites of the apple and we have multiple voices. However, it is also true that in the consolidated situation you might be able to organize a larger set of minorities.
- The type of representation in the new government (e.g., at-large versus single member districts) would be important. Some people would like to address the problem of having a large number of representatives, but this could make existing representatives work against consolidation.
- Volunteer fire departments see annexation (and by extension consolidation) as a loss.
- Working together on the 800 megahertz system

### **Sample Disadvantages to Consolidation**

- There may be an exodus of city employees, especially top-level employees, out of positions.
- Citizens will not have the same level of input with their elected officials.
- There are too many differences, in such things as computer technologies and the services provided, to ever put the two governments together.
- Because the city and the county provide such different services, there would not be any cost savings or improvement in services as a result of consolidation.
- The city does not have the capacity in road maintenance to even serve the city area. The city should focus on this before consolidation.
- Consolidation could potentially result in a loss of personalized service that smaller departments can sometimes provide to constituents.

### **Perceptions on Achieving Consolidation**

The comments of several interviewees indicated that the public's will for change and risk acceptance in Fayetteville and Cumberland County is not particularly strong, which could make it difficult to create and maintain a community-based consolidation movement. However, a number of respondents also expressed a level of dissatisfaction with both governments that would indicate some potential desire for a fresh start.

Interviewees also discussed identity differences between city and unincorporated residents. They said that the public does not see itself as one community but rather as two distinct groups.

A couple of interviewees expressed real concern that consolidation would politically marginalize the African-American community. In other words, anxiety exists that the gains African-Americans had achieved through representation in Fayetteville would be lost with consolidation because of the lack of representation at the county level. To the extent that any minority group is under-represented, a consolidated government should carefully develop election districts that address this issue. To help ensure that occurs, U.S. Department of Justice must approve the consolidated government's charter (like any new charter) under the Voting Rights Act before it can take effect.

A number of respondents indicated that the differences in services provided by city and county would act as a barrier to consolidation. As indicated in the section above on New Post-Consolidation Expenditures, the perception that all residents must receive the same level of service in a consolidated government is not one that is based on an actual mandate to the new consolidated government.

The vast majority of respondents indicated that that city/county employees would need to have the promise of equalized salaries and benefits to the higher level spelled out in the consolidation charter in order to obtain employee support for consolidation

### **Service Expansion and Start-Up Costs**

The ability of a new government to expand municipal-type services countywide was mentioned by several interviewees as a potential barrier to consolidation. However, governmental consolidation does not require that all services be provided countywide. One or more taxing districts could be created to maintain the current levels of services and costs for these services in different areas of the county. For example, the current city residents could be within a special taxing district to fund a career fire service, and over time, the government could expand the taxing district and correspondingly expand these enhanced fire services to a wider area and population.

Relatively few of the department heads interviewed indicated that there were surplus capacities that could be tapped as part of a consolidation effort. Direct service personnel, like police officers, cannot be significantly reduced because the land area to be patrolled remains the same. Savings may be achieved over time due to economies of scale in service distribution. Furthermore, as a constitutional officer, the Sheriff's position and constitutional responsibilities cannot end with consolidation.

Currently, the city and county Finance and Human Resource departments use different accounting and management information software. As part of a consolidation, one government would either have to switch to the other's system or the new government could purchase software and have both governments switch over.

## Follow-Up Questions about the Consolidation Report Findings

In a month's period after the release of a draft report, Institute of Government faculty received questions and responses from elected officials, government staff, and citizens. Many of the responses were basically comments on the viability of consolidation itself rather than questions about report findings. The following presents our responses to questions that we believe would help to clarify or extend the findings of the report.

**Question:** How would consolidation affect the smaller town's abilities as far as consolidation affecting their growth or their tax base?

**Answer:** Because consolidation essentially incorporates all of the remaining unincorporated area of the county, the smaller towns that chose not to be part of the consolidated government would not be able to grow through an annexation process. However, consolidation would not impact their current tax base or their future tax base to the extent that the towns are able to develop within their current boundaries.

**Question:** If there is a referendum on consolidation, will the city and county votes be considered separately or will they be considered as one single county vote?

**Answer:** (This question is answered in on page 69, but for convenience, it is repeated here).

The consolidation process in North Carolina may but is not required to begin with the establishment of a study commission authorized to study the powers, duties, and organizational structure of the participating county and city or cities and prepare a plan for either functional or governmental consolidation. The participating governments may appropriate funds to support the commission's work. If utilized, the study commission is authorized to prepare any necessary legislation to consolidate the governments and to call a referendum on the governmental consolidation. A consolidation commission may call a referendum on its proposed plan of governmental consolidation. This referendum is authorized to be held prior to the enactment of any legislation merging the governments and is essentially a "straw ballot" to determine the level of citizen support for consolidation. The referendum may also include the question of assumption of long-term general obligation debt by the consolidated government. A referendum must pass by a majority of those voting. **According to David Lawrence, this requires a majority of all votes cast, but does not require a separate majority in the city and in the county.** However, such a referendum supporting or opposing consolidation is not binding on the North Carolina General Assembly.

**Question:** Isn't it misleading to include the Fort Bragg cantonment areas (or the city of Fort Bragg) as part of the unincorporated population?

**Answer:** The following provides some data on the Fort Bragg cantonment area or the area of the base that is considered an urban services area. However, while we are aware of plans on the part of Fayetteville to annex this area, for the purposes of the study findings (e.g., related to such things as state funding for streets and franchise fee eligibility) it is important that we treat the cantonment area as unincorporated until such time as it is considered incorporated under North Carolina law.

<b>Population</b>	
<b>Fort Bragg Population</b>	
Active Military Personnel	42,941
Military Family Members on Post	14,232
DoD Civilian Employees & Others	11,539
<i>Total</i>	<i>68,712</i>

The cantonment area is defined by a perimeter fence and is considered the urban portion of Fort Bragg. The primary routes to Fort Bragg from Fayetteville include the All American Freeway, Bragg Boulevard (Route 24/87) and Murchison Road (Route 210/87). Bordering the Cantonment to the west and south is the crescent-shaped Greenbelt, a forested area that supplies habitat for the red cockaded woodpecker, a federally-listed endangered species. The 82nd Airborne Division’s barracks and motor pools are located along Gruber Road adjacent to the western Greenbelt. The 1st Corps Support Command (COSCOM) and 44th Medical Command (MEDCOM) enclaves lie between Bragg Boulevard and Murchison Road. Simmons Army Airfield (AAF), which is separately fenced and secured, is adjacent to the southeastern corner of the Cantonment. Fort Bragg has 13 named family housing neighborhoods consisting of more than 4,700 homes located throughout the Cantonment. In the center of the Cantonment is the Old Post Historic District, a planned environment of buildings, roads and open spaces characterized by the formal geometry of the Beaux Arts style of urban design. Other historic properties, including numerous buildings, archeological sites and cemeteries exist on Fort Bragg and Camp MacKall (see section J1.3.22 for preservation and management requirements). Fort Bragg’s real property inventory reflects more than 4,900 buildings that provide more than 29 million square feet of space. (Source: SECTION J1 – NATURAL GAS DISTRIBUTION SYSTEM, UTILITIES PRIVATIZATION – FORT BRAGG, NORTH CAROLINA, FEBRUARY 2005)

**Question:** The terms “annexation” and “consolidation” seem to be used interchangeably in the report on page 43. What is the difference between the two?

**Answer:** The purpose of the paragraph on page 43 where consolidation and annexation are considered to be similar (“In some ways, expected post-consolidation expenditures would be similar to the post-annexation expenditures of a new city.”) is to explain how we might go about estimating certain expenditures in the new consolidated government (i.e., if the new consolidated government were to bring the service levels up to the levels that are provided in the urban area in a way that was similar to what occurs in a municipal annexation, the expected expenditures would be the same on a pro rata share basis). However, the paragraph goes on to explain that

under consolidation it is **not** necessary to bring service levels (or taxes and fees) up to those in the urban area. Instead, under consolidation, it is possible to create special tax districts in which service levels and taxes can vary from district to district.

It is also important to note that “annexation” and “consolidation” are very different in a more basic way. Under simple annexation there would still exist a separate county government. However, under consolidation there is only one government that functions as both city and county.

**Question:** Can you provide some more references or further reading for those who might be interested in the topic of consolidation?

**Answer:** The following two books provide a series of articles on consolidation from a number of points of view and also provide a comprehensive set of additional references for further study:

Carr, Jered B. and Feiock, Richard C., editors (2004). *City-County Consolidation and Its Alternatives: Reshaping the Local Government Landscape*. Armonk, NY: M.E. Sharpe.

Leland, Suzanne M., and Thurmaier, Kurt M., editors (2004). *Case Studies of City-County Consolidation: Reshaping the Local Government Landscape*, Armonk, NY: M.E. Sharpe

## **Chapter 1: Introduction**

The governments of the City of Fayetteville and Cumberland County contacted the Carl Vinson Institute of Government to assess the feasibility of consolidating the county and city governments. Subsequently, the city and county contracted with the Carl Vinson Institute of Government for a feasibility study, and the Carl Vinson Institute of Government worked with faculty from the North Carolina Institute of Government to produce a study that was cognizant of the unique features of North Carolina law with regard to consolidation.

A feasibility study of this type is designed to identify the major issues, opportunities, barriers, and challenges of merging two entire governments. While it is not designed to identify the specific “price tag” of a transition to a consolidated form of government, it is designed to identify whether there will be major transition and on-going costs as well as major opportunities for savings.

To develop the feasibility report, the Institute interviewed department heads and representatives of Cumberland County and Fayetteville, requested information from cities and counties in North Carolina that had attempted to consolidate, interviewed

citizen representatives designated by leaders of the two governments, and consulted with North Carolina Institute of Government faculty. In all, over 50 individuals were interviewed. The interviews with department directors and citizens provided different perspectives on consolidation and identified the pros, cons, and obstacles associated with such a change in the local governance structure. To assist Fayetteville and Cumberland County decision makers, the Institute held a teleconference with five key stakeholders in the Athens-Clarke County Consolidated Government. These persons were identified as being very knowledgeable about governmental consolidation and were able to answer questions from elected and appointed officials of the city and county governments. Through these speakers, these officials explored how other governments have successfully consolidated. The information collected on consolidation is incorporated into this document as Appendix A.

This report is a summary of our research. It begins (Chapter 2) with an overview of functional and governmental consolidation, reviewing prior research on consolidations' purposes, benefits, and limitations. In order to set the context for the feasibility of consolidation, Chapter 3 gives a brief overview of the demographic and economic characteristics of Fayetteville and Cumberland County as well as basic information about both governments. The following chapter provides a brief fiscal assessment for Fayetteville and Cumberland County in order to determine whether there exist financial disparities that might hinder consolidation. Chapter 5 discusses steps short of consolidation and offers suggestions for services which might benefit from functional consolidation. Chapter 6 summarizes the major opportunities and barriers to consolidation as presented to us by the interviewees. This chapter outlines the heart of the challenge represented by governmental consolidation. The reader should note that the viewpoints in Chapter 6 represent those of the interviewees and not those of the Institute of Government. Furthermore, these statements do not reflect a consensus viewpoint or opinion but are points that might need to be addressed for a successful consolidation effort. Chapter 7 examines some of the special legal options are available to communities in North Carolina that interested in consolidation, and Chapter 8 provides some conclusions regarding the study findings.

## Chapter 2: Overview of Consolidation

### *Forms and Degrees of Consolidation*

While the term “consolidation” typically is used to denote the merging of two governments into one (i.e., full governmental consolidation),<sup>1</sup> the term can also be used to describe a more partial merging of services or departments, which is more accurately described as “functional consolidation.” Functional consolidation is a strategy that can successfully be used to overcome some of the major economic disadvantages of having two or more small-scale governments. In particular, it can make good economic sense to consolidate functions such as utility services where there are large economies of scale that can be captured. Typically services that can be delivered cheaper in the larger quantities that consolidation affords are ones that have a large capital component or that have a function (e.g., billing) that can be applied across a number of existing services.

Functional consolidation can be used as a strategy to achieve economies of scale without changing the basic governance structure that people are accustomed to. This can be particularly important when the citizens of the respective jurisdictions have different views on issues such as planning and zoning or quality of life ordinances. Additionally, functional consolidation does not involve a change in the boundaries for the areas where property tax revenues will be drawn. This property boundary issue can be a factor in cases where there is a large discrepancy between the property wealth of one jurisdiction and that of the other(s). In these instances, a full governmental consolidation could potentially have a positive fiscal impact on some taxpayers while having a negative impact on others. It should be recognized, however, that this differential impact can be mitigated through strategies such as special taxing and service districts.

Another key feature of functional consolidation is its temporary nature. Functional consolidation typically requires on-going approval by the elected officials of the participating governments. This requirement can make the consolidation highly vulnerable to inter-governmental disputes (whether or not the dispute concerns the function that is consolidated or not). Similarly, with a change in commission or council members or a change in circumstances, an agreement regarding a consolidated function may come to seem less fair than it was when first negotiated. In contrast, full governmental consolidation generally precludes any return to the status quo. However, it should be noted that North Carolina law, in contrast to a number of states, does allow for the creation of study committees for dissolving a consolidated government as well as for the ultimate dissolution of such a government.

Also, functional consolidation does not eliminate the costs of the consolidated department managers and may not eliminate the issue of staff having to be accountable to two or more governments. The additional costs of maintaining multiple records and costs accounts and providing reports in different venues and formats means that

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<sup>1</sup> Technically speaking, in most states consolidation is the dissolution of two or more governments and the creation of a new government for the combined jurisdictions of the two dissolved governments.

taxpayers typically will not receive the same level of savings from functional consolidation that they would from full governmental consolidation.

It is generally recognized that not all public services have the same cost structure.<sup>2</sup> Consequently, not all will achieve economies of scale from consolidation. A potential implication of this finding is that public officials can achieve many of the economies of scale that are thought to result from consolidation from selective functional consolidation. Moreover, by choosing wisely the function(s) to be consolidated, one can avoid the diseconomies that may occur as a result of a full governmental consolidation (i.e., where one consolidates functions that may have diseconomies of scale at the level of consolidation that is proposed).

Finally, functional consolidation of a complex service can sometimes increase some of the administrative costs associated with the service. For example, a casual review of the contract between Chatham County and the City of Savannah for the provision of a unified law enforcement service suggests that these governments felt that it was necessary to establish a much more elaborate accounting system related to this service than had been in place prior to the agreement. Specifically, new special accounts were needed to track spending and staff allocation in the respective districts as well as the cost of ownership and uses of facilities and major equipment by the two governments.

## ***General Research Findings on Consolidation***

Over the course of the last few decades, faculty at the Carl Vinson Institute of Government have had requests for information and assistance from Georgia counties, cities, and citizen groups representing over a third of the population of the state regarding a desire to change the core nature of local government. Typically, these requests have come in the form of exploring the potential for consolidating one or more city and county governments. More recently, we have been asked to assess the fiscal impacts of incorporating new cities. In a few cases, we have been asked to look at both a new incorporation and consolidation in the same community. Conceptually, incorporation and consolidation are reforms that are diametrically opposed to each other.

While consolidation has been of perennial interest to communities across Georgia, creating new cities in the unincorporated areas of a county has only recently been a matter of strong interest. The diverse interest of citizens in fundamentally changing governance is mirrored in the political science literature where a debate has been raging for decades between “consolidationists” and “localist” (or pro-incorporation or “fragmentationists”) points of view about local government (see Table 1).<sup>3</sup>

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<sup>2</sup> Carr, Jered B. and Feiock, Richard C., editors (2004). *City-County Consolidation and Its Alternatives: Reshaping the Local Government Landscape*. Armonk, NY: M.E. Sharpe.

<sup>3</sup> Opposing views about the appropriate size and division of functions have structured debate on local and metropolitan governance (e.g. Dowding, John, and Biggs 1994; Foster 1997; Lowery 2000). An influential starting point is Tiebout’s 1956 article, which establishes the claim that competition among multiple local jurisdictions leads to more efficient provision of local public services. Flexible governance arrangements and overlapping, polycentric, jurisdictions have constituted the central research agenda of

**Table 1**  
**Consolidation versus Further Incorporation**

<p><b>a)</b></p> <ul style="list-style-type: none"> <li>i) Reduces the chances that different jurisdictions will engage in fratricidal competition for economic development (e.g., by engaging in a business subsidy bidding war).</li> <li>ii) Multiple governments create confusion and less transparency among citizens. By improving these factors as well as accountability (through professional management), consolidation would lead to greater citizen satisfaction and participation.</li> <li>iii) Corruption in the form of waste, fraud, and abuse is more likely to thrive in a system that is less transparent.</li> <li>iv) Consolidation prevents the suburban areas from abandoning the inner city.</li> <li>v) Consolidation allows the city to expand its tax base to more of those who enjoy the benefits of the city, but who currently do not contribute to its fiscal health.</li> <li>vi) Consolidation reduces intra-metropolitan inequalities and racial and income-based segregation.</li> <li>vii) Economies of scale and reductions in duplication can reduce the cost of service delivery.</li> <li>viii) External transaction costs (e.g., the cost of coordination and bargains with other jurisdictions) are reduced.</li> <li>ix) Will provide greater consideration of regional issues and needs (e.g., particularly economic development, urban sprawl, and environmental externalities such as pollution). Because fragmentation promotes competition in a number of areas, the ability to cooperate in other areas is thought to be lessened when there are more governments.</li> <li>x) Is typically associated with calls for a greater role for professional management.</li> <li>xi) Reduces information costs for citizens, businesses, and developers (e.g., developers do not need to coordinate their efforts with multiple governments).</li> <li>xii) Jurisdictional multiplication results in the favored quarter of the population capturing the largest share of the region's public infrastructure investments and the largest share of its job growth. Through retention of local powers, the favored quarter is able to avoid taking on any of the region's social service burdens (Cashin, 1999).</li> <li>xiii) Consolidation supports the ability to create a public interest that is larger than special local or ward interests. Consolidation is another form of the "at-large" election reform, i.e., the Progressive Era reform that helped to undermine corrupt ward-based politics.</li> </ul> <p><b>b)</b></p> <ul style="list-style-type: none"> <li>i) <b>Argument for Further Incorporation (or at least against further consolidation)</b> Greater allocative efficiency. Citizens have more choice about the mix of services to be provided and the amount of taxes to be collected. Citizens choose to live in the areas that best suit their needs and desires, thereby maximizing citizen satisfaction (Tiebout's model of local public economies).</li> <li>ii) More chances for representation and access to elected officials. With smaller districts citizens have a chance of being heard by a representative.</li> <li>iii) The economies of scale that exist are only in a small number of capital-intensive</li> </ul>
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the Indiana Workshop for several decades (McGinnis 1999a, 1999b, 2000; Ostrom, Bish, and Ostrom 1988). The benefits of 'the competitive city' (Schneider 1989) are challenged by consolidationists who argue that efficiency and redistribution are better served by amalgamating numerous, overlapping, jurisdictions into a limited number of municipal governments (Downs 1994; Lyons and Lowery 1989; Frug 1999).

areas; for most service functions (e.g., fire, police, recreation, etc.) economies of scale do not exist above the size of a fairly small government entity. Most economies of scale are typically captured through normal intergovernmental coordination and agreements.

- iv) Decentralized local governments motivated by efficiency gains can correct inter-jurisdictional externalities (inefficiencies) by themselves through inter-local cooperation, thereby making consolidation for efficiency purposes unnecessary (Shrestha, 2005).
- v) The large public bureaucracies that are created through consolidation make for high internal coordination costs that do not exist in smaller governments.
- vi) Greater chances for minority representation and power.
- vii) Having more governments means that there are more options with regard to the production of a service (e.g., one government may choose to have another government provide the service or to have a private entity produce the service). With large governments, both the scale of operations and the tendency to produce services in house work against multiple producers of services and the competition they bring.
- viii) Small districts can more easily take collective action on small-scale collective problems.
- ix) Greater ability to achieve self-determination.
- x) Metropolitan or regional issue can be addressed through a metropolitan civil society (i.e., a web of voluntary agreements and associations).

**c) The evidence on the debate is mixed:**

- i) Citizens' satisfaction does not vary by type of government (DeHoog, Lowery and Lyons 1990).
- ii) Reported efficiency gains from consolidation tend to be small (Bloomquist and Parks 1995).
- iii) Non-consolidated government costs less. Non-consolidated governments tend to have lower taxes and spending compared to consolidated ones (Benton and Gamble 1984). This finding needs to be understood in light of the finding that professionally managed governments tend to have higher expenditures, perhaps as a result of a realization by these managers of service needs as well as a greater ability to make the case for those needs.
- iv) Multiple special-purpose governments in an area (i.e., jurisdictional overlap) appears to be strongly related to the size of the local public sectors (whether measured in revenues or expenditures), after controlling for other relevant variables (Berry, 2002).
- v) Citizen participation is greater in non-consolidated governments (Oliver, 2001).
- vi) Little or no evidence of a link between consolidation and economic development. (Carr and Feiock 1999).
- vii) Jurisdictional multiplication does appear to exacerbate segregation by income and race.
- viii) Jurisdictional multiplication reduces efforts to address affordable housing issues (Basolo 2003).
- ix) Some scholars suggest that inter-local agreements and a web of relationships across a metropolitan area can act to mitigate the effects of jurisdictional competition on the ability to address regional problems (Oakerson 1999).

## ***What Makes for a Successful Consolidation?***

### **Functional**

Successful functional consolidation is based on two processes: 1) choosing services to consolidate (or share); and 2) managing the service delivery with regard to expectations.

The choice of services to functionally consolidate should begin by examining the opportunities for achieving economies of scale that are not otherwise possible.

However, the choice also needs to consider a number of other factors such as:

- Whether the activity is critical to the government
- Whether in-house management of the activity is critical
- Whether immediate responsiveness to elected officials is critical
- Whether the operation can acquire new skills, equipment, or facilities as a result of a unified operation
- Whether other functions depend on the service
- Whether the functional consolidation will reduce service costs
- Whether the functional consolidation will increase the efficiency in the provision of the service

Once the decision has been made to provide services in a consolidated manner, the participating governments will then likely want to:

Clearly define the scope of the service and realistic performance targets.

Create a governance regime that meets the expectations for control and oversight by the participating governments. This governance regime will need to address some key issues such as:

How the service will be priced or funded?

What expectations there are for growth and change?

What is the operational or management philosophy?

What should the new organizational culture be?

What is the exit strategy if the consolidation goes sour?

What are the expectations regarding transparency and communications?

### **Full Governmental**

Whereas functional consolidation of a single department tends to involve small costs that are on-going, full governmental consolidation involves larger initial costs that typically disappear after a few years of operations. The key challenge of full governmental consolidation involves resolving most of the issues outlined above regarding the consolidation of a single service, but additionally requires management of multiple demands at one time, including the following:

- The choosing and integration of new leadership
- The management of staff morale and the potential clash of organizational cultures
- The implementation of a new employee benefit package
- The reconciliation of differences in ordinances
- The implementation of common enforcement practices

- The adoption of a single information system and the transfer of data to this system
- The potential renegotiation of contracts and on-going partnerships (e.g., with the non-profit sector of the community)
- The adoption of a common set of standard operating procedures (e.g., for purchasing, accounting, and human resources)
- The management of potential changes in service levels to citizens
- The optimization of facility allocation and management
- The emergence of new political alliances due to changes in election districts and new issue coalitions
- Managing and funding the extension of services to areas (e.g., the unincorporated area) that previously did not receive the service or the same level of service
- The development of new understandings and workable relationships with respect to the roles of key public officials (e.g., a consolidated government will typically have a new charter that may define the roles of the commission/council, mayor/chair, and manager/administrator in ways that differ from either of the former governments).
- Managing the expectations of different groups of citizens. Research suggests that it may be nearly impossible to achieve the “promise” of consolidation due in part to the fact that some of the goals of consolidation may contradict each other (e.g., it is difficult to increase efficiency without risking equity).<sup>4</sup>

As this list of challenges suggests, successful consolidation places a great deal of stress on the stakeholders in this process. It is not atypical for a good portion of the local government employees and citizens to be dissatisfied with the process in the years immediately after consolidation. However, this dissatisfaction appears to decline after that time. In particular, dissatisfaction tends to be concentrated among employees more than among citizens.<sup>5</sup>

Successful consolidation efforts generally are led by highly effective leaders “who can rally the political elite to build upon a theme that resonates in the community (specifically, economic development/growth).<sup>6</sup>

Successful consolidation efforts also tend to be ones where the leadership is able to parley the excitement about a new larger government and its potential for improvement into increased funding from outside sources. For example, the Unigov government of the City/County of Indianapolis was able to attract substantial federal, state and private

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<sup>4</sup> See Burt Swanson’s case study of Jacksonville in Savitch, H.V. and Vogel, Ronald, editors (1996). *Regional Politics: America in a Post-City Age*. Thousand Oaks, CA: Sage Publications.

<sup>5</sup> Durning, Dan and Nobbie, Patricia D. (2000). “Post-Transition Employee Perceptions of City-County Unification: The Case of Athens-Clarke County.” *Public Administration Quarterly*, Volume 24, Number 2, pp. 140-68.

<sup>6</sup> Lowery, David (2001). “Metropolitan Governance Structures from a Neoprogressive Perspective.” *Swiss Political Science Review*.

investment to the downtown area (i.e., for every \$1 spent by Unigov, \$5.82 came in from other sources).<sup>7</sup>

## ***Consolidation Experience of Selected Communities in Georgia***

As a means to provide a more interactive learning experience on governmental consolidation, the Institute of government provided a teleconference Fayetteville and Cumberland County officials with several practitioners in the consolidated Athens-Clarke County government. The reason that North Carolina practitioners were not included is that currently North Carolina does not have any consolidated governments.

Below are individual summaries of their primary points and experiences about consolidation.

### **Speaker Topics**

#### *Bob Snipes – Deputy Manager, Athens-Clarke County Unified Government*

Mr. Snipes covered the history of the Athens-Clarke consolidation process. His experience in the community dates to pre-consolidation as he served as the County Traffic Engineer and the City Public Works Director before consolidation. He now works as the Deputy Manager for the Unified Government. He covered some of the political and practical issues in Athens-Clarke's unification as well as describing how the current government works. He noted that the tax rate had not increased since unification and in fact has decreased slightly. Furthermore, the number of employees per capita had not increased since unification, resulting in greater efficiencies.

#### *Joseph (Jack) Lumpkin – Police Chief, Athens-Clarke County Unified Government, former police Chief in Toccoa.*

Chief Lumpkin gave an overview of the police versus Sheriff functions in Athens-Clarke County. He noted that prior to consolidation both Athens and Clarke County had police departments and the Sheriff focused on the constitutional functions dealing with the Jail, the Courthouse, and the court system. As part of the discussion, Chief Lumpkin explained how he limited transition costs (e.g., by allowing the two different types of patrol cars to continue in service without a new paint job until they needed replacement) and how the department integrated two prior police department cultures. Chief Lumpkin described this as the most challenging part of the consolidation process.

#### *John Culpepper – Finance Director, Athens-Clarke County Unified Government*

Mr. Culpepper's experiences in the Finance Department prior to consolidation as well as his current responsibilities as the Finance Director gave the Study Committee an opportunity to learn the historical perspective on the fiscal issues in Athens and Clarke County. He explained the budget process and the use of special taxing and service districts that enable the government to provide differing levels and kinds of service to

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<sup>7</sup> Rosentraub, Mark (2000). "City-county Consolidation and the Rebuilding of Image: The Fiscal Lessons from Indianapolis's Unigov Program." *State and Local Government Review*, Volume 32, Number 3, pp. 198-212.

different areas of the community while assuring that the cost is appropriately apportioned to the recipients of the service.

*David Lynn—Board of Commissioner Member, Athens Clarke County Unified Government.* Mr. Lynn made the point that a key value of a consolidated government is the ability to provide for better planning for the entire community.

*Cardie Kilpatrick—Former Athens City Council Member and Board of Commissioner Member, Athens Clarke County Unified Government.* Mrs. Kilpatrick said that the consolidated government, while a great deal of work at the beginning, helped to ensure that the governing body did not waste time on city-county conflicts over service delivery, cost-sharing, and the like.

Though frank about the challenges they faced when consolidating the former city and county governments, the speakers said they are not wishing for an end consolidation and a return to separate city and county governments. Furthermore, the public in their respective communities appears to be at least generally satisfied with consolidation.

## Chapter 3: Overview of the City of Fayetteville and Cumberland County

As a means of better understanding the opportunities and barriers to consolidation, it is important to first understand the community itself. As part of that, this chapter provides a brief overview of one, the demographic and economic characteristics of the county and two, the operations of the City of Fayetteville and Cumberland County.

### ***Demographics***

As Table 2 indicates, approximately 54 percent of the population of Cumberland County lives in Fayetteville, with most of the remaining county population living in the unincorporated area. Based on the difference between the 1990 and the 2000 census, the growth in population appears to be slightly greater in the unincorporated part of the county than in the incorporated part.

<b>Table 2: Population Demographics</b>		
	<b>Population</b>	<b>Percent of County Population</b>
County Population	308,489	100%
Pre-Annexation Fayetteville Population	124,372	40%
Hope Mills	11,300	4%
Spring Lake	8,100	3%
Newly Annexed Population	43,602	14%
Estimate of Fayetteville Population Post Annexation	167,974	54%
Estimate of Municipal Population (excluding towns with less than 500 populations).	187,374	61%
Estimate of County Unincorporated Population Post Annexation	121,115	39%

If the Fayetteville-Cumberland community were to choose to consolidate the remaining unincorporated area of the county and to choose to designate this area as having a city status, the increase in the Fayetteville-centered city population would be substantial.

**Percent Increase in Fayetteville-Centered  
Municipal Population in  
Post Consolidation Period**

72%

**Rate of Growth**

The rate of growth of Cumberland County during the 1990s was slightly over 10 percent. However, since that time the county grew only 1.8 percent from 2000 to 2005. Fayetteville had a slower but still vigorous population growth during the 1990s (7.4 percent), but excluding annexation-related growth has experienced a slight population decline in the 2000 to 2003 period (i.e., a -0.5 percent change).

### **Income**

Cumberland County residents reported a \$37,466 median household income in the 2000 Census. The median household income in Fayetteville was only slightly lower at \$36,285. However, because the county figures include those of the city, the actual difference between the unincorporated county household income and that of city residents is slightly larger.

### **Race**

Cumberland County, both countywide and in the cities, is more racially diverse than the statewide population. According to the 2000 Census and across all of Cumberland County, 55.2 percent of the residents were White and 34.9 percent were Black. Hispanics, who can be identified as either White or Black in the Census data, made up 6.9 percent of the county's population. Fayetteville has a larger minority population with 48.8 percent of the residents identifying themselves as White and 42.4 percent as Black, according to 2000 Census. Hispanics, who may be identified as either White or Black, represented 5.7 percent of the city's residents. Statewide, 72.1 percent of residents were White, 21.6 percent were Black, and 4.7 percent were Hispanic.

### **Education**

The percentage of high school graduates in Cumberland County and in Fayetteville is nearly the same (85.0 percent versus 84.8 percent). However, the City of Fayetteville has a moderately higher percentage of residents with at least a Bachelor's degree (24.2% versus 19.1%)

### **Demographic Implications for Consolidation**

- Consolidation is more likely to occur when there is a single dominant municipality. The Fayetteville-Cumberland situation meets this criterion.
- Consolidation is more likely to result in new savings and economies when there is a substantial difference between the sizes of the units of government providing urban or municipal-type services. Where the city and county prior to the recent annexation were fairly even in size, it is currently the case that the size of the Fayetteville municipal-type service population area is substantially larger than that of Cumberland County. This would tend to make the consolidation more economically beneficial than was the case prior to the annexation.

- Consolidation is more difficult to achieve if there are differences in the racial compositions of the two jurisdictions. This is particularly the case when a minority group has a much higher potential for achieving political power in an existing jurisdiction than they would have in the consolidated jurisdiction. Currently, with the African-American population in Fayetteville approaching a majority population status, it is likely that this population group may not support consolidation.
- Consolidation is less likely to occur when there is a major discrepancy in the household income of the resident populations of the two jurisdictions. Such a difference in income does not appear to present a barrier to consolidation in Fayetteville-Cumberland County.
- Consolidation is less likely to occur when there is a major discrepancy in the educational levels of the resident populations of the two jurisdictions. Such a difference in education does not appear to present a major barrier to consolidation in Fayetteville-Cumberland County.

## **Government**

The following table outlines how the governments of Cumberland County arrange for the provision of services to their citizens. As one can see, there is only a moderate amount of service delivery overlap between Cumberland County and Fayetteville and therefore only a moderate amount of duplication in service provision. In particular, the coordination and assignment of primary responsibility for capital intensive services such as public utilities to a single government permits more efficient service delivery.

Three service areas—Parks and Recreation, Senior Centers, and Economic Development are provided through joint city-county operations. These operations represent functional consolidation.

Key direct service areas where there is service category overlap include: law enforcement; E911; GIS; community development; building inspections, permits, and code enforcement; and public information.

The support service areas where there is duplication include administrative such as finance, human resources, risk management, legal advice, engineering, and information systems.

The cost of these services and the revenues generated to provide them are discussed in Chapter 4, Financial Condition.

Community	Animal Control	Building Inspections	Building Permits	Construction and Erosion Code Enforcement	Emergency Medical Services	E911	Fire Protection
Cumberland	Y	Y	Y	Y	N	Y	Fire Marshall/ Education only
Fayetteville	N	Y	Y	Y	N	Y	Y

Community	Health	Jail	Law Enforcement	Planning	Emergency Management	Public Transit	Senior Citizen Programs/Centers
Cumberland	Y	Y	Y	Y	Y	N	Joint City-County
Fayetteville	N	N	Y	Y	Y, but not a separate department	Y	Joint City-County

Community	Wastewater Collection	Wastewater Treatment	Water Distribution	Water Supply	Water Treatment
Cumberland	N	N	N	N	N
Fayetteville	Y	Y	Y	Y	Y

Community	Parks and Recreation	Social Services	Fire Marshal	Engineering	Airport
Cumberland	Joint City-County	Y	Y	Y	N
Fayetteville	Joint City-County	N	Y	Y	Y

<b>Table 3 Continued</b>					
<b>Community</b>	<b>Community Development</b>	<b>Library</b>	<b>Superior Court</b>	<b>Lower Court (Traffic/Misdemeanors)</b>	<b>Civic Center</b>
Cumberland	Y	Y	Y	Y	N
Fayetteville	Y	N	N	N	Y

<b>Table 3 Continued</b>					
<b>Community</b>	<b>Sanitation/Solid Waste Collection</b>	<b>Landfill</b>	<b>Finance</b>	<b>Human Resources</b>	<b>Risk Management/Safety</b>
Cumberland	Partial	Y	Y	Y	Y
Fayetteville	Y	N	Y	Y	Y

<b>Table 3 Continued</b>					
<b>Community</b>	<b>GIS</b>	<b>Legal</b>	<b>Economic Development</b>	<b>GIS</b>	<b>Information Technology</b>
Cumberland	Y	Y	Joint City-County	Y	Y
Fayetteville	Y	Y	Joint City-County	Y	Y

<b>Table 3 Continued</b>					
<b>Community</b>	<b>Building Maintenance</b>	<b>Street Maintenance</b>	<b>Storm water</b>	<b>Human Relations</b>	<b>Customer Focus</b>
Cumberland	Y	N	Joint City-County	N	N
Fayetteville	?	Y	Joint City-County	Y	Y

<b>Table 3 Continued</b>					
<b>Community</b>	<b>Public Information</b>	<b>Printing</b>	<b>Corrections/Day Reporting</b>	<b>Tax Assessment</b>	<b>Tax Billing</b>
Cumberland	Y	Y	Y	Y	Y
Fayetteville	Y	?	N	N	N

<b>Table 3 Continued</b>					
<b>Community</b>	<b>Elections</b>	<b>Electric Utility</b>	<b>Fleet Maintenance</b>		
Cumberland	Y	N	Y		
Fayetteville	N	Y	Y (through PWC)		

Though small, the Towns of Hope Mills and Spring Lake have the same rights and privileges of other towns in the state. The citizens of these communities could choose to consolidate with Cumberland County or not. For example, the City of Winterville in Georgia chose not to consolidate with Athens-Clarke County and still exists as an independent local government. Of course, if Fayetteville and Cumberland County consolidated, all unincorporated land would be eliminated, and the remaining cities and towns would be unable to annex additional land.

### ***Human Resources***

The largest category of expense for essentially all governments is personnel. As such, how a governmental consolidation might impact personnel expenditures is particularly important. Personnel expenditures extend beyond salaries and include health benefits, retirement benefits, wellness programs, and even vacation and sick leave. The last benefit is important to consider because the more generous the benefit, the more employees will be needed to meet service demands.

The cost of equalizing compensation and benefits is also affected by the number of employees. Essentially, it will cost more to equalize a benefit if the jurisdiction with the larger benefit in the current circumstance is the jurisdiction with the smallest number of employees. Likewise, it will cost less to equalize benefits if the jurisdiction with the larger benefit in the current circumstance is the jurisdiction with the largest number of employees. Currently, Cumberland County has approximately 2,400 employees while the City of Fayetteville has only approximately 1,500 employees. Consequently, an equalization effort will be more expensive if the county has compensation and benefit package that is less than the city's.

Below is a brief overview of the kinds of personnel benefits Cumberland County and Fayetteville offer their employees.

*The following analysis of employee compensation and benefits provides an overview of the areas of difference and some summary statements regarding the potential costs of equalizing these benefits. To identify an exact dollar cost of such equalization would require an in-depth analysis that is beyond the scope of this study.*

## **Employee Benefits**

### **Health and Dental Insurance**

Both the City of Fayetteville and Cumberland County provide an employee Healthcare Benefit Plan, and both provide opportunities for supplementing comprehensive health coverage with dental coverage. Moreover, while both the City and the County pay a portion of the health care premium, only the City pays a portion of the Dental Care premium. In the county, employees must pay the full cost of this premium. City employees only pay \$2.50 bi-monthly for their dental insurance. County employees pay \$26.12 per month. Assuming that most county employees would desire a highly subsidized dental benefit, the cost of equalizing this benefit would be approximately \$608,000.

With the proliferation in health care plans, it is very difficult to compare the cost of any two or more plans with one another. However, assuming that both the city and the county provide similar comprehensive health benefits, the key difference in terms of equalizing the benefit is their cost to the government. This cost, logically speaking, would be the inverse of the employee's contribution. Looking only at the employee-only category, we identified a difference in employee contributions in the two jurisdictional plans. Specifically, city employees in this category pay \$25.77 on a bi-weekly basis, while county employees pay only \$21.00. However, in most cases the county employee contribution is even less (i.e., \$19.80) since most county employees are eligible for the non-smoking deduction.

Assuming a cost of approximately \$6 per city employee to bring the benefit of a lower employee contribution to health care to these employees, the equalization cost for this benefit would be approximately \$90,000.

### **Paid Vacation**

City and county employees earn vacation leave beginning the first day of employment. Leave accruals are based upon the number of years of service and the number of hours an employee is scheduled to work.

In the city, an employee working full time with 0-3 years of service will earn 10 days of paid leave per year. The county policy for an employee in the beginning years of service is very similar. Specifically, a full-time county employee with less than 2 years of service will earn 9 days of paid leave per year. However, a county employee with 2-5 years of service will earn 12 days. While the schedules of earning by years of service

for the two governments differ, a preliminary analysis suggests that there would not be a dramatically large cost in equalizing this benefit.

### **Paid Holidays**

The City of Fayetteville observes 11 paid holidays per calendar year. The county observes 11 or 12 days, depending on when Christmas falls.

### **Sick / Funeral Leave**

Regular employees earn sick leave in proportion to the number of hours they are scheduled to work per week. Sick leave accruals begin the first day of employment. Sick leave can also be taken for deaths in an employee's family. Sick leave hours accumulate without limits and may be used toward credible service upon retirement from the NC Local Government Retirement System. The specific city and county policies are as follows:

#### City

For 0-3 years of full-time service, you earn 8 hours of leave per month.

#### County

Same as entry level for the city

A key difference in the benefit packages exists, however: the amount of sick leave benefit earned by city employees increases with longer terms of service; the county does not provide any additional benefit for employees with longer terms of service.

### **Retirement**

Both city and county employees are part of the Local Governmental Employees' Retirement System, administered by the State of North Carolina. Regular status employees, scheduled to work 20 hours or more per week, become members in the retirement system upon employment. As a member of this system, employees are required to contribute 6 percent of their gross salary on a tax-deferred basis.

### **Cafeteria Plan / Supplemental Benefits**

Both the city and the county offer a variety of supplemental benefits that are provided at employee's expense through payroll deduction. These include:

- Term Life Insurance (Pre-tax basis first \$50,000 for employees)
- Dependent Term Life Insurance
- Cancer/Dread Disease Insurance (Pre-tax basis)
- Vision Insurance (Pre-tax basis)
- Universal Life Insurance
- Disability Insurance
- Healthcare and Dependant Care Reimbursement Account (Pre-tax basis)

**It should be noted that while there may be a need to equalize these benefits in some respects, there should not be any significant equalization costs since the**

**respective governments do not make contributions to these benefits other than through administrative support.**

**Death Benefit**

The first year a City employee contributes to the retirement system, the city provides a death benefit of \$3,000. After one year as a contributing member of the Retirement System, a death benefit is provided that is equal to the highest consecutive 12 months' salary during the 24 months before death of no less than \$25,000 and no more than \$50,000. There is no cost to the employee for these benefits. The county's death benefit is the same as the city's in all respects except that the county provides a benefit of \$5,000 at the first year. Equalization of this benefit should only have a very minor cost.

**Longevity Pay**

Longevity pay is based upon each employee's length of service with the government. Longevity is calculated as a percentage of base pay (see below). Longevity pay in the city is paid each pay period, but longevity pay in the county is paid as a year-end bonus. While the payment process impacts the value of the benefit to the employee (the IRS treats bonuses differently than regular pay) it does not impact the cost to the government. City Sworn Police Officers are not eligible for longevity pay due to Police Officer Step Pay Plan.

**City Longevity Pay**

5-10 years of service.....	2.5%
10-15 years of service.....	4.5%
15-20 years of service.....	6.0%
20 or more years of service...	7.5%

**County Longevity Pay**

3-5 years of service.....	0.75 %
5-7 years of service.....	1.0%
7-10 years of service.....	1.25%
10-15 years of service.....	1.5%
15-20 years of service.....	2.25%
20-25 years of service.....	3.25%
25+ years of service.....	4.5%

As these longevity pay schedules suggest, the city's longevity benefit is more costly than the county's.

**Compensation**

A policy of equalizing compensation for consolidated government employees to the higher level of compensation provided by one or the other of the previous governments would not impact all employees. Rather, only employees who essentially perform the same jobs as their counterparts in the other government would be impacted. For

example, county-employed court workers, detention officers, and tax assessors have no counterparts in the city government. Similarly, sanitation and utility workers in the city government have no direct counterparts in the county government. However, a Sheriff Deputy performing patrol work would have a counterpart in the Fayetteville police department which performs the same work. In order to get a sense of the cost of equalizing employee compensation in the two governments, we identified four example employee job categories that are likely to have direct counterparts in the other government.

<b>Table 4: Cumberland County Compensation of Sampled Parallel Positions</b>			
	<u>Beginning</u>	<u>Midpoint</u>	<u>Top</u>
Administrative Assistant I	\$27,518	\$36,462	\$45,405
Deputy I	\$28,806	\$38,168	\$47,529
Building Inspector I	\$28,806	\$38,167	\$47,529
Human Resources Technician	\$30,152	\$39,952	\$49,752

<b>Table 5: City of Fayetteville Compensation of Sampled Parallel Positions</b>			
	<u>Beginning</u>	<u>Midpoint</u>	<u>Top</u>
Secretary	\$28,387	\$35,484	\$42,580
Police Officer	\$32,500	N/A	\$55,700
Building Inspector	\$33,789	\$ 42,236	\$ 50,683
Human Resource Technician	\$ 33,789	\$42,236	\$50,683

We analyzed the difference between the two compensation systems by identifying the percentage difference between the two starting salaries for the comparable jobs. Then, we averaged these percentage differences and arrived at an average difference of approximately 11 percent in the two government compensation systems based on this limited sample.

Literally speaking, equalization of compensation and benefits across the two governments is certainly a transition cost in that the consolidated government will need to expend funds for equalization that would not be spent under the assumption that the two pre-existing governments will continue to compensate their employees as they currently do (i.e., in the year prior to consolidation). Realistically speaking however, local governments, particularly ones that exist in the same labor market, rarely maintain the same compensation and benefits over time. Rather, they tend to compete with each other for skilled labor. This competition typically occurs through the periodic use of a compensation study designed to bring wages and benefits of employees up to levels that are competitive for the region. Because these studies are periodic, it is often the case that one government will temporarily be more competitive in its salary and benefit structures than other nearby governments. Usually this position of being the highest

paying government is held only temporarily and is given up when a nearby government conducts its own compensation study.

Given this reality, it is perhaps unfair to tag the costs of equalization of compensation and benefits as a transition cost or a cost that would not exist were consolidation not to occur. Equalization would certainly occur but would probably occur over a slightly different time frame. Moreover, a case can be made that consolidation, particularly in an area where the competition for labor is chiefly between the City of Fayetteville and Cumberland County (i.e., where other nearby governments are typically smaller and less able to pay competitive wages), may result in major savings in labor costs to the Fayetteville-Cumberland taxpayers. This savings could occur because a consolidated government will have substantially less competition for labor and will therefore be less compelled to raise the compensation levels in reaction to competition for labor among local governments in the region.

## **Chapter 4: Financial Condition**

In governmental consolidation, the two governments combine their finances, making an understanding of these entities' financial condition particularly important. All assets and liabilities are combined and transferred to the new, single government. Below is a brief overview of the fiscal status of the City of Fayetteville and Cumberland County. Because these governments provide different services, their financial conditions should not be directly compared. For example, Cumberland County's budget includes all the constitutional officers who serve the entire county, and the City of Fayetteville's budget includes two large utilities (electricity and water services).

Using data from the respective governments' budgets and Consolidated Annual Financial Reports (CAFR), the analysis includes both cross-sectional (annual) and trend data to see changes over time. In order to appropriately compare dollars over time, we convert current or annual dollars to real dollars. In doing so, we remove monetary increases due to inflation. Population data comes from the U.S. Census Bureau for the years 2000 through 2004. Please note this analysis is not meant to be a definitive statement on the financial condition of either community but simply provides some insights into questions that public officials and a factor the public may want to consider when evaluating the merits of consolidation.

Based on U.S. Census estimates, the populations of the City of Fayetteville and Cumberland County have been steady to slightly declining for the past few years. This change may become an issue to the extent that population loss results in excess capacity for services with high fixed costs and/or that cannot be easily reduced, such as the water system. Furthermore, a smaller population may lead to a smaller tax base as well, but not necessarily if commercial enterprises increase and attract customers from outside the area. If population decline leads to excess housing stock, the supply increase may reduce housing values. These lower values in turn decrease the tax digest and require the government to either raise millage rates or reduce services. However, the governments may not want to enter a cycle of increasing tax rates on a shrinking population which can encourage further county/city emigration.

### ***Budget Format***

Cumberland County and the City of Fayetteville utilize traditional, line-item budget formats for their annual operating budgets. This type of budget is relatively easy to understand and increases fiscal accountability. For both governments, the budgets are clear and concise as well. The governments have the same fiscal year (July 1<sup>st</sup> through June 30<sup>th</sup>), which should make a transition to a consolidated government easier. Moreover, both governments conform to the Local Government Budget and Fiscal Control Act (LGBFCA), as adopted by the North Carolina General Assembly, which outlines a specific budget process. This shared budget process should also make the transition to a consolidated government easier.

However, the governments use different financial management software systems and the transition for one government to another system or developing a new financial system could be an expensive one-time cost.

Adhering to GASB (Governmental Accounting Standards Board) accounting standards, Cumberland County and the City of Fayetteville utilize governmental and enterprise funds for financial management. Enterprise funds segregate the finances of government services that are expected to pay their own way or as some say, “run like a business” (e.g., water, natural gas). As such, customers pay the full cost of the benefit they receive through user charges and fees. These services are accounted for separately from general government services, like fire and police, where individual benefit and cost cannot be closely matched.

#### Cumberland County Funds by Type:

##### 1. Special Revenue Funds

- Wireless 911 Fund
- County School Fund
- 911 Emergency Fund
- Mental Health Fund
- Prepared Food and Beverage Tax Fund
- Workforce Development Funds
- Industrial Development Fund
- Federal Drug Forfeiture Funds
- Injured Animal Fund
- County Water & Sewer Fund
- Eastover Sanitary District Fund
- Property Revaluation Fund
- Recreation Fund
- Juvenile Crime Prevention Fund
- Community Development Funds
- Transportation Funds
- Fire Protection Funds
- Inmate Welfare Fund

##### 2. Capital Project Funds

- 1998 School Bond Fund
- Animal Control Shelter Fund
- Landfill Construction Fund
- NORCRESS Sewer Project Fund
- Kelly Hills Water and Sewer Fund
- Law Enforcement Training Center Fund
- Eastover Sanitary District Sewer Fund
- 2004 School Bond Projects
- Averagesboro Battlefield Fund

##### 3. Proprietary Funds

- Internal Service Funds

- Group Insurance Fund
- Employee Flexible Benefit Fund
- Workers' Compensation Fund
- General Litigation Fund
- Enterprise Funds
- Cumberland County Crown Center Funds

Cumberland County Solid Waste Fund

#### 4. Fiduciary Funds

- Cumberland County Solid Waste Fund
- Trust Fund
- Special Separation Allowance Fund
- Permanent Fund
- Cemetery Fund
- Agency Funds
- City Tax Funds
- Intergovernmental Custodial Fund
- Storm water Utility Fund
- Tourism Development Authority Fund
- Inmate Payee Fund

Many of these Cumberland County special funds are separate funds for unincorporated services.

The City of Fayetteville also has several funds for its utilities and other special services, including the following:

#### 1. Special Revenue Funds

- Central Business Tax District Fund
- City of Fayetteville Finance Corporation
- Enhanced 911 Fund
- Storm Water Management Fund

#### 2. Proprietary Funds

- Airport Fund
- Risk Management
- Transit Fund
- Warranty Lease Vehicle Fund
- Public Works Commission
- Water and Sanitary Sewer Fund

#### 3. Other Funds

- Parking Fund
- Law Enforcement Officers' Special Separation Allowance Fund

In terms of fiscal solvency, because both Cumberland County's and the City of Fayetteville's pension plans are administered through the same state government

system, there are no differences in the funding or liability levels with regard to this aspect of the local government finance.

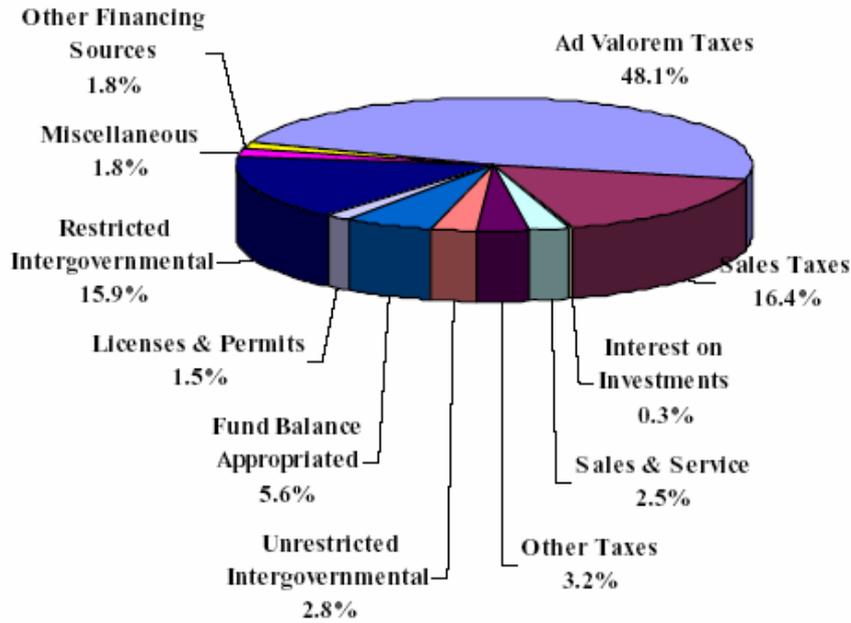
### **Current Revenues for Governmental Activities**

Both governments rely on a variety of revenue sources to stabilize their tax bases and limit steep fluctuations. For Fayetteville, the largest revenue sources are property taxes, other taxes, intergovernmental revenue (primarily state revenue for roads), and charges from utilities (i.e., interfund transfers). However, it should be noted that most of the charges for utilities are spent to run the utilities. The county relies primarily on property taxes and sales taxes to run governmental operations. Much of the intergovernmental revenue is restricted to the provision of specific, generally state-mandated services such as social services.

<b>Table 6: Fayetteville General Fund 2006-2007</b>	
Ad Valorem Taxes	\$53,191,000
Other Taxes	38,401,190
Intergovernmental Revenues	9,365,922
Functional Revenues	4,850,133
Other Revenues	1,820,298
Investment Earnings	1,050,000
Loan Proceeds	750,000
Interfund Transfer	8,840,627
Fund Balance Appropriation	5,044,621
<b>Total Estimated General Fund Revenues</b>	<b>\$123,313,791</b>

<b>Table 7: Cumberland General Fund 2006-2007</b>	
Ad Valorem	\$129,091,374
Other Taxes	43,752,283
Unrestricted Intergovernmental	7,194,749
Restricted Intergovernmental	40,720,140
Licenses & Permits	3,954,848
Sales and Service	6,495,395
Interest	757,362
Miscellaneous	4,503,140
Fund Balance	14,409,035
Other Sources	4,560,989
<b>Total Estimated General Fund Revenues</b>	<b>\$255,439,315</b>

## GENERAL FUND REVENUE BY CATEGORY



### Property Taxes

Property taxes, although one of the least popular taxes, are a critical source of revenue for local governments. Property taxes also have the benefit of being very stable from year to year because one, assessed values do not rapidly change (typically) and two, collection rates are very high.

Millage rates represent the tax rate on the assessed value of real and personal property. It is the multiplication of the millage rate by the assessed value of property which determines property tax revenues. If property values increase and millage rates stay the same then tax revenue increases, and vice versa.

Table 8 lists the total millage rates paid by residents in the two major government jurisdictions in Cumberland County. City of Fayetteville residents pay both the city millage and the county's base millage rate. Residents of the unincorporated part of Cumberland county pay a base county millage rate, a rate for their fire services (provided by volunteer fire organizations), and a rate for recreation services that are provided by both governments but directly administered by the City of Fayetteville.

Year	Cumberland County	City of Fayetteville
2006	.01035	.0141

Source: Cumberland County Tax

## Components of Unincorporated Cumberland County Millage

<b>Fire District Tax Areas</b>	<b>*Fire District Tax Rate</b>	<b>*Special Fire District Rate</b>	<b>*Recreation Tax Rate</b>	<b>County Tax Rate</b>
Sample Area	.10	.005	.05	.88

## Components of Fayetteville's Millage

	<b>Municipality Tax Rate</b>	<b>Recreation Tax Rate</b>	<b>County Tax Rate</b>	<b>Total Tax Rate<sup>1</sup></b>
City of Fayetteville	.53	N/A	.88	1.41

1. Does not include Storm Water, Solid Waste, Pet Fees, or MV Privilege License Fees - See Back

## ***Inter-fund Transfers***

As part of their financial management systems, governments regularly transfer revenues between funds. The most frequent kind of transfer is from an enterprise fund to the general fund, which occurs for many reasons. The most common justification is to adjust for operating expenditures incurred within the general fund on behalf of the enterprise fund such as for billing costs or time spent by the finance or personnel offices in managing the enterprise.<sup>8</sup> A second justification for transfers is that the transfer is a payment in lieu of taxes (PILTs) and/or franchise fees. Under this justification, local officials argue that if the enterprise were privately owned, such as a private golf course, the government would receive property tax revenues from the golf course owner. A third justification posited by government officials is that as owners of the enterprise, the city is entitled to a "profit" or compensation for exposing the city and taxpayers to the risk of an enterprise. Those revenues in excess of expenditures are transferred to the general fund for miscellaneous expenditures.

The consequences of transferring revenues from enterprise funds to general fund are to reduce reliance on general taxes, like property taxes, and shift payment to customers of the enterprise. To the extent that customers live outside the jurisdiction, the government has effectively exported some tax burden.

Transfers from the general fund to enterprise funds subsidize that service. The justification is that the service has benefits that extend beyond the individual customer to the wider community. For example, local governments often subsidize community pools so children have a safe place to play during the summer.

Historically, Fayetteville has transferred revenue from enterprise funds to the general fund. The majority of these revenues came from the electric fund (e.g., 8.5 million dollars in the fiscal year ending June 30, 2005) and the water and wastewater fund (e.g.,

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<sup>8</sup> Notably, one of the significant changes in reporting procedures under GASB 34 is how these operating procedures are captured. Historically, money was often transferred between funds. Now these operating expenditures may be listed as a reduction in expenditure in the general fund instead of transferring revenues for operating expenditures to the general fund.

1.1 million dollars in the fiscal year ending June 30, 2005). It is expected that in the 2006-2007 fiscal year these enterprise funds will support the general fund on the order of approximately \$8.8 million. It is important to note that the electric and water systems are self-funded and do not receive money from the general fund. The transfer of funds from the Public Works Commission (PWC) to the city is based on 5 percent of electric sales and the PWC paying for street lights in certain areas—a service that the city would otherwise have to provide directly. This service from the PWC is recorded as a transfer expense.

Although the City of Fayetteville occasionally provides services to the PWC (for which an interfund transfer would represent recompense), the level of these services would not account for very much of the transfers. Also, to a certain degree, the transfers from the PWC to the city's general fund could be considered payment in lieu of taxes in that the PWC does not pay sales, property, or franchise taxes. The PWC produces some of its own energy on which it pays no franchise taxes, buys the majority of its energy from Progress Energy which does pay a franchise tax that is allocated to the city, but it pays this tax at the wholesale rate of purchase rather than the retail rate that would produce a higher level of revenue for the city.

Although some of the city's utility interfund transfer revenue would accrue to the city were it not in the utility business, the total amount of this transfer suggests that the city receives a return over and above the return that would come from a private utility service.

On the county side, while the county receives a large amount of revenue from intergovernmental and special sources (e.g., from the Board of Education), these funds are either restricted or are used to pay back debts that the county has taken on in support of capital projects for the special funds. Consequently, there are no transfers from special funds that are used to support the county's general fund.

## **Implications for Consolidation**

To the extent an enterprise fund draws customers from outside the jurisdiction and subsidizes a general fund, the jurisdiction operating the enterprise does not have to raise taxes in order to provide a higher level of service. In these situations, the residents of the jurisdiction that does not operate the enterprise fund will have a financial interest in promoting consolidation since they too will be able to benefit from the resources that they are contributing to the enterprise-operating government. At the same time, the residents in the jurisdiction that is operating the enterprise may have a financial interest in maintaining the status quo. In the current circumstance, the only inter-fund transfers that could have implications for consolidation are those between the city's utility-based enterprise funds and the city's general fund. Since the city does draw some customers from the unincorporated parts of the county, there is a potential for the county residents to have a stronger financial interest in consolidation than the city residents.

## ***Current Expenditures***

The City of Fayetteville and Cumberland County provide different services to their citizens, reflecting the traditional roles of cities and counties, making budget comparisons inappropriate.

Cumberland County provides funding for traditional countywide services such as the constitutional officers, jail and courts, health and welfare, library, elections, and tax administration. The county funds one service which primarily serves the unincorporated areas: the volunteer fire department.

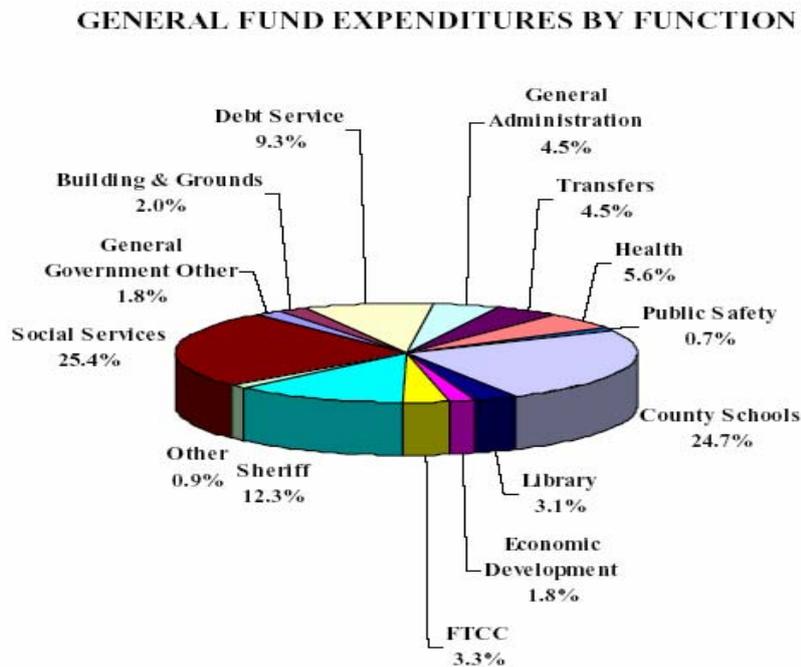
Fayetteville offers its citizens traditional municipal services such as police, professional fire service, street maintenance and traffic signaling, zoning, planning, and sanitation. The city also provides utilities (e.g., water, electric) countywide through enterprise funds. The larger per capita expenditures reflect the costs of these additional services, particularly utilities. It is important to note that the per capita spending figures may be a bit misleading because they include utilities which serve customers well beyond the city limits.

As Tables 9 and 10 on the following pages indicate, the full expenditure levels for the two governments are approximately equal. However, with regard to urban-type services such as police, fire, and utilities, the city's expenditures levels are substantially higher on both a general and a per capita basis.

<b>Table 9: Fayetteville's 2006-2007 Expenditure Budget</b>		
<u>Schedule A: General Fund</u>		
	City Attorney's Office	\$ 1,194,314
	City Manager's Office	890,517
	Community Development	1,087,987
	Customer Focus	352,460
	Engineering & Infrastructure	10,666,718
	Finance	2,505,843
	Fire & Emergency Management	17,912,483
	Human Relations	235,566
	Human Resources Development	1,025,524
	Information Technology	1,404,363
	Inspections	2,517,912
	Management Services	823,249
	Mayor & Council	619,576
	Other Appropriations	19,186,547
	Parks, Recreation & Maintenance	15,319,074
	Planning	590,368
	Police	39,556,677
	Solid Waste Management	7,424,613
	<i>Total General Fund</i>	<i>123,313,791</i>
<u>Schedule B: Parking Fund</u>		199,953
<u>Schedule C: Total Estimated Central Business Tax District Fund</u>		101,100
<u>Schedule D: Storm Water Management Fund</u>		2,749,784
<u>Schedule E: Enhanced 911 Fund</u>		1,011,814
<u>Schedule F: Transit Fund</u>		4,309,793
<u>Schedule G: Airport Fund</u>		2,770,364
<u>Schedule H: Law Enforcement Officers' Special Separation Allowance Fund</u>		496,079
<u>Schedule I: City of Fayetteville Finance Corporation</u>		2,518,453
<u>Schedule J: Public Works Commission</u>		
	Electric Fund	168,322,300
	Water and Sanitary Sewer Fund	65,328,420
	<i>Total Public Works Commission</i>	<i>233,650,720</i>
	<b>Grand Total</b>	<b>\$ 371,121,851</b>

Total General Fund	255,439,315
School Fund	9,000,000
E-911	592,344
Mental Health	36,558,983
Workforce Development	2,159,195
Juvenile Crime Prevention	1,613,659
Community Development	2,846,854
NC Elderly	360,472
Solid Waste	8,544,924
Civic Center Fund	4,986,518
Civic Center Debt Service	4,786,050
Volunteer Fire Department Funds	Average expenditure of \$300,000-\$600,000 each
Total Separate Funds	112,319,742
<b>Total</b>	<b>\$ 367,759,057</b>

### Cumberland County Expenditures by Category



### Debt

Simply stated, public debt is money owed by a government to another entity. Debt can be long term, which means it will be repaid over several years or short term, which will be repaid in less than one or two years. Debt is neither good nor bad, but it is important

to know how the money was spent and whether the government has sufficient funds to repay the debt without imposing undue hardship on taxpayers or customers.

General government debts are obligations that should be repaid using general taxes, such as property taxes. Both Fayetteville and Cumberland County have long-term debt to be repaid from their respective governmental and proprietary funds.

The long-term debts owed by Cumberland County and to be repaid from its governmental funds are comprised of general obligation debt, certificates of participation, and promissory notes. The county has modest debt level which is in part reflected in the government's bond ratings. The county has an AA- rating from Standard and Poors and an Aa3 rating from Moody's. The vast majority of this debt in Cumberland County is for services that are countywide in nature (e.g., schools, the DSS building, and a detention center). Because Cumberland County debts are for services that are countywide, consolidation will not impact the debt obligation and no special measures will need to be taken to assure that only those who benefit from the services for which the debt was incurred are paying the debt.

Fayetteville's total outstanding debt is substantially more than the debt outstanding in the county. However, in contrast to the county where the majority of the debt is for general obligation bonds or certificates of participation to be repaid from the general fund, the vast majority of the outstanding debt in Fayetteville resides in their enterprise funds, particularly the utility funds. This debt is for the expansion of utility services and infrastructure and is expected to be paid by the ratepayers rather than by taxpayers.<sup>9</sup> Only in the case of the city's general obligation debt that is to be repaid with general tax dollars will it be potentially important that a consolidated government implement special mechanisms to ensure that only city residents continue to pay for the debt that has primarily benefited city residents. An analysis of the current outstanding general fund debt indicates that the majority of the debt is related to street improvements. In a consolidated government situation, it can be argued that all of the residents benefit from improved streets within the jurisdiction, and therefore current unincorporated residents might be obliged to contribute to the debt payments. Such a policy, however, would need to be implemented in conjunction with an overall street and road improvement plan that ensures that current county roads are also maintained to a high standard.

In sum, the relevant governmental debts are relatively low for both jurisdictions, removing this concern for governmental consolidation. See Table 11.

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<sup>9</sup> Enterprise funds manage the finances of business-type activities, like utilities. Therefore, enterprise debt is repaid from the service itself through user charges and not from general taxes. In other words, the liability resides with the enterprise. The public, as represented by the government, has not promised the lender to repay the debt and so the government has not pledged its full faith and credit (and therefore taxing authority). Instead, the enterprise must raise sufficient revenue to repay its debt, which can translate into higher user charges.

	<b>Cumberland County</b>	<b>City of Fayetteville</b>
General Obligation Bonds paid from General Fund	114,140,000	37,300,000 <sup>1</sup>
Other long-term debt paid from General Fund	74,802,884	17,952,010 <sup>2</sup>
Governmental Debt – Special Revenue Funds	3,368,467 <sup>3</sup>	65,000
Enterprise Fund Debt	51,058,781 <sup>4</sup>	307,329,066
<b>Total</b>	<b>\$243,370,132</b>	<b>\$362,646,076</b>

1. \$9,695,000 is being transferred from the general fund to the utility fund in FY 06/07
2. Includes installment payment of revenue bonds
3. County Mental Health Fund and County Community Development Fund
4. County Crown Coliseum

## ***Post Consolidation Revenues and Expenditures***

Under current law, a consolidated government establishes an urban service district with the same boundaries as the current city(s). In many respects, the expenditure responsibilities and revenues (i.e., taxing authority) would be similar for a post-consolidated government as the current situation for counties and cities. Below is a brief explanation of various revenues municipalities may collect (e.g., franchise fees, state street aid). A consolidated government should be able to collect these same revenues for its urban services district(s).

### **Electric Franchise Fees**

The state of North Carolina levies a 3.22 percent franchise tax on the total gross receipts of all businesses within the State that furnish electricity. An amount equal to 3.09 percent of the total gross receipts of electricity service derived from the sale within any municipality is distributed to the municipality in which these gross sales are made. (G.S. 105-116).

Currently, the unincorporated area of Cumberland County is provided electricity both by the Public Works Commission and other providers. Electric sales by the Public Works Commission are not subject to utility franchise taxes because the PWC is a public utility rather than private one. However, power purchased by the Public Works Commission from other sources at distribution points within the City is subject to the franchise tax through the seller of that power.

### **Natural Gas**

SB1327, *No Tax on Gas Cities*, passed in 1998, replacing the existing utility franchise tax and sales and use tax on piped natural gas with a new excise tax on piped natural gas. Rates are based on monthly therm volumes received by the end-user of the gas. The law provides for the quarterly distribution of part of the tax proceeds to cities, with

each city receiving one-half of the amount of the new tax attributable to customers within that city's municipal boundaries for the quarter.

## **Telecommunications Franchise Fees**

Cities also receive a telecommunications franchise fees based on the amount of telephone gross receipts franchise taxes attributed to the city under G.S. 105-116.1 for the same quarter that was the last quarter in which taxes were imposed on telephone companies under repealed G.S. 105-120.

In effect, because the telecommunications franchise fee was frozen at the point of the repeal of G.S. 105-120 the cities have not experienced an increase in these fees upon annexation of unincorporated areas of the county. If we base an estimate of expected new revenues under consolidation upon the analogy that a consolidation has similar legal impacts to an annexation, we would not expect the consolidated government of Fayetteville-Cumberland to receive any new telecommunications franchise fee revenues.

However, in the document outlining state tax remittances to local government, there is a passage that states:

“The share for a city incorporated on or after January 1, 2001 is its per capita share of the amount to be distributed to all cities incorporated on or after that date. That amount is the proportion of the total to be distributed that is the same as the proportion of the population of cities incorporated on or after January 1, 2001 compared to the population of all cities.”<sup>10</sup>

A key legal question that would need to be answered in order to identify the expected amount of new telecommunications franchise fee revenues for a consolidated government would be: “Should a consolidated government be considered a new incorporation?” If so, would the franchise fees be based on population of the urban services district (i.e., current population of Fayetteville) or the entire county?

## **Motor Fuel / State Street Aid**

The revenues generated by the tax on gasoline are state revenues which are then distributed to municipalities. The State Street Aid (also known as Powell Bill distributions) is included in Intergovernmental Revenues in the City Budget. For FY05/06, the total State Street Aid distribution for Fayetteville was \$3,947,889. For FY06/07, the Finance Department has projected a total of \$5,261,106 due to the significant increase in street miles and population from the Phase V annexation which was effective September 30, 2005. In addition to the State Street Aid, there are other minor revenues received from the State for contracts for services for street functions, budgeted as follows for FY06/07:

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<sup>10</sup> **State-Collected Local Taxes: Basis of Distribution** PREPARED BY THE NORTH CAROLINA LEAGUE OF MUNICIPALITIES -- MARCH 2006

<b>Table 12: Additional State Revenues Received in Support of Transportation Functions</b>	
DOT Signs & Signal Maintenance Agreements	\$153,000
DOT Computerized Signal System Maintenance	90,700
DOT Street Sweeping Agreement	59,970
DOT Mowing/Edging Agreement	134,883

The total FY06/07 projection for street maintenance related revenues is \$5,699,659.

### POWELL BILL PARTICIPATION REQUIREMENTS<sup>11</sup>

General Statutes 136-41.1 through General Statutes 136-41.3 require the N.C. Department of Transportation to pay from the Highway Fund an annual allocation to all active and qualifying municipalities a sum equal to 1-3/4 cents on each taxed gallon of motor fuel that is to be paid on or before October 1. The allocations are to be used for maintaining, repairing, constructing, reconstructing, or widening of any street or public thoroughfare.

### Other Revenues

The State of North Carolina also collects Beer and Wine taxes and a local government sales tax that are remitted in part to the local governments. However, both of these revenue sources are distributed to both types of local governments---cities and counties---such that the total amount of revenue remitted to Fayetteville and Cumberland County would not be affected by a consolidation of these two governments. Additionally, both Fayetteville and Cumberland County collect a local occupancy (or hotel/motel) tax. Consolidation would therefore not impact the amount of revenue collected from this tax.

### Post Consolidation Expenditures

In some ways, expected post-consolidation expenditures would be similar to the post-annexation expenditures of a new city. However, it is typically the case that a city annexation is one that brings in a new area to an existing city that is similar in level and type of development as is the case with the existing city. Consequently, it is reasonable to expect that the level of service to the new area also becomes, in the post-annexation period, similar to the level of service in the existing city. However, in a consolidation, it is likely that some of the unincorporated areas that are consolidated will be different in character to the existing city. In these cases, it is normal and practical for the consolidated government to provide different levels of service to different parts of the community. Consequently, while one would expect the consolidated government to treat the different part of the community fairly and even-handedly, it is not necessary

<sup>11</sup> Source: [http://www.ncdot.org/financial/fiscal/ExtAuditBranch/Powell\\_Bill/partrequirements.html](http://www.ncdot.org/financial/fiscal/ExtAuditBranch/Powell_Bill/partrequirements.html)

that the new government provide exactly the same level and types of services to all areas of the community. It is often the case, for example, that a consolidated government will establish special service districts (i.e., urban service district) that have a lower or higher level of service delivery (and associated lower and higher levels of taxes and fees).

Because of this ability to plan for different levels of service for different parts of the community, citizens and decision makers should not oppose consolidation based on the idea that the cost of bringing all areas of the community up to the standard of service experienced in the existing city jurisdiction would make consolidation too costly.

What this means practically and fiscally is that it is not necessary to conduct a cost analysis of delivering urban-type services to the currently unincorporated area as part of a consolidation study. Essentially, we can assume that the consolidated government could continue to:

- provide to the unincorporated area street lights and traffic control signs based on existing county (state) standards rather than city standards
- ask only that unincorporated area residents pay a monthly street light fee
- provide the unincorporated area with fire services through the existing volunteer fire departments
- not provide yard and bulky-item solid waste services to the unincorporated area or do so on a fee basis
- provide police services at the levels that are currently being provided by the Sheriff

## **Road Maintenance**

In North Carolina the responsibility for maintenance of unincorporated county roads lies with the state government. However, when a city annexes unincorporated areas, it assumes from the state the responsibility for road and street maintenance.

In evaluating the financial impacts of a consolidation decision, a key factor would be whether the expected new income from consolidation would be sufficient to cover the costs of expected or mandated new service levels for road maintenance. In order to address this issue, we gathered information from both the City of Fayetteville and the North Carolina Department of Transportation.

Data from the City of Fayetteville suggests that the State Street Aid monies by themselves are not sufficient to provide for a level of street maintenance that is congruent with the city's standards for this service. Data provided by the city's Finance Department indicates that the construction and maintenance of streets consists of the following components and costs:

Engineering Administration	\$862,302
Annual Street Resurfacing	\$2,400,000
Traffic Services (Signals, Signs, Markings)	\$1,547,206
Street Sweeping	\$550,448
Street Maintenance	\$2,367,519
Construction Management	\$573,243
<b>TOTAL</b>	<b>\$8,300,718</b>

In addition to the Engineering & Infrastructure Department budget, the Right-of-Way Maintenance function (mowing, edging etc.) is performed by the Parks, Recreation, and Maintenance Department. That budget includes \$1,033,071 for this function. Including all of the above, the budget for street maintenance and construction functions would total \$9,333,789 for FY06/07. This is approximately \$3.6 million more than the \$5,699,659 that the city expects to receive in State Street Aid.

Based on the above information, the City spends more on these services than it receives from the State Street Aid funds and other street/signal revenues. In addition, the City has also been advised (by an external consultant) that it should be spending approximately \$1,000,000 more annually on street resurfacing. The FY07 street resurfacing budget is \$2.4 million - the consultant recommended \$3.4 million.

If we extrapolate the findings to the unincorporated area of Cumberland County under a consolidated government that received State Street Aid, we would conclude that if the State Street Aid is insufficient in the case of Fayetteville, it would also likely be insufficient in the extended case of a consolidated government.

In Appendix A, we discuss the potential impact of having the urban services district boundaries be coterminous with the county boundary. Under current law, the expansion of the urban services district from the current municipal boundaries is limited due to density requirements. Therefore, the scenario in which the urban service district boundaries extend countywide (within a short time frame) would require amending current state statutes.

## **Chapter 5: Opportunities for Functional Consolidation**

Functional consolidation is the merging of a single type of service provided by two or more governments. Both governments retain some level of financial responsibility for the service, but only one government produces the service. Functional consolidation can increase operational efficiency by reducing overhead and administrative costs. Furthermore, citizens can benefit from a higher level of service that neither of the governments could individually provide. Finally, having one government produce the service (i.e., implement it) it can reduce confusion and increase accountability to residents.

However, it should be noted that functional consolidation can potentially involve increased costs for coordination and governance. Staff in functionally consolidated departments may be frustrated in cases where the consolidation of the function did not result in a consolidation of authority for day-to-day operations of the department. In cases where both governments maintain some level of responsibility and direction over the provision of services, staff will sometimes feel stressed by what they might describe as the “impossible task of serving two masters.”

As mentioned earlier, Cumberland County and the City of Fayetteville offer services traditionally associated with their own form of government. To the degree that the County and City provide different services, there is less need for functional consolidation, and there should be fewer problems or disruptions with full governmental consolidation. However, single-service provision also offers fewer opportunities for reaching improved economies of scale or to capture cost savings from governmental consolidation.

Fayetteville and Cumberland County have been and continue to be very successful in maximizing efficiencies and economies of scale by selecting a single service provider for several countywide governmental services. In particular, a single provider offers electricity (city), water (city), airport (city), library (county), landfill (county), and animal control (county) as well as the “traditional” services such as courts, tax assessor, emergency management, and elections.

### ***Current Functional Consolidation Efforts***

Fayetteville and Cumberland have functionally consolidated five services: Economic Development, Parks and Recreation, Storm water utility services, Para-transit, and Human Relations.

While a comprehensive assessment of the functioning of the services that are currently consolidated on a functional basis is beyond the scope of this study, we did collect some perspectives on these services as part of the current study. In general, the study respondents expressed positive views of the existing functional consolidations. Example remarks included the following:

The consolidation of Economic Development is a good arrangement. While it has not been extremely successful so far, it is certainly the best way to perform this function.

The consolidation of the storm water utility services under city management makes sense in that the city is most concerned about this issue. The consolidation effort has not been troubled by city-county disputes over the management; rather it has been frustrating for the city staff because the county is not that interested in storm water. If you can't get something through the County Commission, the idea is dead. Cumberland County was brought into the storm water requirements in Phase I of the program. This could change in the future.

The Parks and Recreation consolidation, which took place about 2.5 years ago, made good sense in that with the city annexing a large portion of the tax base of the special recreation district; it was less likely that the county could continue to support a separate service. The merged department of parks and recreation departments still receives some levels of direction and control from both the city and the county. However, the merged department does not have a consolidated budget; rather funds from the county are directed to the unincorporated county district and those from the city to the city area. In a few years the unincorporated recreation tax district may not generate enough money to operate the facilities in the non-urban areas of the recreation tax district. This consolidation is functionally working OK, but it is not a true consolidation, so it may experience more difficulties in the future.

However, as an example for further consolidation, the parks and recreation merger is not viewed as entirely successful. As one respondent pointed out, no cost saving were experienced as a result of the merger. This was due in part to having to raise county employees' salaries to city employees' levels.

The consolidation of the Human Relations function appears to be working adequately, but is not entirely without issues. For example, the county and the city still address diversity issues quite differently: The city has a written protocol for addressing employee complaints of discrimination; the county does not have such a protocol, and elected officials and administrators are reported to address diversity issues in a more ad hoc fashion that does not involve calling the Human Relations Office when there is a problem.

In addition to the existing departments that are functionally consolidated, the city and county governments used to have a merged planning office/commission. This effort was ultimately dis-established. The reported reason for eliminating this consolidated department was the inability of the consolidated department to deal with the different standards in regards to such things as planning and development. In the end, both the city and county decided to return to having their own departments.

## **Implications for Governmental Consolidation**

As these remarks indicate, functional consolidation, even when fairly complete for a specific service, does not necessarily eliminate the need for considerable amounts of coordination, dual reporting requirements, and joint problem-solving between the two governments. These represent fairly substantial administrative and opportunity costs

for the functionally consolidated service. Such cost would be substantially lowered under a full governmental consolidation.

### ***Opportunities for Functional Consolidation***

While full governmental consolidation affords an opportunity to achieve economies of scale and scope across a number of functions, including all of the administrative and support functions of government, functional consolidation is typically limited to direct service functions and to a more limited number of support functions. This is the case because administrative functions of finance, accounting, inventory, purchasing, human resources, risk management, legal services, and the like tend to be tied to a very specific individual government and its unique policies and procedures. While it would not be impossible to consolidate these services, it is typically less cost effective to do so. However, there are some support services such as mail room and delivery, building and fleet maintenance, printing and archiving, and others that are potentially amenable to functional consolidation.

One service that has received considerable attention in this regard is Geographic Information Systems or GIS. Geographic Information Systems are often consolidated on both a local and regional level with substantial economies of scale. The economies for this function come from the avoidance of duplicative costs for the creation of data as well as the ability to share data that is valuable for more than one purpose. GIS services are typically used by a number of departments including water, sewer, electric and storm water utilities, planning and zoning, transportation and transit, law enforcement, parks and recreation, board of elections, building maintenance, and others depending on the sophistication of the GIS applications that are developed. Hence, we believe that some cost savings may exist as well as offering added effectiveness and convenience to the development of a joint city-county-PWC GIS capability.

Another service that is likely to be more effective and efficient in a functionally consolidated model is E-911. A number of respondents indicated that there was a strong need to consolidate emergency 911 services. Currently, the city's E-911 service is provided as a unified dispatch for all its emergency services. However, on the county side, there are separate dispatch services for fire/EMS and law enforcement (i.e., the Sheriff operates a separate dispatch service).

By putting all 911 and other dispatchers in one department, the community would achieve a single public safety answering point that could do a better job at understanding and coordinating emergencies, particularly large-scale emergencies, in a more comprehensive manner. As a stand-alone, communitywide service, E-911 could coordinate police, fire, EMS, and other service providers in a more appropriate manner, e.g., putting the right people where the most challenging workloads are. Moreover, a consolidated dispatch service should be able to handle the same call volume with fewer dispatchers.

The city's and county's Community Development programs represent a third area that would likely benefit from functional consolidation. The program officers have already explored various means of implementing such a functional consolidation. The key advantages cited for such a consolidation include:

1. **Reduction in administrative costs** – The City would not need a staff or space to administer the program. This would reduce general fund expenses for salaries and fringe benefits, overhead, and indirect costs for departmental support (i.e., finance, legal, information services, etc.).
2. **County staff expertise** – The City would be spared the time and expense in preparing a request for proposals seeking qualified applicants to run the program. The City would reap the benefit of local expertise provided through the County’s Community Development Department. Experienced staff are already in place to administer the program.
3. **Long range planning** – It could eliminate fragmented community development planning. During the consolidated planning and annual planning processes, the County would be looked at as a whole. Annexation would no longer be an issue in community development planning.
4. **Increase in program income** – The increase in entitlement funds would increase the number of loans that the County would be able to make – thereby potentially increasing the amount of program income that could be generated for other projects.
5. **Lack of jurisdictional boundaries** – Consistent programs would be implemented countywide. A centralized office would offer convenience to citizens and end confusion regarding service areas. It would also eliminate time consuming, inter-agency referrals.
6. **Best product offered** – The new consolidated department would evaluate policies and programs from each entity and develop the best products that could be offered under one program.
7. **More cost effective** – Overall, less entitlement money will be used for administration, and more dollars can go directly into the community.
8. **Eliminate duplication of effort** – Currently, for-profit and non-profit agencies seeking community development funding must go through two separate application processes with different requirements for each entitlement jurisdiction. A combined department would eliminate the paperwork burden on the general public.

The main **disadvantage** cited in a memo on this issue was that the consolidated department would be implementing two different programs under the “guise” of one. This could become administratively cumbersome for staff as the City’s loan programs have different terms than the County’s.

Other services that could potentially benefit from consolidation include the following:

- Fleet management.
- Emergency management. (Formerly the city relied on service from the county’s emergency manager, but the city evolved its own responsibilities in this area.)
- Fire Marshall services.
- Telecommunications services. The City of Fayetteville currently has developed its own voice over IP telecommunications services that promises to provide data and voice services at a lower cost than is the case when the local government purchases these services separately from a telecommunication company.
- Transit services. Numerous communities that are similar to Fayetteville-Cumberland in terms of the level of urban development have a single county-

- wide consolidated department (or independent authority) to handle transit. Such a department could have a board appointed by both the city and county and could include representatives from Fort Bragg and the other smaller cities.
- Long-range planning. While day-to-day planning efforts involve a great deal of politically sensitive activity that elected bodies reasonably desire to monitor and control, long-range planning is less sensitive in this regard and could potentially be handled by a consolidated department. Such a joint department or unit could look at the needs of the entire community as a whole. However, we recognize that de-linking day-to-day planning from long-range planning is difficult to do in any real sense.

We believe that future functional consolidations could be beneficial and result in higher levels of services for citizens, but success is highly dependent on strong support from elected officials, senior management, and the affected departmental staffs. Moreover, functional consolidation that also involves a measure of allocation of service responsibility to one government or another can potentially achieve greater cost savings since such an allocation can reduce the transaction costs between governments, the duplicative administration, and oversight costs. As one respondent remarked, “If I had a magic wand and could use it to make things as I think they should be, I would provide a review of all services provided by the city and the county, and then sort through them and decide which government should be responsible for the provision of the services. This is the way I would seek to resolve the issue of any overlap in the provision of services.”

## **Chapter 6: Opportunities and Barriers to Governmental Consolidation**

In researching the opportunities and barriers to governmental consolidation, the Institute of Government interviewed close to forty city and county representatives. Interviewees were selected by the respective city and county management teams and were chosen based on their knowledge of the governments, the community, and the potential for their service area responsibility to be seriously impacted by a consolidation (i.e., there would be a parallel department or service unit in the other government). The interviewees offered many interesting and astute ideas regarding the opportunities and barriers to governmental consolidation as well as what steps would need to be undertaken for the public to support governmental consolidation.

### ***Public Perceptions and Community Culture***

All consolidations require public support. As part of that, public officials and interested persons in a community can gauge the likelihood of a successful consolidation effort by the level of public interest. Therefore, a frank discussion of our interviewees' perceptions about consolidation is particularly important in understanding the opportunities and barriers to governmental consolidation.

Public perceptions and community culture are extremely powerful forces for change. To the extent the community supports consolidation, such efforts can be successful and vice versa. The Fayetteville-Cumberland community's culture appears to be one that is similar to the Missouri motto of "show me." That is, a large number of interview respondents indicated that they did not have a particularly strong interest in consolidation one way or another but that they were open to being convinced either to the value of the idea or that it was not appropriate for their community.

Additionally, based on comments from some interviewees, it seems that the recent annexation had left some citizens with a sense of unease regarding dramatic changes in the nature of the governance bodies and jurisdictional regulations that would rule in their part of the community.

Similarly, some respondents expressed an unwillingness to go through a consolidation process in an experimental fashion. As one respondent said, "unlike our experience with the consolidation of parks and recreation, we need to have some answers rather than waiting to learn as we go."

A number of respondents expressed mixed feelings regarding consolidation. They felt that the concept was theoretically sound, but they were unsure in the specific case of Fayetteville-Cumberland as to what exactly would be achieved with consolidation, and would it be worthwhile. They felt that these issues had not been addressed. Similarly, they felt that more consideration must be given to the possible unintended consequences of consolidation and to the problems that consolidation might create.

These mixed feelings about consolidation were aptly expressed by a respondent who said, that there “Does not seem to be a critical mass of support for consolidation. The effort is a worthy goal but it is currently distracting to staff.”

While mixed and “show me” responses were the dominant feelings among the respondents, a good number of them also felt that consolidation would be a major benefit. As one respondent said, “I think if people could get beyond concerns about their jobs and positions and concentrate on what will be good for the entire community in the future, consolidation would offer a lot... Policy guidance from a single body would be the only way that there could be any real accountability.”

Perhaps the dominant feeling among respondents and that of their staff (respondents were asked to describe how their staff might feel about consolidation) was expressed by one person as “If the folks that make the decisions are for it, I will do my best to make it happen. “

While only a minority of respondents expressed strong enthusiasm and optimism with regard to consolidation, a large majority of respondents did identify benefits that they believed would result from consolidation. For example, a good number of respondents indicated that they saw consolidation as potentially providing costs savings for the government, improved efficiency and effectiveness, better planning and economic development, and more transparency for citizens. Respondents also reported that they thought that the Fayetteville-Cumberland community was one that was well situated (e.g., in terms of there only being one large municipality) for consolidation.

## **Potential Benefits Cited**

### **(Paraphrased from Interviews)**

- Ideally, we would have a larger pool of resources and be in the position of being able to better manage our resources which might allow the new government to move beyond the situations they are in now. The increased flexibility will allow us to more efficiently deal with problems and take advantage of opportunities to benefit the community. If the department could see only having to report to one body and not two, we would be better able to see ourselves as one community.
- I suspect that city employees would benefit in terms of salary, especially if there is consolidation with PWC: they get paid more. It should also prevent the duplication of services. In terms of risk management, we might get benefits from consolidated insurance.
- All salaries and benefits would have to be equalized. This would mean higher pay for some.
- A single set of ordinances would be good for everyone.
- There would be economic development benefits to consolidation. It would simplify things for new businesses.
- Even if consolidation were revenue neutral, it would be more efficient, so while there may not be an immediate savings, there will be over the long run.
- Professional interaction among staff would be much better. We would have the opportunity to have our staff specialize in a particular area, as well as cross train

staff who could cover problems/issues that arose when the primary staff member was out of the office for whatever reason. The professional stimulation of working with city staff members would be a tremendous benefit. I cannot stress enough how important I believe that the personal and professional interaction that would result from the consolidation of the county and city offices. As I said earlier, I would not hesitate to serve as the current office director's deputy. In regard to the county and city, I am sure that consolidation would provide a chance to look forward at new opportunities for the community that might never be considered as long as there are two independent local government entities.

- Citizens would be happier with the increase cooperation that consolidation would bring.
- Consolidation could remove duplication of services in the area of law enforcement.
- I favor it – It is a “no brainer.”
- The geography and the fact that besides Fayetteville there are only very small cities would seem to favor consolidation.
- Cumberland County is a large county geographically, and consolidation would allow better use of resources and creation of satellite offices throughout the county to better serve citizens.
- Transportation is an area that could benefit; more funding is needed to expand city transportation services to outlying county areas, but the county mentality is that everyone has a car and transit is not needed in the unincorporated area of the county.
- Better citizen access, particularly for non English-speaking populations, would be a big benefit from consolidation as the new single government would be simpler to understand and could afford to operate good information services for citizens.
- Better delivery of services, less citizen confusion.
- Currently, the PWC is appointed by the city, yet it also serves the unincorporated area of the county. The county would like some representation. Consolidation would provide that representation.
- Having a police department and a Sheriff's department results in citizens getting confused. Especially people who rent or who are transient. Consolidation could reduce the waste in this duplication and could help reduce the squabbling over who gets paid the most.
- Consolidation would provide simplicity in talking about local government. Currently, you have to spend a lot of time explaining to citizens the various responsibilities of the different governments. It would make communications with citizens more of a one-stop service.
- The city is getting more HUD dollars as they have annexed. Consolidation would represent a type of additional annexation, so more dollars should be forthcoming.
- At a minimum consolidation will lead to a savings in terms of salaries and support costs for elected officials since we would not need to have the equivalent of 9 city council members and 6 commissioners.
- Consolidation would be of benefit to city residents who now pay county taxes for services that they do not receive.
- Under consolidation you will have a fewer numbers of people you have to go to

- if you want to address an issue that is a communitywide one.
- Consolidation should lead to eliminating layers of management, streamlining communications and improved citizen participation.
  - Consolidation would end the turfism and shirking of duty. Sometimes the governments say “that’s a county problem” or “that’s a city problem.”
  - Consolidation might have led to better decisions about the community’s sense of place. Why are the anchor facilities not downtown? Because they were developed by the county government which did not share an urban design perspective.
  - City residents don’t view the city council as particularly effective. County residents also do not respect their commission. Consolidation could lead to a new set of leaders.
  - Citizens would like the fact that under consolidation there would be fewer elections.
  - Consolidation could lead to a more efficient use of facilities. For example, there is currently an empty floor in the social services building that could be used.
  - Consolidation could help do away with the petty envy and jealousy that stymie good conversations and ideas (e.g., the Crime Stoppers program took three years to resolve the politics so as to make it effective as a countywide program.)
  - Public affairs could be more productive and/or produce cost savings. We have a transient population that does not understand the layers of government. It would simplify this.
  - The county has a print shop that is probably redundant with the city’s.
  - City does solid waste pickup. They don’t have the size equipment that the county has. It would be of benefit for the city to use some of this large equipment.
  - There is redundancy in the televised broadcasting of meetings. Under consolidation, the new government could use the current city’s better room and equipment.
  - All the 20 fire departments would be merged into a single department that could provide a standard of care that was equal.
  - You would get the benefits of joint purchasing.
  - There should be some benefits to streamlining operations that are now disjointed.
  - Could do a better job of emergency management under consolidation. The city used to use the county’s emergency manager, but city has its own responsibilities in this area now.
  - Emergency communication would likely be more coordinated under consolidation. Currently, the county’s fire and EMS do not use 800 megahertz. All other first responders do use this communications system.
  - Consolidation should have been done a long time ago.
  - Even if consolidation does not happen, it will someday be the case that municipalities will cover the entire area, and the county will be going out of the municipal-type services business as a consequence. Consolidation represents a way to bring early planning to the spread of municipal-type services to the areas that would otherwise be getting these from a county department that will eventually go out of business.
  - It is not rational having 19 different fire departments. There are some good old

boy fire departments that are not up to standards. There are fire departments that are in good shape and those that are very poor. One department may be on the brink of going to a 10 ISO rating.

- Consolidation would provide some cost savings with regard to salaries. Currently you have agencies competing for employees by offering higher salaries. Consolidation would stop employees from jumping from one government to the other.
- Consolidation could lower the cost of telecommunications through the adoption of a single voice over IP system.
- Consolidation would allow for purchasing in bulk.
- Consolidation would mean that everyone would be working under the same rules, and there would be much more consistent services. You would not have 15 different computer systems. You could save by buying fewer systems and having fewer technical people and more people providing service.
- City, county, and sheriff are working off different CAD systems, each with maintenance costs. Consolidation could reduce these costs.
- Consolidation could possibly eliminate duplication of services related to engineering.
- Consolidation would spread the cost of things more equitably between city and county residents thereby reducing the “free rider effect.”
- Consolidation could lower the cost of desktop/office software through the increased buying power of a larger government and lower the cost of server and application software and hardware through the elimination of duplicative systems.
- Consolidation could potentially lead to better operational procedures at the landfill. Currently, the City has to get in line with everyone else. Also, it could improve the recycling program. By having one voice in waste stream issues, it would result in a better negotiation position with private haulers. It should also be beneficial in long run in reducing and managing the total waste stream.
- Consolidation should help the government do a better job of leveraging other public/private dollars.
- Consolidation would ensure that the entire community will continue to qualify for American Dream Down payment Initiative (ADDI) funding. If the County’s population falls below 150,000 as projected, it will be ineligible for future ADDI funding.
- With its decline in unincorporated population, the County lost the Emergency Shelter Grant (ESG) funding to address homelessness in the community (countywide). Now, neither the City nor the County meets the minimum threshold for ESG allocations. With a consolidation, there is the possibility of restored ESG funding.
- In the past, both the City and County have hired consultants to complete their housing market analysis. Under consolidation there would only be a need to hire a single consultant to complete a housing market analysis for the entire county.
- The merger would be plus with the military. With all the extra troops, it would be good if they only had one government to deal with.
- Because of the expected new growth in the Army base population, there will be a large amount of stress on local infrastructure. A consolidated government may be in a better position to deal with this.

- The Public Works Commission would love to bring sewer out to the county areas, but the city is holding up on this. Consolidation would resolve this.

While respondents identified benefits to consolidation, they also recognized that consolidation would likely present a number of challenges such as creating a single unified organizational culture, managing diverse service delivery needs, merging ordinances, integrating technologies, and ensuring the appropriate types and level of representation.

## **Potential Challenges that Would Need to be Addressed**

(Paraphrased from Interviews)

- With regard to Risk Management, the city and county have different approaches to self-administration of risk management.
- If individual city or county employees see themselves as being undervalued by the new consolidated government or believe that they are not being dealt with equitably, there will be severe morale problems.
- Since the citizens of the city have higher needs, it would be difficult for one department/government to deal with the varying and often conflicting needs of the citizens who live in the urban areas as opposed to those who live outside the urban areas.
- If the consolidated government decides it needs advisory councils for the urban and general services districts, how will this differ from what we have now other than that instead of elected bodies, we would have appointed ones?
- Personally, I believe in consolidation, but I do not think the time is right. I am sure that we need at least 10 more years for it to be studied so that all of the potential complexities can be analyzed and understood. I do not believe that consolidation is a panacea for all of the city's and county's problems, but I worry that too many people view consolidation simplistically as being a comprehensive answer to many of the problems that the county and city face. I would not think of saying how my staff might feel. Very little, hardly anything has been said about the consolidation in my office or at least not in my presence.
- Need to figure out if rural areas that might not fit into the larger merging of ordinances could be regulated differently under consolidation and could receive a different set of services and tax rates than in the more urban areas.
- Figuring out how to organize law enforcement will be the biggest issue.
- Potential job loss for government employees.
- There would have to be seriously good planning ahead of time (e.g., with regard to such things as severance plans and the structure of the government and the representative districts).
- It would be important to be able to keep the names of the current governments in the name of the new government. City residents are especially concerned about this.
- Potential loss of influence by people who have been in power.
- Who would take the lead with regard to directing the work in the new government (former city or former county managers)?

- Some degree of public outcry would probably be inevitable.
- The time is not right. This is largely due to the bad taste in people's minds based on the large annexation that took place recently with hardly any public input or any explanation of what was being done or the reasons behind the annexation.
- For there to be any chance that consolidation will benefit the community, it will be necessary for the Sheriff to be the chief law enforcement officer.
- Both Inspection departments collect fines for the same code violations, but where and how the monies are spent under a consolidated government is likely to differ from how such monies are now handled since they will be distributed by a new group.
- The City of Fayetteville and Cumberland County have program and philosophical differences related to Community Development.
- There may be some disagreement as to how to operate some services. Because we have to run as an enterprise fund, rather than a general fund, we have to be more efficient to survive. If we do not make money, we cannot continue to operate. There are private companies that would like to replace us. If the right operating procedure is not chosen, the service could be provided less efficiently rather than more.
- If all the community development dollars were in one pot, the new government would probably spend the money more in the incorporated area; this could leave the unincorporated without any funding.
- There is a need for establishment of a fund balance to ensure the level of service is maintained.
- On the county side, so much is mandated that they have little room for innovation and efficiency.
- It would be an education process to get community to support this. We have a lot of people who have paid higher taxes in the North. They want the services, but are enjoying the low taxes and don't want to pay more. They are retired military and are very vocal. If you can pose an intelligent argument, you can get it through.
- From an African American viewpoint, in the current situation, we get two bites of the apple and we have multiple voices. However, it is also true that in the consolidated situation you might be able to organize a larger set of minorities.
- Consolidation might be good in that we can't do much worse on the planning side; we do not plan for the long term; we just let the individual zoning decisions drive the process. It is true on both the city and the county side. Consolidation would be a gamble, but it might be worth it.
- County could and should do more in animal control. If you could do more under consolidation, you could sell some people on the idea.
- The type of representation in the new government would be important. Some people would like to eliminate the city's large number of single member districts (9). They believe that the level of discourse would be improved with a smaller number of representatives as would be the case were the consolidated government to follow the county model.
- Consolidation could result in a battle between the two governments as to who will come out the winner in the process.
- Volunteer fire departments see annexation (and by extension consolidation) as a loss. However, the city has been able to hire a number of volunteer fire fighters

from these departments.

- The danger would be that the city would lose some on its ISO fire protection class rating even as the unincorporated county areas might gain in their ISO ratings.
- You would not be able to staff a consolidated government fire department the way the city does now (i.e., with an all-career force). This would not be economically feasible. But a combination volunteer-career department would be possible, but this would represent a management challenge.
- If a consolidated department gets too large you lose the benefits of streamlining.
- You can currently burn materials in the county because they do not provide refuse pickup. The consolidated government may have to address the legal issue of whether or not you can have a district where there is pickup and one where there is not pick-up and thereby also have a district with burning allowed and one where it is prohibited. There are likely to be a number of ordinances that will need to be reconciled.
- It may be difficult to figure out who “really” pays for what... “How do we make sure the rural farmer on the edge of the county feels that he gets the city benefits when he may actually ‘do more’ in the neighboring county?”
- “How do we work out what roads become city (or locally maintained) roads and which remain state roads? How do we deal with the in-between roads?”
- There are multiple information technology service providers even within the individual governments. There is a great need for IT coordination within the jurisdictions. The challenge of coordinating across the jurisdictions would be immense given that we have not successfully met the challenges of within-a-single-government coordination.
- Would consolidation mean that the city extends bus service to rural portions of the county?
- If consolidation comes with an inability to reduce numbers of employees, it will be difficult, if not impossible to achieve cost savings.
- Working together on the 800 megahertz system. The county fire districts are not part of this...would consolidation require them all to be on one system? On the VHF systems that these departments use there are paging capabilities, but not in the 800 megahertz systems. A consolidated government could patch together a combined system, but do you want to maintain two system and the associated costs.
- Even if a consolidated government chooses to have its own police department, the position of sheriff can not be removed, and the public could be concerned with having both an elected and appointed person in charge of law enforcement. The duties and responsibilities of the office of the sheriff are spelled out in the law, and they are much broader than what is required of an appointed police chief and a police department. However, because of the potential for overlap, managing the dual sets of responsibilities will be a great challenge.
- A key challenge will be the political differences between those who will want districts vs. at-large elections. City residents will want to preserve districts as they have no desire to be led by the “good old boys” at the County Commission.
- My feelings about consolidation are based on the hard feelings and problems that we now have after the large annexation that has caused shifts in how thing will be done in the city and questions of there being any benefits for the old and new citizens of Fayetteville.

- City folks would get a more county-like government. They would have to be convinced that this would be OK.

Respondents also identified a number of potential disadvantages to consolidation. A number of the identified disadvantages were simple expressions of pessimism regarding the difficulty of the consolidation effort and the level of expected benefits. A couple of respondents had particular concerns about the consolidation of fire services. Perhaps the most significant cited disadvantage was the increased scale of representation, i.e., that a single commissioner/councilor would represent a larger number of citizens.

### **Potential Disadvantages Cited (Paraphrased from Interviews)**

- There may be an exodus of city employees, especially top-level employees, out of positions (e.g., retirement).
- Citizens will have the same level of input with their elected officials if consolidation takes place. The scale of representation will be larger.
- I do not believe that it offers much or will accomplish anything. We have looked at consolidation three times in the past, and it is clear that there will be no monetary savings.
- The problem is that there are too many differences, in such things as computer technologies and the services provided, to ever put the two governments together.
- The need to relocate the consolidated department to a new location that will handle all of the responsibilities could be costly.
- It actually cost more to consolidate as there would be no employee reductions and no savings. The costs to raise county employee's salaries to city employee's levels would be expensive.
- Because the city and the county provide such different services, there would not be any cost savings or improvement in services as a result of consolidation.
- Greater efficiencies could be generated by developing better internal controls. Consolidation is a bit of a distracter.
- Consolidation would result in diluting of services that are not yet sufficient in the city. The city does not have the capacity in road maintenance to even serve the city area. The city should focus on this before consolidation.
- The new unified government could not get a dual ISO fire protection class rating as is now the case under the separate governments and the 19+ fire departments.
- There is a concern among some volunteer fire fighters that they would lose the identity of the individual fire departments.
- Fire Marshall service in the city charges fees while the county does not charge. Also, the city has more inspectors than the county per the number of businesses in the respective jurisdictions.
- Consolidation could potentially result in a loss of personalized service that smaller departments can sometimes provide to constituents.

## ***Conditions Favoring and Not Favoring Consolidation***

Creating a new form of government does involve some risk, and there are no guarantees that the new government will be better than the existing situation. What consolidation does offer is an opportunity. In other communities, perceptions of acrimony among elected officials have been a means for encouraging governmental consolidation at the grassroots level. In other words, the public views consolidation as a fresh start, where public officials can work together to build a new government. However, without empowerment and a belief that positive change can be achieved and a willingness to take risks, that public effort will not occur. The comments of several interviewees indicated that the public's will for change and risk acceptance in Fayetteville and Cumberland County is not particularly strong, which could make it difficult to create and maintain a community-based consolidation movement. However, a number of respondents also expressed a level of dissatisfaction with both governments that would indicate some potential desire for a fresh start.

Respondents were asked to describe conditions and groups that might work to support a consolidation effort as well as conditions and groups that might undermine support for this change in community governance. One respondent who has some past experiences working with city-county consolidation projects in other jobs suggested that consolidations "in general" are more successful when the city already makes up a majority of the county. We concur in this observation and would generally have concluded that the extensive Fayetteville annexations in recent years would work in favor of consolidation. However, a number of respondents pointed out that there were still "bad feelings" among some of the residents and property owners who were annexed and that these residents might be set against any further changes in local government. However, an argument could also be made that a consolidated government would be one that was more likely to represent interests that were more similar to the existing county government (i.e., both the county government and the consolidated government would be composed of countywide representation) than to the existing city government.

Interviewees also discussed identity differences between city and unincorporated residents. They said that the public does not see itself as one community but rather as two distinct groups. As one respondent remarked, "I don't think the farmer in the county wants to be associated with the city at all." Ultimately, for governmental consolidation to have public support, these separate identities would have to lessen, and a communitywide identity would need to develop.

A couple of interviewees expressed real concern that consolidation would politically marginalize the African-American community. In other words, anxiety exists that the gains African-Americans had achieved through representation in Fayetteville would be lost with consolidation because of the lack of representation at the county level. To the extent that any minority group is under-represented, a consolidated government should carefully develop election districts that address this issue. To help ensure that occurs, U.S. Department of Justice must approve the consolidated government's charter (like any new charter) under the Voting Rights Act before it can take effect. Cumberland County is one of the counties in North Carolina that is subject to the Voting Rights Act.

One interviewee stated that consolidation was unnecessary because individuals or businesses who want city services can simply annex into the city. The necessity of consolidation is an important point. If unincorporated residents do not want municipal services and are satisfied with the current political situation, then consolidation may not be appropriate. However, simply stating that all persons wanting to be within the city can annex into it may not be a completely accurate statement and does not fully appreciate the limitations that can be imposed on residents and businesses from the contiguity requirement.

Some respondents observed that one government is often unwilling to partner with or support the other on new initiatives or collaborative efforts. While this perception on the part of citizens (who are often constituents of both governments) can often lead to additional public support for consolidation, the actual inability to work together at the level of management and staff can result in the placement of a barrier to consolidation that would otherwise not exist.

Some respondents described the city as being more progressive than the county, which was sometimes described as being reluctant to raise taxes to fund needed services. Specifically, strong homeowners' associations in the unincorporated part of the county were described as being "anti-tax." These groups might work for or against consolidation depending on whether it is seen as a mechanism for saving tax dollars or spending additional tax dollars.

At least one respondent indicated that the independent utility (PWC) would probably oppose consolidation as part of a general effort by people to protect their own turf and to avoid change. In particular, some might see consolidation as a means for the county to get representation at the PWC table. Other respondents indicated that consolidation might be seen as a threat to the "County's good old boy system or to the City's old money, behind the scenes power structure."

A number of respondents indicated that the differences in services provided by city and county would act as a barrier to consolidation. As indicated in the previous chapter, the perception that all residents must receive the same level of service in a consolidated government is not one that is based on an actual mandate to the new consolidated government.

A few respondents indicated that even though consolidation is favored by much of the business community and those who have regular interactions with the county and/or the city, the majority of the elected officials probably oppose consolidation but feel that it is politically wise to at least explore and continue to look at consolidation.

One respondent noted that those who favor consolidation will need to collect information that can counter the arguments that are likely to be made against it including: a) arguments that point to the problems (real or not) that exist with the merger of the parks and recreation departments and the fact that the promises of this merger have not been realized, with the implication being that similar promises of full consolidation would also not likely be realized; b) that the community has too many different needs and responsibilities to be placed under one roof, and c) that the relationship between the new government and the smaller cities in the county will be confusing and costly to the citizens.

Some people will favor consolidation because it could bring about a more rational planning process. This process was seen as being undermined when the city merged its planning commission with the county's and in the process gave up its extraterritorial jurisdiction. When the city withdrew from the joint planning commission, it did not get back its extraterritorial jurisdiction. Consolidation would facilitate a more community-wide planning process.

Some people feel that the types and levels of services provided by cities and counties are so different that they cannot be effectively consolidated. People will need to see where consolidation will make a difference in service delivery and where it will not.

Government employees at the staff level may not be too interested in consolidation, in part, because it has been talked about before. There is a sense on the part of some staff of "here we go again," i.e., that consolidation talk is a sort of exercise in futility. However, at least one respondent took the opposite tact arguing that the community needs to "get it over with. It keeps coming up as a solution for citizens, and it gets in the way of resolving issues. It is time to move forward with it."

Also, employee experiences with the parks and recreation merger were difficult. There was a sense that the merger resulted in lost productivity and staff bitterness due in part to career paths being potentially distorted by the merging of employees.

## **Ordinances and Codes**

Both city and county use the same building codes (state) and have the same retirement system, so these do not represent barriers to consolidation. However, the city has a stricter housing code, and zoning ordinances are different. For example, there is a 30 foot setback in the county and a 35 foot one in the city for a similar zone.

CUDs – Conditional Use Districts are done differently in city vs. county. The city employs a legislative form of CUD, and the county implements a quasi-judicial (or negotiated) form.

Fayetteville has stricter subdivision regulations, particularly related to streets, sidewalks, etc. The homebuilders prefer the regulations in the unincorporated part of the county. These are state standard regulations rather than city-enhanced ones.

## **Conclusions**

Perceptual concerns are very real barriers to governmental consolidation. To overcome them takes considerable time, energy, and resources. While dissatisfaction with the status quo can be an opportunity for governmental consolidation, it must be accompanied with a willingness to accept risk and empowerment. Creating these latter two conditions would likely require substantial time and resources. Furthermore, other issues of ensuring political enfranchisement and creating a sense of community "oneness" are also critical in any consolidation.

## ***Strategies in Moving Toward Consolidation***

As part of this study, we attempted to ask the question: If the Fayetteville-Cumberland community were to choose to move toward consolidation, what kinds of activities and strategies would be needed in order to make this effort a successful one?

In addressing this question, we asked respondents to voice an opinion on one particular strategy that has been part of a number of consolidation efforts. Specifically, we asked respondents “to what extent do you believe that city/county employees would need to have the promise of equalization of salaries and benefits to the higher level spelled out in the consolidation charter to support consolidation?”

The vast majority of respondents indicated that this strategy/promise would be critical. As one respondent said, “If such step is not taken, you build/create an instant special interest group that will fight the approval of consolidation and might work to make sure it does not work after the fact. To not include such a guarantee would be very foolish.”

It should be noted that while most respondents thought this was a necessary step, a few also indicated that it was a step that would tend to undermine one of the stated purposes of consolidation—to reduce the cost of government. In particular, citizen respondents were more likely to indicate that the provision of a job guarantee for current employees in the post-consolidation government would make it difficult to achieve the desired cost savings. However, most of these respondents indicated that they believed that a mixture of job reassignments and generous severance packages could achieve the desired results in a manner that would not result in the current government staffs actively working against the consolidation effort.

Other strategies suggested by respondents included:

- Work hard on convincing people on the east side of the river as they are the ones most likely to be skeptical.
- Realize that the groups who opposed the annexation are also likely to oppose consolidation. This does not have to be the case if these groups are educated as to how consolidation differs from annexation.
- Make sure that the elected officials are on board. Consolidation will not happen unless and until those at the top (city council members and county commissioners) show a willingness to consolidate by agreeing to have a smaller government than the combined number of council members and commissioners. This would be part of a statement of the real expectations of consolidation which would include not just financial savings.
- Proponents will need to be clear about what benefits employees will get from consolidation. This needs to come from the governments; they should not find things out in the newspaper. Good communication is critical, and employees need to feel appreciated.
- Sell them on the fiscal results--work out the numbers.

- Emphasize the benefits that would come from an extension of urban-type services. Folks in the unincorporated area are interested in getting trash service. City service is acknowledged to be cheaper. The city also picks up yard waste which the county does not. Because the city service is paid through the general fund it appears to be less costly.
- For some people the issue is the need for proper analysis of the details of consolidation. You will need to show that you can get to such levels of efficiency and economies of scale that is desired or promised.
- Educate citizens! Hold public forums moderated by outside folks. Most citizens don't know or care about the different governments, only when they need a service or have a problem do they think about government. Most don't have any concept about consolidation.
- Emphasize that a consolidated government can still be context-sensitive. If people realize that what may work in the city portion of the community but not in the rural areas (e.g., city road requirements) does not have to be part of consolidation, they will not be as afraid of the change.
- Provide community forums, information from other communities that have successfully consolidated, and plenty of opportunities for dialogue.
- Develop short videos on topics of interest, lists of advantages and disadvantages, and news articles on the issues.
- Make sure that people understand the costs of protecting employee jobs.
- Emphasize how full governmental consolidation would be different from the experience of merging the Parks and Recreation departments.
- Bring the newspapers along step by step.
- Get the existing government involved in preparing for consolidation by making the changes needed internally to each in order to be ready for consolidation of the two governments (e.g., in the different information technology areas within the respective governments).
- Produce a good plan that includes specific salaries, duties, and responsibilities of each person (employee) ahead of time.
- Communicate succinctly 3-5 benefits of consolidation.
- Identity what you mean by efficiency; i.e., staving off increases in expenditures not actual tax dollars returned immediately.
- Explain what the possibilities for services under the consolidated government are.

- Develop a good communications plan to address rumors.
- Involve the spouses at the Army base, they vote locally, and they have an interest in simplified government.
- The retirement community is likely to be important; they are involved in civic issues like this.
- Department directors need to be strong advocates; many can be brought in to do so if they are authorized.
- Needs to be a grassroots campaign. Everyone feels that the merger of the school systems was a good idea. You could build off of this experience. Or you could do it gradually department by department.

### ***Service Expansion and Start-Up Costs***

The ability of a new government to expand municipal-type services countywide was mentioned by several interviewees as a barrier to consolidation. Currently, for example, the city's fire department does not have nearly enough capacity to provide services countywide and to do so immediately would require substantial financial commitments. Some interviewees expressed beliefs that unincorporated residents might expect these services immediately in order to support consolidation. Similarly, city and unincorporated residents may desire maintenance of the current solid waste disposal systems, where the former have a governmental service and the latter rely on drop off centers and private haulers. To the extent these comments are reflective of the larger community, these are serious attitudinal barriers to consolidation.

However, as indicated earlier in this report, governmental consolidation does not require that all services be provided countywide. A taxing district could be created to maintain the current solid waste disposal systems. Furthermore, the city residents could be within a special taxing district to fund the career fire service, and over time, the government could expand the taxing district and these services to the wider population. Because these expansions would likely require infrastructure improvements, they could be financed with long-term debt which would help promote financial equity geographically and across time (i.e., generationally).<sup>12</sup>

### ***Governmental Practices and Culture***

The departmental officials overall expressed satisfaction with their government and particularly, with their employees. The culture of both governments appears to be congenial in that both within a government and between the two governments,

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<sup>12</sup> Generational equity refers to current users of a benefit paying for that benefit. Because fire stations and sewer systems have long life spans (i.e., decades), future residents who use these services would help pay for them through debt repayment.

departments will share resources. However, the extent of sharing currently is rather modest.

Although several services will not be affected under consolidation, a few key departments/services would be. These include: administration, finance, human resources, and public safety (both the Sheriff/Police Department and the City Fire Department/County Volunteer Fire Departments). Integrating administrative or staff services are a primary means of reducing costs in consolidation. To the degree that both the County and City have already reduced positions in these areas due to budget cuts and efficiency drives, cost savings will be minimal because departments cannot take on more work without additional staff. Relatively few of the department heads interviewed indicated that there was surplus capacity that could be tapped as part of a consolidation effort. Direct service personnel, like police officers, cannot be significantly reduced because the land area to be patrolled remains the same.<sup>13</sup> Savings may be achieved over time due to economies of scale in service distribution. Furthermore, as a constitutional officer, the Sheriff's position and constitutional responsibilities cannot end with consolidation. The new government would need to decide if the Sheriff should continue to offer police services or whether that would transfer to a countywide police department. As for fire protection, the current situation could remain in place but perhaps with different leadership patterns. Therefore, the service delivery mechanisms in the city and county provide opportunities because there would be relatively fewer departmental changes needed and therefore, less conflict and harm to existing employees. However, that also means less potential for immediate cost savings by eliminating service duplication.

Considered a positive sign from a managerial standpoint, governments benefit from little employee turnover. However, this lack of turnover can make governmental consolidation more challenging. Governmental consolidation legally, involves dissolving existing departments and creating new ones. Establishing effective, new departments can be particularly challenging when combining two existing departments. The departmental cultures of the two prior governments will naturally differ and often clash when consolidated. The longer an employee has worked for an organization, the more comfortable and therefore wedded to its culture he or she is, making the transition to a new department more difficult. Furthermore, because turnover is low, the opportunity to have new employees without an affiliation or loyalty to a prior government occurs less frequently, resulting in a longer time frame for transitioning to a new organizational culture. With a number of city and county employees readying themselves for retirement in the next few years, the opportunity to consolidate may be improved with a newer workforce less invested in the current situation.

Currently, the city and county Finance and Human Resource Departments use different accounting and management information software. As part of a consolidation, one government would either have to switch to the other's system or the new government could purchase new software and have both of the former governments switch over to the new software. In either case, there would be some transitional costs for the software itself and for IT staff time needed to move the data. In addition, there would likely be some training costs as staff unfamiliar with the new software would need to be

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<sup>13</sup> This is not to say the levels of service between the city and county public safety officers are the same. Due to different mandates and priorities, Police and Sheriff Departments provide different services (i.e., the latter serve warrants) and similar services at different levels.

trained in its use. These types of transitional costs are unavoidable but can be minimized with careful planning.

## **Chapter Summary**

The conversations with the interviewees indicate that overall, a strong wellspring of support for consolidation does not exist. This desire for positive change is a foundational issue that must be addressed before consolidation efforts can proceed. The more mechanical issues: debt, personnel policies, integrating financial systems, etc. can be worked out with time. Also, the list of advantages of consolidation appears to be substantial. Even the more difficult issue of combining departments and their cultures need not be overwhelming since the county and city only provide few of the same services. The central issue then is public perception and attitudes toward consolidation

As discussed by several department directors, a successful consolidation effort would require a significant amount of public involvement and education so that every citizen understands the issues. This effort would entail public meetings, not only at public offices but more importantly out in the community such as at churches and schools. The outreach efforts should also include multiple outlets like the newspaper and radio. Consolidation is a complex idea with many competing issues to consider, and information may provide an opportunity to offer solutions to concerns and resolve misunderstandings. With greater information, public perceptions toward consolidation may change, removing the most visible and direct barrier.

## **Chapter 7: Legal Issues relative to Consolidation**

As discussed more fully below, consolidation occurs when a city is abolished and merged with a county while unification occurs when a county becomes vested with the powers of a city. To date there have been no successful county-city consolidation efforts in North Carolina and one county unification. Furthermore, it is important to note that the terms unification and consolidation cannot be used interchangeably in North Carolina.

### ***Consolidation Process***

North Carolina law defines a “consolidated city-county” as a county where the largest municipality in the county has been abolished and its powers and duties consolidated with those of the county. Other cities in the county may or may not be abolished and consolidated with the county.<sup>14</sup>

The consolidation process in North Carolina may but is not required to begin with the establishment of a study commission authorized to study the powers, duties, and organizational structure of the participating county and city or cities and prepare a plan for either functional or governmental consolidation. The participating governments may appropriate funds to support the commission’s work. If utilized, the study commission is authorized to prepare any necessary legislation to consolidate the governments and to call a referendum on the governmental consolidation. A consolidation commission may call a referendum on its proposed plan of governmental consolidation. This referendum is authorized to be held prior to the enactment of any legislation merging the governments and is essentially a “straw ballot” to determine the level of citizen support for consolidation. The referendum may also include the question of assumption of long-term general obligation debt by the consolidated government. A referendum must pass by a majority of those voting. According to David Lawrence, this requires a majority of all votes cast, but does not require a separate majority in the city and in the county. However, such a referendum supporting or opposing consolidation is not binding on the North Carolina General Assembly.

Consolidation requires the enactment of legislation by the state legislature to become effective; there is no mechanism in North Carolina for the affected local governments to consolidate without legislative enactment.<sup>15</sup> The General Assembly may also act independently to consolidate a county and a city without establishment of a study commission. The General Assembly may consolidate without a referendum, except where the affected local governments have general obligation debt.

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<sup>14</sup> N.C. GEN. STAT. §§160B - 2, 160B - 4 (1973).

<sup>15</sup> N.C. GEN. STAT. §§153A-401 – 153A-405 (1973).

## **General Obligation Debt**

The state constitution requires a referendum whenever a local government assumes long-term general obligation debt, either by the initial issuance of debt or the assumption of existing debt of one government by a new governmental entity as in a consolidation. Thus, a city-county consolidation cannot become effective until approval of assumption of any existing general obligation debt in a referendum. Although the General Assembly may act independently to consolidate a county and a city without the establishment of a study commission and without a referendum, the consolidation will only become effective if the assumption of debt is approved in a referendum. Similarly, if a consolidation study commission does not include the question of assumption of debt in its referendum on consolidation, a separate referendum must be held on the issue of assumption of general obligation debt by the consolidated government before the consolidation becomes effective.

## ***Urban Service Districts***

All counties in North Carolina are authorized by the constitution and state law to create county service districts and to levy taxes in those districts for the provision of certain services in addition to or at a higher level than are provided throughout the county.<sup>16</sup> Municipalities are likewise authorized to create municipal services districts and to levy taxes in support of higher levels of or additional services.<sup>17</sup> Consolidated city-county governments are similarly authorized to create special districts and to levy additional taxes in those districts to support higher levels of services or facilities than are provided for the entire county.<sup>18</sup>

A consolidated government may create an urban service district with the same boundaries as the city that was abolished in the consolidation. Additionally, the consolidated government may also create urban service districts for areas that were proposed for inclusion in an urban service district and identified in a plan for consolidation prepared either by a consolidation study commission or by the legislature. If another city is abolished subsequent to the consolidation, an urban service district may be created with the same boundaries as that city after approval of its consolidation by the citizens of that city.

Urban service districts may also be created where no city previously existed if the area meets minimum population, density, and assessed valuation standards and the consolidated governing board determines that the area requires one or more of the services that are only provided or are provided at higher levels for an urban service district. Extension of existing urban service districts requires that the area proposed to be included be contiguous, have a minimum population density and assessed valuation or meet minimum development standards, and that there be a finding by the governing board that the area requires the services that are provided for the contiguous urban service district. Multiple urban services districts may be consolidated if they are

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<sup>16</sup> N.C. GEN. STAT. N.C. CONST. art. V, §2(4); §§153A-185 et seq. (1973).

<sup>17</sup> N.C. GEN. STAT. N.C. CONST. art. V, §2(4); §§160A-535 et seq. (1973).

<sup>18</sup> N.C. GEN. STAT. N.C. CONST. art. V, §2(4); §§160B-1 – 160B-21 (1973).

contiguous and services in each of the districts are substantially the same or if lower, there is a need to increase a service. Urban service districts providing electric or telephone services may not be consolidated with another urban service district unless the voters of the district providing utility services approve the consolidation in a referendum. The consolidated government must provide the additional or heightened levels of services for which the residents of an urban service district are being taxed within one year after creation, extension, or consolidation of the district.

## ***Status of the Consolidated Government***

The North Carolina Constitution and laws provide that any consolidated government shall be deemed both a county and a city and may exercise any authority conferred by law on counties, cities or both.<sup>19</sup> The Consolidated City-County Act of 1973 provides that a consolidated government shall have and may exercise the powers, duties, functions, rights, privileges, and immunities granted to a county throughout its jurisdiction and the powers, duties, functions, rights, privileges, and immunities granted to a city within an urban service district. Outside the boundaries of an urban service district, the consolidated government may exercise the same powers, duties, functions, rights, privileges, and immunities granted to a city to the same extent that the constitution and state law permit a city to exercise its powers outside its city boundaries.<sup>20</sup> In order to understand the implications of these provisions, CVIOG faculty interviewed attorneys from the governments in North Carolina that have previously attempted to consolidate as well as consulting with David Lawrence from the Institute of Government at the University of North Carolina. Because there have been no successful consolidations, the statutes are open to interpretation.

It is unknown but it appears possible that:

- The local act establishing the consolidated government may provide for some different boundaries of the urban service district than are specified in general law.
- In whatever part of the new consolidated government (the urban service district or other) that is not deemed a “city,” it would not have any maintenance responsibility with regard to streets. That is, the state would continue to have responsibility for streets and the new government would not receive any State Street Aid for any such areas.
- The legislation creating the consolidated government could specify that this new government or the urban service district would constitute a *new* “city” rather than a continuation of the consolidating city for purposes of the telecommunications tax and that it would be entitled to receive the telecommunications tax based on the population of the urban service district or the consolidated government.

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<sup>19</sup> N.C. CONST. art. VII, §3; N.C. GEN. STAT. §§160B-1 – 160B-21 (1973).

<sup>20</sup> N.C. GEN. STAT. §160B-2.1 (1973).

- To the extent that the new government is deemed a city, the new government would be eligible for the franchise fees imposed on utilities by the state and remitted to cities. Where the new government is not deemed a city, it would not be eligible for those fees.

## ***Unification***

A unified county is vested with the powers, duties, functions, rights, privileges, and immunities of a city. However, the county continues to be a county; it does not become a city. State law provides that certain laws applicable to cities do not apply to unified governments: annexation, form of government and administrative offices, and law enforcement. A county may become a unified government only if there is either no incorporated city within its boundaries or if less than 100 acres of a city located primarily in another county are located in the unifying county. This is a significant distinction between consolidation and unification – no city is abolished as a precondition to the county having city powers. Voters must approve unification in a county-wide referendum.

A unified government may not exercise any city powers outside the boundaries of the county and if there is a city partly located within its boundaries the county may not exercise any municipal powers within the boundaries of that city. Unification also appears to prohibit the ability of any city partially located in the county from expanding through annexation. A county commission may decide that it will not exercise specified powers and will not be considered a city for specific purposes. If a unified government county commission exercises any municipal power, duty, right, privilege, or immunity it must state the specific statutory authority under which it is acting.<sup>21</sup>

Unification represents a new, potentially more flexible form of creating new local governance. Two specific cases of unification are described below. What is key about these efforts is that they involved legislation that was crafted specifically for these communities, and this legislation outlined a different set of powers and responsibilities than would have been the case under consolidation.

On May 2, 2006 Currituck and Camden Counties voted on whether to modify the status of their counties to a unified form of government. The vote failed in Currituck County but passed by 57 percent in Camden County. This means Camden will be permitted to take on some of the characteristics of cities in North Carolina, specifically in the area of being eligible for municipal revenue such as franchise fees. The issue of municipal responsibility for roads was left up to the county government to decide and on June 19, 2006 the Camden County Board passed a resolution stating that the county would not participate in the building or maintenance of roads.

Another noteworthy provision of unification addresses the creation or expansion of municipalities. Under this law a unified government can prevent new municipalities from incorporating or prevent existing cities from further annexation within the county thus giving Camden County officials full control over zoning. As noted above, unification is permissible only in a county that has no municipality within its boundary

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<sup>21</sup> N.C. GEN. STAT. §§153A-471 – 153A-473 (2005).

or in a county with only a small portion of a city. Camden contains just 25 acres of Elizabeth City which crosses over the Pasquotank River into Camden County.

While this legislation suggests that North Carolina legislators may be open to alternative forms of city-county merger, under existing law the Fayetteville-Cumberland community does not appear to qualify as a community that could both receive municipal-specific revenues as well as choose not to assume municipal-specific responsibilities.

## Chapter 8: Conclusion

This report provides an overview of the benefits and challenges with functional and governmental consolidation, and from that context, it discussed the opportunities and challenges the governments of Cumberland County and the City of Fayetteville might face if they were to consolidate. The major points of the study include the following:

- Growth in both the county and the city has stabilized at a manageable rate.
- Both governments are fiscally conservative. Neither government has a significant level of governmental debt, making governmental consolidation easier.
- Combined, the two governments offer a wide array of services to the community. However, each government has chosen to be the single provider for several services, limiting service duplication. Three areas where functional consolidation appears to meet a standard worthy of serious further consideration are:
  - Emergency dispatch
  - GIS
  - Community Development
- A number of other areas also deserve to be considered for functional consolidation.
- The lack of service overlap results in both opportunities and challenges to governmental consolidation:
  - Consolidation is easier because fewer operations need to be combined.
  - Fewer employees will be impacted because there is less overlap in responsibilities.
  - Less potential cost savings because of fewer opportunities to gain operational efficiencies.
  - Consolidation will need more public support for consolidation because costs savings, an important element, is secondary.
- Attitudes and perceptions appear to be the strongest barrier to governmental consolidation. The following statements represent perceptions brought forth by interviewees during focus groups and interviews:
  - Residents favor stability and would expect some guarantee of benefits before supporting governmental consolidation.
  - Residents do not see themselves as one community.
  - Some unincorporated residents would expect to immediately begin receiving municipal services (i.e., career fire fighting services and solid waste pick-up and disposal) to support consolidation. Consolidation does not require that all residents receive the same services. Residents receiving additional or higher levels of service can pay for them through special taxing districts.
- There would be some governmental start-up costs with consolidation, specifically equalizing pay and employee benefits and the cost of data transformations from one software application to another. Fortunately, the employee benefit packages of the two governments are similar which reduces transition costs. Also, compensation levels appear to be higher in the city at the lower levels, it is believed to be less so for professional jobs. Moreover,

consolidation can reduce the need for the new government to continue to raise salaries so as to be competitive with other local governments in the community, i.e., consolidation reduces competition for labor which should result in a lower long-term costs for labor.

Because attitudes and perceptions are critical components to a successful consolidation effort, leaders, either elected officials and/or interested public citizens, must step forward to champion the process. Because consolidation requires trust and acceptance of uncertainty on the part of the public and affected governments, effective leadership becomes critically important. Persons serving as leaders play key roles in ensuring open communication, education, and coordination to name just a few of the responsibilities. Leaders must be willing to “stay the course” as well because support for consolidation typically develops over time and in many communities has required multiple referenda before the majority of voters give their approval. A first step toward this outcome would be to educate the residents about the realities of consolidation in order to dispel misconceptions as well as answer questions on this complex but important form of government. We hope that this report will contribute to a fair examination of this issue.

## Appendix A

### ***Estimating the Amount of New Revenue***

If the consolidated government were able to establish an urban services district that was coterminous to the boundaries of Cumberland County, all roads would be maintained by the local government, rather than the current situation where the state maintains roads in the unincorporated portion of the county. To fund road maintenance, the new government should also receive additional State Street Aid revenues. Additionally, the new government may be able to collect additional telecommunications franchise revenue. This appendix estimates the impacts of a countywide urban services district on these revenues and expenditures.

#### **Motor Fuel / State Street Aid**

The total amount allocated to any particular city is seventy-five percent (75%) on the basis of relative population and twenty-five percent (25%) on the basis of relative non-State System local street mileage. Each municipality is required to furnish its own certification of street mileage as of July 1 each year. The most recent annual estimate of population is furnished to the Department of Transportation by the State Planning Officer each September.

Based on a simplification of this allocation formula that identifies the relative population of the City of Fayetteville and unincorporated Cumberland County, we can roughly estimate the expected level of additional State Street Aid revenue that the new consolidated government might be able to earn under the Powell Bill and other DOT funding programs.

Unincorporated Cumberland Population as a Percent of Fayetteville Population	72%
Fayetteville State Aid	\$5,699,659
Rough Estimated of Expected New Revenue	\$4,109,649

#### **Franchise Taxes**

In FY05/06, the City received the following utility taxes<sup>22</sup>:

Electric franchise tax	3,182,494
Telecommunications sales tax	1,801,700
Piped natural gas excise tax	618,354

<sup>22</sup> Please note: The distribution to municipalities for the 6/30/06 quarter were only recently available and are included in the figures above. However, the City Finance Director indicated that the electric franchise tax and telecommunications sales tax distributions for the quarter appeared very unusual and somewhat unexpected. The Director has contacted the state and asked for additional information to confirm that the distribution for the 6/30/06 quarter is accurate.

## Revenues Combined

For FY06/07 (the first full year following the Phase V annexation), the following totals have been budgeted:

Electric franchise tax	3,459,000
Telecommunications sales tax	1,253,000
Piped natural gas excise tax	773,000
State Street Aid	5,699,659

Since actual gross utility receipts data are unavailable for the unincorporated area that would become incorporated under consolidation, we developed a range of potential new revenue estimates based on a percentage growth in revenues tied to the percentage increase in the incorporated population. The expected increase in municipal population that would result from consolidation would be 72 percent. In order to produce a range of estimates that is conservative in nature, we use this percentage as the high-end estimate factor. We also produce revenue estimates that represent somewhat lower percentages of increase (see Table 14).

	<b>Current Expected Collections</b>	<b>Value of a 50% Increase</b>	<b>Value of a 60% Increase</b>	<b>Value of a 72% Increase</b>
Electric franchise tax	\$3,459,000	\$1,729,500	\$2,075,400	\$2,490,480
Telecommunications sales tax	\$1,253,000	\$626,500	\$751,800	\$902,160
Piped natural gas excise tax	\$773,000	\$386,500	\$463,800	\$556,560
State Street Aid	\$5,699,659	\$2,849,830	\$3,419,795	\$4,109,649
<b>Total</b>	<b>\$11,184,659</b>	<b>\$5,592,330</b>	<b>\$6,710,795</b>	<b>\$8,052,954</b>
<i>Total Without Increase in Telecommunications</i>		<i>\$4,965,830</i>	<i>\$5,958,995</i>	<i>\$7,150,794</i>

## Expenditures

### Road Maintenance

#### N.C. Department of Transportation Estimate of Road Maintenance Cost

Ray Stone from the District Office of the North Carolina Department of Transportation provided an estimate of the cost for basic maintenance (drainage, potholes, traffic services, signal maintenance, roadside environmental, mowing, seal coats, etc.) and for road resurfacing for the unincorporated roads in Cumberland County currently being maintained by the North Carolina DOT. This estimate of \$6.2 million did not include any improvements such as new roads or turn lane additions.

Under this scenario, the new government would become responsible for this maintenance cost (assuming that the new government chose to maintain the roads at the same level as the state currently does). In this case, all the roads in Cumberland County would become eligible for Powell Bill State Street Aid. Based on our estimate of new state aid for road maintenance calculated above, these revenues of \$4.1 million would be insufficient to provide for the same level of road maintenance now being provided by the state government.

However, when one adds all of the new revenue sources that would become available as a result of the consolidated government establishing a countywide urban services district (i.e., as a result of adding in franchise fee revenue), the road maintenance costs would be covered and provide surplus income under the 72% franchise fee recovery scenario outlined above but still be insufficient under the 50% and 60% recovery scenarios.

## **Soil Erosion**

While Cumberland County does perform reviews of new subdivision plats for flood plain issues, they do not provide soil erosion control since the state provides this service. However, the City of Fayetteville allows the State to perform the erosion control services. Upon a consolidation that would transform the unincorporated area into an incorporated area, the new government could choose to provide this service to the formerly unincorporated area as well as to the urban service district (i.e., the Fayetteville area). The costs of soil erosion control services are difficult to estimate because it is often impossible to minimize these expenditures through a cross-training of persons in other inspector-type roles. However, because neither government currently performs this service, the new government may similarly choose to allow the state to perform this function. In this case, the impact on post consolidation expenditures would be nil.