

# CITY-COUNTY MEGER

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**DURHAM CITY-COUNTY CONSOLIDATION**

**FEASIBILITY ANALYSIS REPORT**



# Durham City-County Consolidation Feasibility Analysis Report



## I. INTRODUCTION

### A. Project Objectives & Scope

In February, 1999, the governing bodies of the City of Durham (the City) and Durham County (the County) established a process for reviewing the possible consolidation of the City and County governments. They created a Joint City Council/County Commissioners Merger Steering Committee (the Merger Steering Committee) to oversee this process and report back to the governing bodies on the advisability of consolidation.

In July, 1999, the Merger Steering Committee appointed citizen task forces to assess the overall desirability or feasibility of city-county consolidation and provide a conceptual framework for the new government should merger take place (i.e., a vision of the merged entity's governmental, financial and organizational structure). In early January, 2000, the citizen task forces presented their report which, in short, recommended that the City and County proceed with the merger process.

Based in part on the work of the citizen task forces, the governing bodies of the City and County decided to proceed with the merger process. They authorized the formation of a formal charter commission, the Durham Consolidation Charter Commission, to draft a charter for the new entity. At the same time, the Merger Steering Committee disbanded. In March, 2000, the Consolidation Charter Commission began its work.

In addition, the governing bodies engaged DMG-MAXIMUS to assess the financial feasibility of the proposed city-county merger. The primary objective of this study is to quantify potential merger costs and benefits, as well as assess any critical qualitative advantages, disadvantages and implementation issues. This report presents our findings and recommendations concerning the feasibility of city-county consolidation in Durham.

### B. Project Approach & Methodology

As the consultants to the citizen task force review phase of Durham's merger process, we performed several tasks, including the following:

- Review relevant studies, financial reports and other materials;
- Interview key governmental officials and staff;
- Develop a strategic profile of the City and County;
- Conduct a scan of prior city-county consolidations;
- Identify potential merger implementation issues; and
- Identify services or functions most likely to be impacted by merger.

Our Phase 1 scan of previous city-county consolidations included Nashville, Jacksonville, Indianapolis, Lexington (Kentucky), Baton Rouge, Kansas City (Kansas), Athens, Augusta, Columbus (Georgia), Lafayette and Anchorage. In Phase 2, we conducted



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follow-up interviews with representatives of Augusta-Richmond County (Georgia), Kansas City-Wyandotte County (Kansas), Lafayette City-Parish (Louisiana), the City of Charlotte and Mecklenburg County.

As a result of Phase 1, we concluded that the City and County have few overlapping services. In health and human services--the County's most important service area--the City plays a minor role. Conversely, the County offers few of the traditional municipal services (e.g., recreation, street maintenance, sanitation and community development). Some services once provided by both entities (e.g., planning, inspections and tax collection) have been functionally merged and thereby will not be significantly impacted by a merger of the governing bodies.

Thus, for our Phase 2 merger feasibility analysis, we were not required to conduct additional fact-finding for many City and County programs (e.g., planning, inspections, libraries, human services and tax administration). Rather, we focused our analysis on precisely those elements of each government's fiscal structure that will be most significantly affected by merger. Those elements include:

- Governance and executive functions (e.g., legislative, chief executive, legal, clerk, budget, public information and equal opportunity assurance)
- Financial management functions (e.g., finance, procurement, risk management, tax administration and internal audit)
- Other general government functions (e.g., human resource management and information technology)
- Asset management functions (e.g., facility, fleet and equipment maintenance)
- Environmental services (e.g., solid waste management and wastewater treatment)
- Law enforcement (e.g., patrol, investigation and special operations)
- Fire protection services

In each of the above issue areas, the City and County have potentially duplicative capabilities. This does not mean that such services are provided in an inefficient manner, only that they offer opportunities for greater efficiency under unified management. We also focused our Phase 2 analysis on potential merger costs, such as compensation equity and other merger transition costs.

As we discovered in our survey of previously merged communities, there is little empirical evidence to support the claims of merger proponents or opponents. To our knowledge, no community with a unified city-county government has calculated the costs and benefits of merger with any significant degree of precision or reliability. While some communities reported cost savings or tax cuts during the initial years after merger, the evidence is anecdotal and difficult to verify. The scarcity of reliable information makes it difficult to assess the long-term impact of merger, at least in quantifiable terms.

Nevertheless, despite the dearth of empirical evidence among those communities that have merged their city and county governments, it is possible to arrive at useful



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judgements regarding the quantifiable costs and benefits of city-county merger. To do so, requires the formulation of reasonable assumptions about future events, but such assumptions are required for any financial projections or forecasts. The most critical assumptions underlying our fiscal impact projections are listed in Appendix A.

Any forecasts we prepare will necessarily be based on assumptions by the City or County of future events which may or may not occur, and no assurance can be made that these projections will be achieved. Since the forecast variables are subject to unknown future circumstances, the actual results may vary from the projections, and such variations could be material. Our work should be used solely by the City and County for its consideration of potential merger. We will have no duty to update any written report for events and circumstances occurring after the date of the report.

In addition to assessing the quantifiable costs and benefits of merger, we identified and evaluated several qualitative advantages and disadvantages. In doing so, consistent with our recommendation to the citizen task forces in Phase 1, we tried to assess the overall feasibility of city-county consolidation using some of the assessment criteria and factors outlined in the table below, as deemed relevant.

**Merger Assessment Criteria & Factors**

Criteria	Potential Assessment Factors
Transition Challenge	<ul style="list-style-type: none"> <li>√ Stakeholder receptivity to structural change</li> <li>√ Existing degree of jurisdictional consolidation or cooperation</li> <li>√ Legal consolidation requirements or barriers</li> </ul>
Public Confidence	<ul style="list-style-type: none"> <li>√ Image &amp; accountability of local government</li> <li>√ Equity, diversity &amp; responsiveness of local government</li> <li>√ Degree of citizen participation in elections &amp; other civic activities</li> </ul>
Regional Competitiveness	<ul style="list-style-type: none"> <li>√ National/state image &amp; regional prominence/leadership</li> <li>√ Impact on local business climate &amp; corporate siting decisions</li> <li>√ Ability to attract federal &amp; private investment</li> </ul>
Fiscal Strength	<ul style="list-style-type: none"> <li>√ Overall operating efficiency &amp; cost of government</li> <li>√ Elasticity &amp; equity of revenue structures</li> <li>√ Financial condition, debt structure &amp; capital asset utilization</li> </ul>
Service Delivery	<ul style="list-style-type: none"> <li>√ Service delivery quality, responsiveness &amp; effectiveness</li> <li>√ Service standards, levels, accessibility &amp; equity</li> <li>√ Responsiveness of customer/client service</li> </ul>

Our report on the feasibility of city-county merger addresses the fiscal impact of merger, but it also recognizes that cost savings may be only one factor to consider. Moreover, as other communities have found, cost savings may not even be the most important factor for Durham to consider as it contemplates city-county merger.



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## II. CITY & COUNTY PROFILE

### A. Community Overview

The City of Durham was incorporated in 1869 and separated from Orange County in 1881. Today, it is the fifth largest city in North Carolina, the county seat for Durham County and essentially the only city in Durham County<sup>1</sup>. The City encompasses over 95 square miles and has a population of over 177,000<sup>2</sup>.

The County was formed in 1881 from portions of land transferred from Orange and Wake counties. Today, it encompasses 299 square miles and has a population of over 218,000<sup>3</sup>. About 40 percent of the County's residents are members of minority groups. It also is noteworthy that about 75 percent of the Research Triangle Park (RTP) lies within the County.

The City is rapidly approaching the County in population. According to the City-County Planning Department (see table below), over 81 percent of the County's residents reside in the City. In 1990, only 75 percent of the County's population was within the City.

Durham's Population Estimates

Area	1990	1999	Change
Within City Limits	136,594	177,650	+30.0%
Outside City Limits	45,241	40,805	-9.8%
Total County	181,835	218,455	+20.1%

Note: 1990 data based on 1990 US Census & 1999 data based on Planning estimates.

The City's rate of growth has been higher than that of the County's due primarily to the City's annexation of territory in the outlying areas of the County. North Carolina's annexation laws are among the most liberal in the nation. If the City's annexation continues at its current pace, and approaches the Urban Growth Area (UGA) boundaries, the City could account for 90 percent of the County's population by the Year 2010<sup>4</sup>.

### B. Political Structure

The City and County use different legislative structures and electoral processes. The City Council comprises 13 members, including 12 council members and a mayor. All council members are elected at-large on a non-partisan basis, but six members must be residents of districts (i.e., residency districts). The Mayor serves a two-year term, but other council members serve staggered four-year terms.

<sup>1</sup> It should be noted that the Town of Chapel Hill incorporated a portion of Durham County and the City of Raleigh has agreed to annex a small portion of Durham County early next year.

<sup>2</sup> Durham City-County Planning Department estimates for 1999.

<sup>3</sup> Durham City-County Planning Department estimates for 1999.

<sup>4</sup> Based on interview with City-County Planning Department staff.



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In 2001, pursuant to a referendum approved by voters in 1998, the council will be reduced to seven members, including the mayor. All seven members will continue to be elected at-large on a non-partisan basis, with three elected from residency districts. All council members will have four-year terms, except the mayor who will have a two-year term.

The County elects five commissioners, as well as the Sheriff, Register of Deeds and Clerk of Courts. All county elected officials are selected on a partisan, at-large basis. The commissioners have two-year terms, but the other elected officials have four-year terms. The Soil and Water District has four elected officials, each selected on a non-partisan basis to four-year terms. The County and Soil and Water District elections are held in even years, with the primary in May and the general election in November.

The school board has seven members, with four elected from pure districts, two from consolidated districts and one at-large. School board elections are non-partisan and held on the first Tuesday in May in even years. Run-off elections are held four Tuesdays later (either the last Tuesday in May or first one in June) if necessary.

The Soil and Water District, the only other local entity with elected officials, has one elected supervisor and three elected board members. These officials are also chosen in non-partisan elections to four-year terms.

The County Board of Elections supervises voter registration and local elections in Durham County. Local elections are conducted for four entities—the City, County, School District and Soil and Water District. According to the Board of Elections, each local election costs from \$50,000 to \$65,000. Due to the different electoral cycles, local elections are held every year in Durham.

According to the Board of Elections, there are 144,426 registered voters in the County, of which about 62 percent are Democratic and 64 percent are White, and 119,674 registered voters in the City, of which about 63 percent are Democratic and 59 percent are White. The County has 69 distinct precincts and sub-precincts (townships)<sup>5</sup>.

## C. Fiscal Structure

The property tax remains the single most important revenue source for the City and County. As indicated in Appendix B, property taxes represent about 28 percent of total City revenues and 51 percent of all County revenues.

The City's tax rate is \$0.68 per \$100 of assessed valuation and the County's tax rate is \$0.9297. The County may levy this tax on *Group I* functions (i.e., social services, schools, courts, jails, elections and debt) without restriction as to the tax rate or amount.

<sup>5</sup> There are actually 54 precincts, but 15 precincts have been subdivided into sub-precincts as the City annexed territory in the unincorporated county.



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The state constitution requires the property tax rate to be uniform except where counties establish service districts and levy a property tax within the district additional to the county-wide property tax for *Group II* functions<sup>6</sup>.

Sales taxes, the second most important tax revenue source, generate 10 percent of total City revenues and 11 percent of County revenues (see Appendix B). The current rate is 6 percent of the sale or lease of retail goods and services, except food consumed at home (taxed at 2 percent), with two-thirds of the revenue allocated to the state and the remaining third to counties. The local sales tax comprises three separate taxes—the Article 39 one-cent tax, Article 40 half-cent tax and Article 42 half-cent tax. The sales tax is paid by purchasers, collected by businesses and paid to the State.

After deducting collection costs, the State returns the Article 39 tax to the county of collection and allocates Article 40 and 42 taxes among counties on a per capita basis. The county then distributes the sales tax it receives from the State using one of two local option formulae—per capita or ad valorem. In Durham County, the City would receive about 45 percent of the revenues using the per capita formula, but only 32 percent of the revenues under the ad valorem formula.

Other local taxes include the intangibles tax, which is distributed to counties and cities based on ad valorem tax levies. The hotel/motel occupancy tax, a 5 percent tax on hotel and motel rentals, generates funds for the City, County and Convention and Visitors Bureau<sup>7</sup>. Counties and cities may levy a fee on franchised cable television firms up to 5 percent of gross receipts and a motor vehicle license tax (up to \$5 per vehicle per year). The County may impose a tax on the privilege of keeping pets (e.g., \$5 per animal).

As indicated by Appendix B, intergovernmental revenues represent a critical revenue source for the City (11 percent of total revenues) and County (20 percent of total revenues). The County receives federal and state funds for social services. The City, receives state shared intergovernmental revenues such as the utility franchise tax, a state tax on gross utility receipts distributed to cities<sup>8</sup>, and the gasoline tax (Powell Bill), the portion of the of state gasoline tax distributed to cities<sup>9</sup>.

Other intergovernmental revenues received by cities and counties include:

- Beer and wine tax – state tax on malt beverages and unfortified wines distributed to cities based on population
- Alcoholic beverage control (ABC) tax – state tax on ABC operations (10% of ABC profits in County)
- Tax exemption reimbursement – State pays 15 percent of the property taxes lost

<sup>6</sup> Per Article V, Section 2(4) and County Service District Act of 1973, GS Chapter 153A, Article 16.

<sup>7</sup> In Durham, the City receives 25.5%, the County 34.5% and the Convention and Visitors Bureau 40%.

<sup>8</sup> Equal to 3% of gross receipts from local business conducted within the city.

<sup>9</sup> This source is derived from \$0.0175 per gallon plus 6.5% of net proceeds of Highway Trust Fund, distributed based on population and road mileage and earmarked for street maintenance and traffic control.





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due to the Homestead Exemption

- Inventory tax credit – State reimbursement for repeal of business inventory taxes (80% distributed on ad valorem basis and 20% based on per capita basis)

Other revenue sources include licenses and permits, charges for services, fines and forfeitures, investment and rental income and other revenues (e.g., sale of surplus equipment and transfers from reserves). Of these, charges for services are the most important revenue source for the City and County. They generate 35 percent of total City revenues (mostly water and sewer charges) and 8 percent of total County revenues.

The City and County enjoy excellent debt ratings and financial conditions. The County is one of four counties in the state and one of 50 local jurisdictions in the US with a AAA rating. At June 30, 1999, the County had \$218.6 million in debt, primarily in general obligation bonds, and no authorized, but unissued bonds. The County has never issued revenue bonds. Its undesignated general fund balance was \$24.8 million in FY99, and its enterprise fund had net equity of \$3.8 million.<sup>10</sup>

The City is one of 25 cities in the US with Standard & Poors' AAA rating<sup>11</sup>. Its revenue bond ratings include a AA from S&P and Fitch/IBCA and an Aa1 from Moody's. At June 30, 1999, the City had \$366.5 million in outstanding long-term debt, primarily in general obligation bonds. The City also had \$126.7 million in authorized, but unissued bonds. From FY94 to FY98, the City's undesignated general fund balance rose from \$6.5 million to \$18.5 million, but it declined to \$16.1 million in FY99.

The City's fund balance policy is to maintain the balance at 12 percent of adjusted general fund appropriations with an optional level of 15 percent and excess balances transferred to capital projects. It should be noted, however, that the general fund projection for FY01 anticipates a \$3.5 million revenue gap (this gap is generally filled before the preliminary budget is submitted to the Council). The City also faces the potential depletion of its risk retention and parking control funds by FY04.

## D. Operating Structure

**Overview of Services** - The City and County have comparable corporate management structures. Both have council-manager governance forms with managers functioning as chief executive officers. However, the County government, unlike the City, is in some ways an extension of state government. Many County functions are supervised by appointed boards pursuant to state legislation<sup>12</sup>.

The County's primary emphasis is in health and human services. While it leased Durham Regional Hospital to Duke University Health System in 1998, it continues to offer all

<sup>10</sup> The enterprise fund had a retained deficit balance of \$17.8 million due to losses on the transfer of water and sewer lines to the City.

<sup>11</sup> The City has a AAA rating from Fitch IBCA and an AA1 rating from Moody's for general obligation bonds.

<sup>12</sup> Mecklenburg and Wake counties have merged their social service, mental health and public health boards.



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mandated social, mental health and public health services. Through the Sheriff, the County provides law enforcement, correctional and civil process services. The County has a fire marshal, and approves budgets for independent fire districts. In addition, the County oversees the library system, supports certain cultural programs and approves the local property tax budget for the Durham Public Schools.

The City's primary focus is on public safety (e.g., police and fire services), roads and water and wastewater treatment. However, it also offers comprehensive services in such areas as community development, parks and recreation, and solid waste management. The City also operates the Civic Center, Athletic Park and a public transit system, and supports several cultural assets (e.g., Carolina Theater and Durham Arts Council).

The City and County operate comparably-sized programs. In FY99, the City had reported expenditures of about \$219.3 million and 2,142 full-time equivalent employees<sup>13</sup>. For the same fiscal year, the County spent about \$249.5 million with 1,819 full-time equivalent employees<sup>14</sup> (see table on next page). This amount includes local school district revenues.

The City's most significant commitments, in terms of operating expenditures, are for water and wastewater treatment, solid waste management and other environmental services (31% of total costs), law enforcement and other public safety services (21%), and public works and transportation (11%). The County's biggest operating expenditures are for health and human services (32%), education (25%), law enforcement and other public safety services (10%) and judicial and correctional services (6%). These expenditures are presented by program area in Appendix B.

The City and County duplicate few services. For example, in the County's most important service area, health and human services, the City plays a minor role. Conversely, in most traditional municipal services, like community development, recreation, street maintenance and lighting, and sanitation, the County offers limited services. The City is the sole water treatment provider in the County and, while both entities have wastewater treatment facilities, they strive to minimize any duplication of service.

Summary Profile of City and County Services – FY99

Program/ Service Category <sup>15</sup>	City Costs	County Costs	City FTEs	County FTEs
Governance & Executive	\$3,493	\$2,133	58	37
Financial Management	7,921	6,135	80	87
Other General Government	6,716	5,118	68	72

<sup>13</sup> Based on City of Durham FY99 CAFR, FY00 Operating Budget and data from City Budget Director.

<sup>14</sup> Based on Durham County FY99 CAFR, FY00 Operating Budget and data from County Budget Director. The County costs include school district costs, but exclude welfare pass-through benefits.

<sup>15</sup> The program/service categories used for this project, which do not necessarily reflect current City & County cost centers, are defined in more detail in Appendix A.



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Planning & Development	12,154	4,012	132	2
Public Works & Transportation	33,995	5,810	352	31
Environmental Services	66,929	8,277	461	16
Law Enforcement	28,158	7,071	542	139
Other Public Safety	16,591	10,795	326	125
Judicial & Correctional	0	13,909	0	307
Health & Human Services	0	85,007	8	882
Community Services	9,853	907	115	8
Educational	0	62,672	0	0
Library & Cultural	0	6,753	0	113
Other Operating	4,262	208	0	0
Debt Service & Capital	28,040	30,660	0	0
<b>Total – All Programs</b>	<b>\$219,330</b>	<b>\$249,467</b>	<b>2,142</b>	<b>1,819</b>

Note: The cost data are from City & County FY99 CAFRs exclusive of interfund transfers. All costs are presented in thousands. The FTE data represent FY99 estimates from City & County FY00 budgets. FTE = Full-Time Equivalent employee.

Below, we have provided a brief summary of the City's and County's key operating characteristics by major programmatic area. We also have identified which of the organizational or programmatic areas are most likely to be affected by merger.

**Governance & Executive** - The two entities employ similar forms of governance. The City employs the council-manager form and the County uses the Commission-Manager form. However, since many County employees report to independently-elected officials (e.g., the Sheriff) or quasi-state commissions (e.g., Social Services), the County Manager has less direct control over employees than does the City Manager.

Their executive management functions differ. Both entities have central management, legislative clerk, legal, budget and public information offices, but that is where the similarity ends. In addition to these units, the City has distinct grants, internal consulting and equal opportunity assurance offices.

In FY99, the City spent \$3.5 million on governance and executive functions and maintained a staff of 58 employees, excluding elected officials. The County, with its smaller legislative body and less centralized executive structure, spent \$2.1 million on governance and executive functions in FY99 and maintained a staff of 37 employees. These functions are likely to be significantly impacted by merger.



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**Financial Management** – Both the City and County maintain finance, purchasing, internal audit and risk management functions, but they vary somewhat in scope and magnitude. The City maintains a much larger billing function due to its utility billing requirements, while the County administers the joint tax administration function. The risk management programs vary significantly in philosophy and approach. With the exception of tax administration, all financial functions could be impacted by merger.

In FY99, the City spent \$7.9 million on financial management activities, including risk management, and maintained a staff of 80 employees. About 35 of these employees are involved with cash management and customer billing functions. In contrast, the County spent \$6.1 million on financial management activities, with 87 employees. The County Tax Assessment and Collection Department had 60 of these employees. The two purchasing departments are similarly sized.

The City's risk management program is coordinated by the Finance Department. The City retains some risk for general, auto, workers compensation, health and dental coverage, but purchases insurance for claims in excess of coverage provided by its risk-related internal service funds. The City employs a case-by-case claims approach, invoking immunity on a limited basis. At June 30, 1999, the City reported pending claims of \$6.8 million and negative retained earnings of \$8.6 million for its Risk Retention Fund (the debt ratings for its certificates of participation remain AAA/A1+ from S & P)<sup>16</sup>.

The County's risk management program is coordinated by the County Attorney. The County is largely self-insured for general, auto and dental coverage, but purchases general liability excess insurance, health insurance and medical malpractice insurance for its clinics and public health programs. The County often invokes sovereign immunity. At June 30, 1999, the County reported a \$2.5 million risk reserve in its General Fund and \$250,000 in incurred but unreported claims<sup>17</sup>.

**Other General Government** – The City and County have human resource and information technology management departments with similar capabilities. However, only the City has a centralized records management function, and the County has exclusive responsibility for the deed registry and election management functions. With the exception of the Election Board and Register of Deeds, all other general government functions could be impacted by merger.

In FY99, the City spent \$6.7 million on other general government activities (i.e., records management, human resource and information technology) and maintained a staff of 68 employees. The County spent only \$5.1 million on other general government activities, and had 72 employees. Their human resource management offices perform equivalent functions, including recruitment, selection, position control, compensation administration, employee relations and training.

<sup>16</sup> Per City's FY99 CAFR.

<sup>17</sup> Per County's FY99 CAFR.



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The City's technology platform has a strong mainframe and COBOL orientation. Most of its mission-critical applications run on a Unisys Clearpath mainframe, but its public safety applications run on an IBM AS/400 midrange server. Its network infrastructure provides wide-area remote access to 40 sites through Novell Netware and Windows NT servers and a network of 900 desktop units. Its desktop environment is dominated by Intel workstations and Microsoft software. Historically, the City has built mainframe-centric legacy applications in COBOL, with limited documentation

The County's technology platform comprises an AS/400 and servers for tax and social service applications and a network-based IBM ES9000 system for most other business applications (e.g., finance, payroll, purchasing and human resources). Since 1997, the County has been migrating from a mainframe-based to a network-based client/server environment. Its recently completed Novell NT network links all county agencies and 25 sites to the AS/400, ES9000 and e-mail systems. Unlike the City, the County generally prefers packaged software, developing custom applications only as necessary (e.g., jury selection and elections).

**Planning & Development Services** – Both the County and City offer economic development programs, but only the City provides planning, building inspection and housing and community development services. The City, pursuant to an inter-local agreement, operate joint Planning and Building Inspections departments for the City and County. Since these services have already been merged, City-County merger will have a limited fiscal impact.

The City spent an estimated \$6.1 million on housing and community development programs. The City's Housing and Community Development Department maintains a staffing level of 40 FTEs, administers federal and state grants and supervises code enforcement. The County does not have minimum housing codes or a housing program. City-County merger could facilitate the extension of some community development services to unincorporated areas, but we have assumed for the purpose of this analysis that the impact of merger will be limited.

The City spent about \$3.4 million on economic development activities in FY99, mostly for economic revitalization and tourism activities. The City's Office of Economic and Employment Development (OEED) leads HUD-funded economic revitalization efforts in the City, administers the federal Job Training Partnership Act (JTPA) program countywide and provides job training and development services for the County's Welfare to Work initiative. The County spent \$428,000 in FY99, primarily for regional promotion, and has a contract with the Chamber of Commerce for industrial development. Given the different roles played by the City and County, merger is unlikely to have a fiscal impact.



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**Public Works & Transportation** – The City is the dominant local provider of public works and transportation services in Durham. In FY99, the City spent nearly \$40.0 million on public works and transportation services, including asset management functions. The City has about 352 employees staffing these programs<sup>18</sup>. With the possible exception of asset management activities, City-County merger should not have a material impact on local public works and transportation services.

The City performs traffic engineering, development review, street, water and sewer design services, taxi cab permit services, and construction design, surveying and inspection services. It also staffs the Metropolitan Planning Organization (MPO). The City maintains 825 miles of streets, 192 miles of sidewalks and 10,383 street lights, provides street cleaning, right-of-way and urban forestry services, owns and operates 17 parking facilities, and operates a municipal bus service (65,000 bus passenger trips annually).

In contrast, the County reports nominal expenditures for these programs<sup>19</sup>. The County Engineer performs engineering design work and construction inspections for County infrastructure projects. The State Transportation Department maintains roads in the unincorporated area on behalf of the County. The County provides transit services to human service agencies via contract with the City. The City, in turn, provides the services through a vendor.

Both entities have substantial asset management duties. The City manages 75 facilities, including City Hall, the Police headquarters building, parking garages and cemeteries. It maintains 1,900 vehicles, 3,000 radios (some are county-owned), an 800 MHz radio system and three transmission towers. The City recently consolidated its Fleet Maintenance and Asset Management departments.

The County manages 45 facilities, including the Administrative Complex, General Services Complex, Youth Home Complex, Memorial Stadium, Main Library, Judicial Building, Sheriff stations and Animal Shelter. The County owns 369 vehicles, 217 of which belong to the Sheriff's Office. The County does not have a centralized fleet repair unit, but its General Services Department is responsible for other assets.

**Environmental Services** – While the City and County both offer environmental management services, the City's services and capabilities are far more extensive. In FY99, the City spent \$66.9 million on environmental services, and had 461 staff, but the County only spent \$8.3 million and had only 16 staff<sup>20</sup>.

<sup>18</sup> These estimates are based on the City's FY00 Budget (see Appendix B).

<sup>19</sup> Some County costs are reported in other programs (e.g., road signage and non-profit transportation agencies).

<sup>20</sup> Per City's FY99 CAFR and FY00 Budget.



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The City operates two water treatment plants, the Brown and Williams plants,<sup>21</sup> and serves over 61,000 water customers throughout the County. The City operates two wastewater treatment plants<sup>22</sup> and maintains 851 miles of water and wastewater lines and 389 miles of storm sewers.<sup>23</sup> The City also offers industrial pretreatment and backflow prevention programs.

It collects residential garbage, yard waste and bulk waste as well as waste from stationary commercial containers. It also operates a 1,000 ton-per-day transfer station, rubble landfill and yard waste composting facility, and coordinates recycling and household hazardous waste collection programs. In 1997, the City's unlined landfill closed and the City began transporting solid waste from the City transfer station to a lined landfill in Virginia.

The County does not provide water treatment services, but it does oversee an outsourced wastewater treatment plant for City and County lines, the Triangle Wastewater Treatment Plant<sup>24</sup> and contracted wastewater line maintenance services. It manages six convenience centers to allow County residents to drop off solid waste, and manages ten-year comprehensive solid waste management plan. The County and Soil and Water Conservation District administer soil erosion control programs. The County does not have a storm water program, but will be required to develop a program in the near future.

**Law enforcement** – Both the City and County provide law enforcement services, but the City's law enforcement operation is substantially larger than that of the County's. Medical examination services are provided to law enforcement agencies through the Office of the State Medical Examiner at the University of North Carolina (UNC) Hospital. Law enforcement services (excluding medical examination services) are likely to be materially impacted by merger, depending on how they are structured.

The City Police Department spent about \$28.2 million in FY99. For FY00, the department has a budget of \$31.1 million and 572 full time and 7 part time positions. Uniform patrol is the Department's largest program, but it also provides a full complement of other services (e.g., investigation, narcotics interdiction, traffic control, community-oriented policing, school resource officers and park rangers). The Police Department also provides crime scene support for the Sheriff. The Department has 426 vehicles and purchases 46 new vehicles each year for patrol officers.

The Sheriff's law enforcement program, spent an estimated \$7.1 million in FY99. It has five stations and 160 vehicles. Its FY00 budget provides for about 132 positions providing services similar in nature to those provided by the Police Department. The Sheriff's Office, which is certified by the Commission on Accreditation for Law

<sup>21</sup> These plants have a combined capacity of 52 million gallons per day (MGD) with plans to increase the Brown Plant's capacity by 39 MGD.

<sup>22</sup> Two wastewater treatment plants each have a 20 MGD capacity.

<sup>23</sup> Data obtained from City's FY99 CAFR.

<sup>24</sup> The wastewater treatment plant has a capacity of 6 MGD with plans to extend that capacity to 12 MGD.



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Enforcement Agencies, Inc. (CALEA), also provides a variety of services (e.g., uniform patrol, investigation, narcotics interdiction and school resource services) to the unincorporated area of Durham. However, investigation services, especially narcotics interdiction and investigation services, often require deputies to operate within the City limits. The Sheriff provides its own dispatch support service while Police Department relies on the City/County 911 Communications Department for this service.

**Other Public Safety Services** – Fire protection services are provided by the City Fire Department and eight independent fire protection districts (five based in Durham County, two in Orange County and one in Person County). The City Fire Department serves a much larger population base than the five independent Durham County-based fire districts combined, and has more personnel, but, ironically, less equipment.

The City Fire Department operates 12 stations with a budgeted staff of 272 employees (including 240 trained fire/rescue staff) and a FY00 budget of \$14.5 million. It provides fire prevention and suppression services in the City, and responds to emergency medical services (EMS) calls within the City as well as EMS and fire calls in the unincorporated area on an as-needed basis. During 1999, it responded to 5,735 fire incidents and 10,245 EMS calls within the City and conducted 9,677 inspections and 1,261 plan reviews. Its average response time for fire and EMS calls is just under four minutes.

In the aggregate, the five fire districts based in Durham County operate 12 fire stations with a staff of 284 and budget of \$2.7 million.<sup>25</sup> All have mutual aid agreements and respond out of their districts as needed. The fire districts provide EMS services in the unincorporated area and also make frequent calls within the City. During 1999, they responded to 1,989 fire calls and 4,780 EMS calls. Their average response ranged from 6 to 8 minutes for EMS and 6 to 11 minutes for fire calls.

The County Fire Marshal directs fire prevention services (e.g., facility inspections and arson investigations) in the unincorporated areas, and coordinates fire district training, emergency management and environmental safety services. In 1999, the Fire Marshal conducted 76 fire investigations and about 2,500 inspections. The Fire Marshal's FY00 budget is \$458,000, exclusive of emergency management costs, with a staff of six, excluding three individuals assigned emergency management duties and three FTE Lebanon fire station employees supervised by the Fire Marshal. The total FY00 budgeted cost for unincorporated area fire protection and EMS is \$3.2 million.

The County Emergency Medical Services Department, which became a County department in 1998, serves as the primary provider of ambulance services in the County. For FY00, the County is budgeted to spend about \$4.9 million on EMS with 98 EMS employees. EMS vehicles are deployed from four stations within the City limits and from each of the volunteer fire stations. The City stations provide around-the-clock EMT-P services and non-emergency transport services. Parkwood provides EMT-P services 24

<sup>25</sup> This is FY00 budget, and includes \$1.8 million in salary and benefit costs.





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hours per day. The other volunteer fire districts are provided around-the-clock coverage using a blend of County EMS and fire district resources.

The Durham Emergency Communications Center, with 54 employees, serves as Durham Metro's public safety answering point (PSAP), receives all 911 calls for the City and County, and dispatches calls via its 800 MHz radio system. The 911 Center receives about 70 percent of its funds from the City and 30 percent from the County. In FY99, the City spent an estimated \$3.6 million on emergency communications and the County spent an estimated \$688,000<sup>26</sup>.

The 911 Center receives calls for service and provides communications services for the City's Police and Fire Departments, the County's Fire Marshal, Emergency Management and EMS departments and the volunteer fire departments. It receives calls for service for the Sheriff's Office and transfers those calls to the Sheriff's Office, which provides its own communications services. The Sheriff also receives emergency calls. The City police and fire, volunteer fire departments, EMS and Highway Patrol employ an 800 MHz radio system, but the Sheriff uses its own 400 MHz radio system.

Under an inter-local agreement, the Durham City/County Emergency Management Agency is administered by the County and funded equally by the City and County. The Emergency Operations Center is fully operational. The City and County spent a total of \$386,000 in FY99. The Animal Control Department, which is funded by the County and serves the entire County, spent \$913,000 in FY99 with 15 employees<sup>27</sup>.

While fire protection services are likely to be materially impacted by merger, the other public safety services provided by the City and County are less likely to be significantly impacted by City-County merger.

**Judicial & Correctional Services** – The County Sheriff is the exclusive provider of detention, court support and civil process services in Durham County, staffing these programs with about 264 employees. The County spent an estimated \$11.9 million on these programs in FY99, but the County Jail, a secure detention facility, accounts for 82 percent of these expenditures. The County also operates a separate County Youth Home facility. We have concluded that City-County merger will have no material impact on these programs.

**Health & Human Services** – The County is the primary provider of health and human services and the City's role is very limited. The County spent \$85.0 million on health and human services in FY99, including \$53.0 million for social services (405 FTEs)<sup>28</sup>, \$20.8 million for mental health services (264 FTEs), and \$11.2 million for public health

<sup>26</sup> Per County Budget Office, while the City reported costs of \$3.6 million, \$1.4 million of this amount was funded by the County. Thus, the City actually spent \$2.2 million and the County spent nearly \$2.1 million.

<sup>27</sup> Estimate based on FY00 County Budget.

<sup>28</sup> The FY99 Social Service costs exclude the \$120.3 million public assistance pass-through.



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services (207 FTEs). We have concluded that the County's human services will not be significantly affected by City-County merger.

The County Department of Social Services, a quasi-state agency, administers state and federal programs such as TANF, Food Stamps, Medicaid, Day Care, Job Opportunities Basic Skills (JOBS), Work First, Family Planning and Adult Services. The County spent \$169,000 on the Youth Coordinating Board, a joint activity created to coordinate youth grant funding. The City funds several non-profit social services agencies.

The County, operates the Durham Center, the lead agency for mental health, developmental disabilities and substance abuse (MH/DD/SA) services in Durham. The Durham Center is governed by a 20-member Area Board appointed by the Board of County Commissioners. The Area Director reports to the Area Board, not the Board of Commissioners. The City transferred the Durham Community Prevention Partnership (DCPP), a \$1.4 million demonstration project, to the County to help ensure the program's continuation.

The County Public Health Department manages public health programs for all county residents (e.g., communicable disease control, maternal and child health services, public health nursing, dental health, laboratories and vital records). It also regulates sanitation in food-handling establishments, operates rodent and insect control programs, monitors solid waste disposal and conducts occupational disease programs. The County's General Services Department provides mosquito control services.

**Community Services** – There is very little similarity between City and County capabilities in this area. The City offers a broad array of recreational programs, with a strong focus on community-based parks and recreational activities. The County administers the library system and, through its open space program, has demonstrated a commitment to land preservation.

The City spent an estimated \$11.2 million on parks, recreation and cultural services in FY99, including \$5.1 million for parks and recreation (92 FTEs), \$2.4 million for the Civic Center, \$2.3 million for the Ballpark (22 FTEs), and \$1.4 million for cultural programs. Its Parks & Recreation Department offers a range of recreational resources, including three recreation centers, five pools, 70 tennis courts, 63 parks and playgrounds, and ten miles of trails. The City also is responsible for the West Point on the Eno Park, a 40-acre park with trails, gardens and facilities, Little River Lake and Lake Michie.

The County spent an estimated \$5.2 million for library services (113 FTEs) and \$53,000 for open space and forest protection services in FY99. The County Library system includes the Main Library and five branch libraries. The County recently initiated an open space program, the first of its kind for Durham, with some 200 acres of open space along river corridors and plans to set aside 300 more acres of open space.



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Unless the governing body of the unified government decides to expand municipal parks and recreation services to the unincorporated areas, an issue to be discussed in a subsequent section of this report, it is unlikely that City-County merger will have much of an impact on community services.

In summary, we have identified several City and County programs that will not be materially affected by political consolidation. Those programs include:

- Planning & development services – planning and inspection services have already been functionally merged, but economic development efforts could be affected
- Public works & transportation – this is based on our understanding that the State will continue to provide road construction and maintenance services to the unincorporated parts of the County after merger
- Other public safety services – City-County merger will probably impact law enforcement and fire protection services, but other public safety services are primarily provided through joint service arrangements
- Judicial & correctional services – these services are provided solely by the County and will not be impacted by merger
- Health & human services – these services are provided by the State and County and will not be impacted by merger
- Community Services – while the City's parks and recreation programs could be expanded via merger, this expansion would not be required by merger and thereby does not loom as a major merger issue

In subsequent sections of the report addressing the fiscal and qualitative impacts of merger, we will discuss the City and County programs or functions that are more likely to be impacted by merger.

## **E. Overlapping Local Jurisdictions**

In addition to the City and County, there are several other local government jurisdictions levying property taxes in the County. Those jurisdictions include seven fire protection districts, two special districts (the Research Triangle Park and Butner Safety districts) and a small portion of the Town of Chapel Hill. The fire districts and the Research Triangle Park District are discussed below.

Most fire services in the unincorporated portion of the County are provided by independent fire protection districts. There are seven independent fire protection districts levying property taxes in Durham County, as follows:

- Bahama Fire Protection District
- Bethesda Fire Protection District
- Lebanon Fire Protection District
- Parkwood Fire Protection District



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- Redwood Fire Protection District
- Eno Fire Protection District
- New Hope Fire Protection District

Of the districts listed above, the first five are located in and primarily service Durham County residents. The last two districts listed—Eno and New Hope—are based in Orange County, but serve small portions of Durham County.

As will be addressed in a subsequent section of this report, the tax rates, costs and service levels vary among the fire districts. The ISO ratings for commercial and residential fire insurance also vary among the districts due to differences in geography, service levels, infrastructure (e.g., fire hydrants) and other factors. Together, the voluntary fire protection districts have 12 fire stations serving the County. All have mutual aid agreements and all respond out of their districts as the need dictates.

The other major taxing district in the County is the Durham-Wake Counties Research and Production Service District. This district was established to collect taxes for the benefit of the Research Triangle Park (RTP) research and industrial area. The portion of RTP located within Durham County receives services from several sources as outlined below:

- The Durham-Wake Counties Research and Production Service District provides roadside landscaping, pedestrian path development and maintenance
- The City provides water supply and treatment services
- The County provides law enforcement, fire marshal, emergency management and wastewater treatment services, as well as other county-wide services
- The Bethesda and Parkwood fire protection districts provide fire protection and emergency medical services
- The State Department of Transportation provides roadway maintenance
- The Triangle Transit Authority provides bus service
- Private entities (e.g., the Research Triangle Foundation and private for-profit firms) provide right-of-way mowing and solid waste collection services

In effect, the RTP receives the same types and levels of service from Durham County that other parts of unincorporated Durham County receive, except that it also receives potable water from the City of Durham.



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## III. CITY-COUNTY CONSOLIDATION

### A. National Merger Trends

Massive, high profile corporate mergers have become commonplace in the US. In virtually every major industry, from energy to entertainment, we have witnessed a transformation of the corporate landscape. In the private sector, companies merge for different reasons—to strengthen their production capabilities, to exploit marketing opportunities, to improve their competitive positions and even to attain certain efficiencies.

In contrast, City-County mergers have been relatively rare. In 215 years of US history, only 31 cities and counties have united. The first merger, between New Orleans Parish and the City of New Orleans, took place in 1805. The nation's largest merger occurred in 1898 when New York City was formed from the five boroughs. Other mergers followed in Boston, Philadelphia, Denver, San Francisco and Honolulu, but it was not until 1947 that the first "modern" merger took place in Baton Rouge, Louisiana (so named because of its use of service districts and suburban exemptions).

Since 1947, there have been 23 city-county mergers. During the 1960's and 1970's, there was a wave of mergers, some involving large communities. Three of the most publicized city-county mergers, those in Nashville-Davidson County, Tennessee, Jacksonville-Duval County, Florida and Indianapolis-Marion County, Indiana (Unigov), took place in the 1960's. The next decade witnessed successful mergers in such communities as Anchorage, Alaska and Lexington-Fayette County, Kentucky, but the pace slowed.

Since the 1970's, efforts to merge city and county governments have largely met with apathy or resistance, particularly outside of the Southeast. There were only two successful mergers during the 1980's, and both were in the Southeast (Houma, Louisiana and Lynchburg, Tennessee). This decade, there have been only four city-county mergers, with three implemented in the Southeast (Athens, Georgia, Lafayette, Louisiana and Augusta, Georgia) and one outside the Southeast (Kansas City, Kansas).

Upon first reflection, it is easy to understand why so few city-county mergers have been enacted. They often pose threats to existing political structures and office holders, and engender opposition from constituencies who feel they will be disenfranchised. Merger costs and disadvantages tend to be more immediate and obvious, but potential merger benefits tend to be long-term and difficult to convey in a brochure or 30-second ad.

While public sector mergers are often promoted for their potential cost savings, the reasons for merging public sector entities are at least as diverse as they are in the private sector. In fact, cost savings may be the least important reason for public sector mergers. The communities supported merger for a variety of reasons. The most compelling arguments advanced by merger proponents include the following:



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- Neutralize a threat posed by municipal annexation or improve local control over growth management and other community “destiny” issues
- Improve the delivery of services, by expanding some services from urban to rural areas (e.g., sewer treatment), adopting uniform codes and service standards (e.g., building inspections) or providing “one-stop shopping” for services
- Improve the efficiency of government, by reducing administrative costs or reducing the duplication of services (e.g., a single property tax bill)
- Enhance the public image of government

Only two surveyed communities—Augusta and Athens—used merger to broaden their tax base (e.g., by extending a municipal tax to the county). Only one surveyed community, Augusta, supported merger in order to bail out a financially distressed city.

Regardless of their reasons for initially supporting city-county merger, the communities that we surveyed, with the benefit of hindsight, continue to view city-county merger as a sound decision. As reflected by the results of our Phase 1 survey of city-county mergers (presented in Appendix C), these unified governments discovered that, while consolidation was more difficult to implement than initially expected, its long-term benefits, such as improved services and efficiency, far outweighed the implementation costs.

Most mergers implemented since World War II have employed the Baton Rouge service district model. In order to minimize the initial costs of merger and ensure tax and service equity, most communities have created distinct service or tax districts for urban and rural areas. Merger plans using this approach provide for higher taxes and more services in urban service districts and lower taxes and fewer services in rural service districts.

One of the most difficult challenges inherent in mergers is determining the appropriate political structure. Merger advocates must balance efficiency against the need to minimize the perceived political “losers.” Many consolidated entities adopted larger legislative bodies than desired to enhance the prospects of voter approval. For example, the initial structure in Lexington, Kentucky had a weak mayor form and a 15-member council (a subsequent charter initiative adopted a strong mayor form). While some there would prefer a smaller council, they concede that a 15-member board was key to initial voter approval.

For Phase 2, we conducted follow-up interviews of officials of three unified communities that implemented city-county consolidations since 1996. Those communities are Augusta-Richmond, Georgia, Lafayette, Louisiana and Kansas City-Wyandotte, Kansas. The results of the follow-up interviews are summarized in the table below.

Summary of Follow-up Survey Responses

Merger Issue	Augusta-Richmond County	Lafayette Consolidated Gov't	Kansas City-Wyandotte County
Transition	Did not track transition	Did not establish transition	Incurred some transition



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costs	costs, but spent \$200,000 grant. Minimized relocation costs since City & County staff co-located pre-merger.	budget & did not report transition costs.	costs to integrate computer & telephone systems, but did not track such costs.
Other merger costs	Restructured pension plans into defined contribution plan in 1998. After 1997 pay study, made \$3 million in pay changes. Offered early retirement to directors with 10+ years of tenure. Standardized health plans & car allowances.	New charter protected all employees with at least one year of service, resulting in many redundant jobs. Took 18 months & \$350,000 to classify all parish staff in City's civil service system.	Will likely incur some added costs as result of recently-completed pay study, but unsure how much of increase due solely to merger.
Quantifiable merger benefits	Cut 47 duplicate jobs, added \$10 million from countywide utility franchise tax, obtained A+ bond rating, increased reserves by 18% & converted City's generous pension plan.	Chamber's fiscal impact analysis forecast \$5.4 million in annual cost savings, but actual savings have been limited to position reduction via attrition.	Cut employees by 14% in two years via attrition & reduced some duplication (e.g., management, legal & systems). 1 <sup>st</sup> operating budget cut costs by 3%.
Qualitative merger benefits	Prevented City's default, restored fiscal health of water/wastewater systems, equalized water/wastewater rates, resolved longstanding jail issue & upgraded old technology platform.	Protected Parish, which suffered from shrinking tax base (annexation-related), from greater fiscal stress, if not potential default.	Mayor claims that tax levy has declined since merger; tax levy down from 97 mills in 1995 to 76 mills today (could be due to increased valuation).
Other issues	While new entity enjoys good image, many citizens question why tax rate has not declined more.	City & Parish merged politically, but not yet functionally (e.g., Sheriff & police retain separate communication systems).	A major annexation one year before merger virtually eliminated remaining unincorporated area.

Given the limited post-merger analyses of merger costs and benefits by these entities, it is difficult to validate their estimates of costs and benefits. Nevertheless, there is a strong consensus among the officials we surveyed that their unified governments provide a stronger, more effective and more accountable public service model than their independent city and county governments did before merger.

We found two post-merger cost-benefit analyses of recent city-county mergers of some utility. A report issued by the University of Georgia's Vinson Institute of Government and Syracuse University's Maxwell School found that, as a result of the merger of Athens, Georgia and Clarke County, "per capita costs declined over time and there were cost savings in some functions."<sup>29</sup> General government costs declined on a per capita basis and police costs, after rising 15 percent in the first two years, fell by 10 percent in

<sup>29</sup> *The Expenditure Impacts of Unification in a Small Georgia County: A Contingency Perspective of City-County Consolidation*, Selden & Campbell, February, 1999.



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the next five years.<sup>30</sup> According to a study of the Kansas City-Wyandotte County merger, that entity's first budget (FY99 budget) achieved a 3 percent cost reduction.<sup>31</sup>

The costs and benefits of merger are largely a function of how the merger plan is structured and implemented. The Vinson Institute of Government/Maxwell School report noted that "costs are contingent on the policy decisions of the elected commission, the management initiatives of key professional staff and the constraints imposed ... by ... the ... charter."<sup>32</sup> Another study found that "the benefits of consolidation ... depend ... on ... how a consolidation is designed and implemented..."<sup>33</sup>

According to the National Association of Counties (NACo), only about one-sixth of the city-county merger issues placed on the ballot since 1920 have been approved by voters. In the last decade, voters approved only four of 17 mergers, rejecting city-county mergers in such communities as Sacramento, California, Spokane, Washington, Des Moines, Iowa, and Tallahassee and Gainesville, Florida<sup>34</sup>. Even in many areas where mergers have been approved, like Athens and Augusta, voters defeated earlier attempts.

Nevertheless, over 16 million people live in consolidated city-county jurisdictions. While nearly 50 percent of these people live in New York City alone, many live in such small communities as Butte, Montana, Sitka, Alaska, and Carson City, Nevada. In addition, many residents of Virginia live in cities or counties which effectively function as consolidated city-county governments (e.g., Richmond City, Arlington County, Chesterfield County or Henrico County).

Further, NACo reports that several communities, in addition to Durham, are considering city-county consolidation. Those communities include Louisville, Kentucky, Albuquerque, New Mexico, Pueblo, Colorado and Macon, Georgia. Given the history of such efforts, however, these communities would be wise to proceed carefully.

## B. Merger Trends in North Carolina

Only 27 states allow city-county consolidations. In some of those states, the statutes encourage cities and counties to pursue merger opportunities (e.g., Georgia). However, most of the other 27 states, including North Carolina, have laws that permit, but do not necessarily promote, city-county mergers.

The Constitution of North Carolina expressly authorizes city-county mergers and empowers the General Assembly to enable counties and cities to establish service

<sup>30</sup> Ibid.

<sup>31</sup> *Redesigning County Government for the Year 2000 and Beyond - An Update*, Lawrence, November, 1999

<sup>32</sup> *The Expenditure Impacts of Unification in a Small Georgia County: A Contingency Perspective of City-County Consolidation*, Selden & Campbell, February, 1999.

<sup>33</sup> *Fiscal, Service and Political Impacts of Indianapolis-Marion County's Unigov*, Blomquist and Parks, 1995

<sup>34</sup> National Association of Counties Research Brief on Consolidation, July, 1998.





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districts (USDs)<sup>35</sup>. About 30 years ago, the General Assembly enacted legislation to facilitate city-county consolidations—the Consolidated City-County Act. In order to facilitate mergers, the act provides for the creation of USDs.

The North Carolina Consolidated City-County Act provides a broad legal framework for city-county mergers. Under its provisions, the largest municipality in the county is abolished and its powers, duties and rights are consolidated with those of the county<sup>36</sup>. The Act contemplates the survival of the county as the combined city-county government, and the dissolution of the merged city, but it suggests that the consolidated city-county will have the powers of a county and, within an USD, a city as well<sup>37</sup>.

Under the North Carolina Consolidated City-County Act, the governing board may establish USDs. If the governing board establishes any USDs, it must establish one coterminous with the boundaries of the abolished city<sup>38</sup> and may establish other USDs where no municipality previously existed<sup>39</sup> in other areas to provide services or facilities to a greater extent than those provided for the entire consolidated city-county<sup>40</sup>.

A merger may be approved by the General Assembly, with or without voter approval, and must receive legislative approval in any event. However, voters may have to approve any debt transfer from the defunct entity to the consolidated entity and the Local Government Commission may have to review debt assumed by the new entity and determine the right of the new entity to issue authorized, but unissued debt<sup>41</sup>.

Once the merger has been consummated, the new governing board, after meeting certain annexation and public notice standards, may expand, consolidate or abolish USDs. It may expand an USD by annexation if the annexed area has a population density of at least one person per acre and an assessed valuation of at least \$1,000 per resident, or if at least 60 percent of the area is developed<sup>42</sup>. It may consolidate contiguous USDs that provide (or will provide) similar services<sup>43</sup>. However, it must provide any new or expanded services to a new, extended or consolidated USD within one year<sup>44</sup>. The governing board may also abolish an USD, effective at fiscal year end<sup>45</sup>.

<sup>35</sup> Under the North Carolina Constitution, Art. VII, §3, any merged city-county government shall be deemed both a county and city. Under Art. V, § 2(4), the General Assembly may authorize any county, city or town to define areas and levy taxes within those areas to provide services or facilities to a greater extent than those provided for the entire jurisdiction.

<sup>36</sup> North Carolina GS §160B-2

<sup>37</sup> North Carolina GS §160B-2.1.

<sup>38</sup> North Carolina GS §160B-4.

<sup>39</sup> Under North Carolina GS §160B-6, the area must have at least 1,000 residents, a population density of at least one person per acre, an assessed valuation of at least \$2.5 million and require added services.

<sup>40</sup> North Carolina GS §160B-3.

<sup>41</sup> North Carolina GS §160B-20 is actually special legislation for New Hanover County.

<sup>42</sup> North Carolina GS §160B-7.

<sup>43</sup> North Carolina GS §160B-8.

<sup>44</sup> North Carolina GS §160B-9.

<sup>45</sup> North Carolina GS §160B-10.



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The enabling legislation notwithstanding, there has been no successful city-county consolidation in North Carolina. In Wilmington, there have been three unsuccessful referenda on consolidating the City of Wilmington and New Hanover County, the most recent of which was five years ago<sup>46</sup>. More recently, the new Mayor of Wilmington has agreed to discuss consolidation with County officials, but those talks have not begun. In addition, the City and County have agreed to create a Unified Development Code, a possible precursor to the functional consolidation of City and County planning functions.

In Charlotte, there have been extensive discussions about the possible merger of the City of Charlotte and Mecklenburg County. In 1996, however, after many months of work by two citizen commissions, and the development of a 347-page charter, elected officials in Charlotte and Mecklenburg County decided not to place the merger issue on the November ballot. Our interviews with City and County officials indicate that the reemergence of this issue is unlikely in the near future.

One reason that serious city-county merger efforts in Charlotte have stalled is that there are other municipalities in the County (in addition to Charlotte) with a combined population approaching 250,000 that could continue to require County services even if Charlotte and Mecklenburg merged. Another reason is that the functional mergers implemented by the City and County have provided many of the advantages of a full political merger.

According to representatives of the City and County, these functional mergers have been quite successful. Pursuant to a master inter-local agreement, Charlotte and Mecklenburg County consolidated planning, purchasing, police and animal control services under City management and parks, recreation and building inspection services under County management. While to their knowledge, there has been no formal post-merger analysis of costs and benefits, both entities believe that services have been improved without a material increase in the costs of those services.

Their law enforcement merger is illustrative. Initially, merging the County and City police departments increased costs because all pay, benefit and rank variances were adjusted to the higher of two levels. However, these initial costs were recovered within three years through personnel reductions (attrition). Today, officials there believe that their consolidated police department is a more effective and efficient service delivery model than their prior structure. They also believe that their police merger was greatly facilitated by the fact that the old County Police Department was under the direct control of the Board of Commissioners rather than the elected Sheriff.

While a full political consolidation of the City and County appears unlikely for Charlotte's future, more inter-governmental joint ventures are in the works. For example, the City and County are considering a plan to consolidate all 800 Mhz systems used by

<sup>46</sup> According to Howard Loving, Government Affairs Director for the Greater Wilmington Chamber.



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the police department, fire department and other public safety agencies. Functional mergers of other administrative support functions could be considered as well.

## C. Local Cooperation

**Introduction** – The consolidation of the City of Durham (the City) and Durham County (the County) is being considered for the fourth time in as many decades. In 1961 and 1974, charter commissions developed city-county merger plans. In 1994, the City and County established a citizens task force to recommend a new governmental structure for a merged government. While city-county consolidation has failed to gain voter approval, it has garnered support from many citizens and remains an issue to this day.

Historically, Durham has demonstrated a surprising degree of receptivity to governmental consolidation, restructuring and other forms of cooperation. In 1990, for example, Durham's City and County school districts were merged. School district mergers can be extremely challenging. In fact, even those communities that have implemented city-county consolidations have usually avoided the issue of school district merger. In other words, in taking on school merger, Durham's leaders have already confronted the toughest type of government restructuring required to unify the community.

Since 1988, the City and County have implemented three functional mergers using intergovernmental agreements. In 1988, the two governing bodies merged their respective tax collection and planning offices. Later, in 1993, the City and County consolidated their building inspection programs. As reflected by the summary discussions below, these functional mergers have been successful.

**City-County Tax Collector Merger** – The tax collector consolidation took place in 1988 when the City transferred its tax collection staff to the County Tax Collector. At the time of the merger, the City and County had a combined tax collection staff of 20 full-time permanent positions and four temporary tax clerks, and a combined annual budget of \$690,000 (excluding \$156,500 in funds for merger implementation).

The County merged the County Assessor's Office with the consolidated Tax Collector's office in 1996. At the time of this transfer, the County Assessor had 38 full-time equivalent (FTE) staff and a budget of \$1,481,000. In FY89, at the time of the tax collector merger, the County Assessor had 38 staff and a budget of \$811,000. Thus, if the County Assessor's Office had been included in the 1988 merger, the combined office would have had 58 positions and an operating budget of \$1,658,000.

In FY99, the Consolidated Tax Assessment and Collection Department had 60 FTE positions and incurred \$2,595,000 in costs. Thus, during a time when the County experienced significant population growth, it maintained staffing levels at pre-merger levels. Moreover, if we assume that, in lieu of merger, the three separate offices would have experienced an average annual expenditure growth rate of 6 percent (below the actual operating cost growth rates of both the City and County for the same period), their



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combined FY99 costs would have been \$3,428,000, nearly 32 percent higher than the actual costs incurred by the merged office.

According to staff, this functional merger had several advantages. First, it improved customer convenience and service, partly by streamlining the payment process. Second, the combined staff gave them the critical mass to increase specialization and became a more complete tax collector office. Third, they believe that total tax collection costs would have increased more dramatically without the merger. Since 60,000 of the County's 90,000 parcels are within the City, they reason that the City would have had to maintain a duplicative tax collection operation for two-thirds of the County's parcels.

Some difficulties were encountered during implementation. For example, the City staff did not want to move and employee benefit structures were different. However, the managers indicated that, by keeping staff informed every step of the way through the merger process, they were able to minimize these difficulties. Today, they regard their functional merger as a positive policy decision for the citizens of Durham.

**City-County Planning Merger** – The consolidated Durham City/County Planning Department was established in 1988. Pursuant to an inter-local agreement, a cost-sharing formula was established (the local option sales tax formula) and related boards and commissions (e.g., planning, adjustments and development review) were merged. The unified zoning ordinance was not completed until 1994.

At the time of the merger, the combined planning departments had annual operating costs of about \$1,621,000 and a staff of 41 full-time and 3 part-time positions. For FY90, the Consolidated City/County Planning Department had a budget of \$1,981,000 and authorized staffing of 44 full-time and 11 part-time positions. For purposes of comparison, in FY99 the Department's actual costs were \$2,337,000 and it had a staff of 38 FTEs<sup>47</sup>.

Since merger, the Consolidated City/County Planning Department's staffing levels have declined. In addition, its costs have grown at a much lower rate. If we assume that, in lieu of merger, the two separate offices would have experienced an average annual expenditure growth rate of 6 percent (below the actual operating cost growth rates of both the City and County for the same period), their combined FY99 costs would have been \$3,077,000, about 32 percent higher than the actual costs incurred by the joint department.

During this same period, the Department's workload escalated. The City's population rose by 30 percent and the County's by almost 15 percent. The number of dwelling units increased by 37 percent in the City and 18 percent in the County<sup>48</sup>. The Department completed the 2020 comprehensive plan and several other plans (e.g., several Small Area

<sup>47</sup> Durham City FY99 CAFR and FY00 Operating Budget.

<sup>48</sup> Durham City-County Planning Department estimates.



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Plans, the Durham Open Space Master Plan and the New Hope Creek Corridor Preservation Plan). Three new advisory groups were established.

Staff view their functional merger as a success. They believe that it enabled the Department to improve customer service for developers and neighborhood groups. Through merger, the County was able to quickly strengthen its planning capabilities without increasing its costs. A consolidated planning agency has also ensured greater continuity of planning policy, especially as the City has annexed land.

The merger has not been problem-free, however. With two governing boards, the joint planning agency must participate in far more meetings than would be required under a single governing body. Dual governance also has contributed to questions about accountability. Overall, despite some initial implementation problems, the overall transition reportedly went relatively well.

It should be noted that, despite its apparent success, the joint planning agency could be unbundled at any time. Serious growth management policy disputes (e.g., disagreements about proposed landfill sites in environmentally sensitive areas) or management disputes could engender a split. It is our understanding, for example, that disputes concerning the hiring and firing of planning directors contributed at least in part to the disbanding of joint planning departments in two North Carolina communities.

**City-County Inspections Merger** – The consolidated City-County Inspections Department was formed in 1993. The Director reports jointly to the City and County Managers, but employees are governed by City personnel policies.

At the time of merger (FY93), the two departments had a total of 49 FTE positions and combined operating expenditures of \$2,322,000. The FY94 budget for the new City-County Inspections Department authorized 45 full-time positions and expenditures of \$2,221,000. The FY94 budget included funds for a new voice mail system and the conversion of County manual records to the City's automated system.

In FY99, the joint Department incurred actual costs of \$2,468,000 and had a staff of 45 FTEs<sup>49</sup>. Thus, during a period when the inspections workload increased, the joint Department reduced staff and operating costs (after adjusting for inflation). Current management is convinced that overall operating costs would have been higher had the two departments not merged. Assuming that the two separate offices would have experienced an average annual expenditure growth rate of 6 percent, their combined FY99 costs would have been \$3,294,000, 33 percent higher than the actual costs incurred by the joint entity.

However, the most important reported benefits of merger involved services. The new Department improved customer service through standard fees and rules, and the uniform

<sup>49</sup> City of Durham FY00 Operating Budget.



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county-wide application of state building codes. It expanded services (e.g., review all residential permits, perform more re-inspections and conduct all state-mandated public school inspections). It accelerated response times for inspection requests, improved overall inspection quality and automated all permits and records.

Some hurdles had to be overcome during the merger implementation process. Staff morale was affected when, based on a pay equity study, County employee salaries were increased, but City salaries were not. Effective and continual staff communications helped alleviate many staff concerns. Until recently, the Department had to use two different budget processes (the County now incorporates City budget formats). Finally, despite merged ordinances, the tendency of the governing bodies to periodically adopt different provisions (e.g., different flag regulations) remains a problem.

**Other Cooperative Efforts** – In addition to their successful functional mergers (described above), the City and County have executed numerous interlocal agreements for new programs. Those joint ventures include youth services, emergency communications, emergency management and geographic information system (GIS) administration. The City also operates a joint city-county training program.

The City and County pursue other cooperative endeavors. The Durham Convention and Visitors Bureau is jointly funded and owned (the City has 42.5% equity and the County has 57.5%) and managed by a jointly-appointed board. The Durham Civic Center Authority is operated by City employees, but under a jointly-appointed board. The Civic Center also is jointly funded and owned (the County will own 50% equity by 2006).

The two entities also have adopted a cooperative approach to funding cultural and other civic programs. The City, for example, helps fund the Carolina Theater and Durham Arts and the County provides assistance to the Museum of Life and Science. The City helped fund the Museum's new Butterfly House. Both entities jointly fund the Civic Center.



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## IV. FISCAL IMPACT OF MERGER

### A. Overview of Estimates

Our assessment of the fiscal impact of City-County merger is based on a ten-year horizon and an assumption that the merger will take place on July 1, 2000. While we understand that merger, if it occurs at all, will not take place until well after July 1, 2000, the use of a later implementation date should not materially affect the results of the analysis.

Our fiscal analysis is incremental in that it focuses solely on the quantifiable costs and benefits of merger over a ten-year horizon starting in FY01. That is, it excludes City and County revenues and expenditures that will not be affected by merger, which is to say the vast majority of local revenues and expenditures (e.g., social service, mental health, public health, sanitation collection and transportation costs).

We identified seven potential fiscal impact areas for merger. These fiscal impact areas are listed below and discussed in more detail later in this section of the report.

- Governance and executive – central management, legislative clerk, budget, grants, internal consulting, public information and equal opportunity assurance functions
- Financial management - finance, internal audit and risk management functions only (the tax administration function would not be impacted by merger)
- Other general government – records management, human resource and information technology functions only (the Election Board and Register of Deeds would not be impacted by merger)
- Public works and transportation - asset management functions only (the engineering, road maintenance, street lighting and public transit services would not be impacted by merger)
- Environmental services - sewer, storm water and solid waste management programs only (water and sanitation would not be impacted by merger)
- Law enforcement
- Other public safety services - fire protection services only (communications, emergency medical, emergency management, medical examiner and animal control would not be impacted by merger)

Based on our preliminary estimates, we believe that the merger of the City and County will generate net benefits of \$40.7 million over a ten-year period in adjusted dollars and \$32.0 million in current dollars. As reflected in the chart below (and in [Appendix D](#)), merger will require substantial investments, especially in such areas as pay parity and technology. However, the potential benefits of merger, both in terms of short-term staff reductions and long-term administrative efficiencies, should easily exceed its costs.



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## Merger Fiscal Impact Summary (FY01-FY10)

Benefits/Costs	Current Dollars (000s)	Net Present Value (000s)
<b>Benefits:</b>		
Governance and executive	\$9,943	\$9,990
Financial management	10,670	12,326
Other general government	8,432	9,968
Asset management	4,037	5,980
Environmental services	2,006	3,083
Law enforcement	13,024	14,181
Fire protection	1,390	3,197
Other benefits	950	979
<b>Total benefits</b>	<b>\$50,452</b>	<b>\$59,704</b>
<b>Costs:</b>		
Governance and executive	\$470	\$484
Financial management	280	288
Other general government	960	989
Asset management	300	309
Environmental services	540	556
Law enforcement	6,269	6,457
Fire protection	980	1,009
Other merger costs	8,610	8,868
<b>Total costs</b>	<b>\$18,409</b>	<b>\$18,961</b>
<b>Net benefits (costs)</b>	<b>\$32,043</b>	<b>\$40,743</b>

The most significant cost savings resulting from City-County merger will be gained over the long haul, partly as a reduction in the rate of expenditure growth. As a growing community, Durham will continue to experience significant increases in local government expenditures. City-County merger will not necessarily enable local taxpayers to cut taxes over time, but merger will provide for a reduction in the rate of tax increases. Such benefits will be realized more quickly during times of growth and economic prosperity.

We believe that the above cost-benefit estimates are conservative. We have striven not to overstate the potential benefits of merger. For instance, we have projected the reduction of only 100 positions during the first five years of merger, only 2.5 percent of total positions. In contrast, some fiscal impact analyses performed for other communities have estimated staff reductions in the range of 5 to 10 percent.<sup>50</sup>

The merger cost-benefit impact estimates summarized above are presented in accordance with programmatic or functional classifications. As a result, our impact estimates for pay parity are distributed across several categories. In order to provide a clearer picture of merger-related compensation issues, a macro analysis of pay and benefit issues is presented immediately below. The discussion of programmatic costs and benefits is presented later in this section of the report.

<sup>50</sup> According to Arthur Young's 1989 Fiscal and Service Analysis of Local Government Reorganization in Sacramento, the Jacksonville-Duval County merger resulted in 10% savings and the Sacramento City-County merger would generate efficiency gains in the 5-8% range.





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## B. Compensation Equity

The largest cost encountered by most city-county mergers is compensation equity. Most plans seek to equalize pay and benefits and, in an effort to hold employees harmless, equalize compensation at the highest of varying levels. Generally, the most significant compensation equity costs arise when the merged governments have vastly different fiscal conditions. For example, the Augusta-Richmond County merger incurred massive pay equity costs because the City had fallen so far behind the County's pay structure.

In Durham, the City and County are fiscally healthy, and both, as a matter of policy, strive to maintain competitive pay structures. While the City's pay structure is generally higher than the County's (due in part to the City's market adjustment last year), the variances are not nearly as big as they could have been. Nevertheless, as summarized below, the annual costs for pay parity adjustments are likely to approach \$980,000. For this study, we allocated the pay parity cost estimates by program.

Summary of Pay Parity Adjustment Estimates

Program	No. of Employees	Average Variance	Total Pay Impact
Governance & executive	16	\$2,935	\$47,000
Financial management	27	\$1,038	28,000
Other general government	33	\$2,905	95,900
Asset management	12	\$2,514	30,200
Environmental services	30	\$2,270	68,100
Law enforcement	183	\$2,934	537,000
Other departments	228	\$750	171,000
Totals	529		\$977,200

Our estimates of the positions that could require pay parity adjustments is considerably higher than the number of similarly-titled positions would appear to indicate.<sup>51</sup>

Until a comprehensive pay and class study is conducted (including a detailed review of job descriptions and a survey of employees), the actual pay equity adjustment costs are difficult to project. The two entities employ different classification systems. The City adopted a hybrid traditional/broad band, market-based compensation plan in 1998 and the County has a more traditional classification system. Since they employ significantly different job titles, it is difficult to identify comparable positions without reviewing job descriptions and surveying employees.

<sup>51</sup> The City Human Resource Office has estimated that there are only about 150 positions in the City and County with some degree of overlap (i.e., similar position titles and requirements).



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There are two factors that could affect the above estimates. First, because both entities regularly conduct market studies and increase starting salaries to maintain the competitiveness of their respective salary structures, the pay equity estimates could be discounted. Second, such market-based adjustments can reduce pay differentials between new and long-term employees, requiring some internal equity adjustments. This could inflate the pay equity adjustments. Our estimates do not reflect these factors.

The employee benefits provided by the City and County appear comparable in some respects, but there are some important differences that could affect the fiscal impact of merger. The key elements of the two benefit programs are summarized below.

- Retirement – since both entities are under the Statewide Local Governmental Employees Retirement System (LGERS), a state-administered multiple-employer defined benefit pension plan, and both offer the state-administered Supplemental Retirement Income Plan, merger should not have a fiscal impact
- Deferred compensation – both entities offer the State and NACo deferred compensation program with similar employer contribution rates
- Paid annual or vacation leave - County vacation leave is accrued at a faster rate than City annual leave, especially for employees with 5 to 25 years of service
- Paid holiday leave - the County grants one more holiday than the City
- Paid sick leave – paid leave accrues at the same rate for each entity (12 sick leave days per year) without limit; while the City allows unused sick leave to be converted to accrued service credit upon retirement and employees to donate sick leave to other employees, we have not projected a fiscal impact for merger
- Paid school service time – the City offers up to 30 paid hours per year for school volunteer activities and merger could have a minor fiscal impact
- Other paid leave – the City offers slightly more generous funeral leave (up to 5 days per year compared to 3 for the County) and military leave (up to 10 days for active or reserve duty compared to 8 for the County), but generally the other leave benefits are similar, and no fiscal impact is projected for merger

The City and County offer different health, dental and life insurance programs. The City offers its employees a choice between two plans, both of which are fully insured, point-of-service plans combining Health Maintenance Organization (HMO) and indemnity benefits. In contrast, the County provides a credit which each employee may use to purchase from a menu of benefits, including health, dental and life insurance.

While the two programs are very different, their respective cost structures do not appear to vary significantly. For the three-year period FY97 through FY99, for example, the City's average per employee costs for health, dental and life insurance were equivalent to the County's employee credit for comparable benefits. As a result, we have not projected any costs associated with benefit parity for health, dental and life insurance.



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We have estimated that achieving benefit parity between the City and County will cost about \$441,900 per year. The projected short-term<sup>52</sup> benefits and costs for achieving employee benefit parity after merger are summarized (in current dollars) in the table below.

**Summary of Short-Term Cost-Benefit Estimates**

Cost-Benefit Factor	FY01	FY02	FY03	FY04	FY05
Vacation leave parity	\$(140,000)	\$(140,000)	\$(140,000)	\$(140,000)	\$(140,000)
Holiday pay parity	(271,900)	(271,900)	(271,900)	(271,900)	(271,900)
School volunteer leave parity	<u>(30,000)</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>(30,000)</u>
Net Benefits (Costs)	\$(441,900)	\$(441,900)	\$(441,900)	\$(441,900)	\$(441,900)

The above cost estimates assume that the governing body will opt to resolve all benefit differentials to the highest level. As an alternative, the governing body could decrease the vacation leave accrual rate for all new employees or simply, reduce the number of paid holidays to the lower level.

We believe that the compensation parity costs outlined above could also be reduced by taking a total compensation approach. In most cases, City salaries are higher than County salaries. However, where employee benefits vary, County benefits are more generous than City benefits. This should create an opportunity to develop a uniform salary and benefit structure that balances differences in the two programs instead of merely adjusting all salaries and benefits to the highest levels. In our view, the incremental value of higher benefits should be factored into any analysis of salary differentials.

The City is moving rapidly toward a full cafeteria plan like the County's. It recently issued a Request for Proposals for qualified benefit providers to propose alternative employee benefit programs for the City. If this effort could be expanded to include County employees, it would provide an opportunity for the City and County to assess the relative costs and benefits of a joint employee benefits program.

### C. Corporate Overhead

The merging of City and County governments will result in significant reductions in corporate overhead costs (i.e., governance, executive, financial management, asset management and other general government costs). We believe that the merged government will be able to eliminate or avoid adding at least 59 administrative positions (out of 502 total administrative positions) over the initial five-year post-merger period, generating annual cost savings of nearly \$3.6 million.

<sup>52</sup> Short-term is defined as the first five after merger.



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For the purposes of this analysis, we assumed that these administrative position reductions will occur incrementally over the first five years after merger.<sup>53</sup> The primary costs associated with merger will be \$201,000 in annual pay parity costs for 88 affected employees. Related transition costs are addressed later in this section. The projected short-term benefits and costs are summarized (in current dollars) in the table below.

Summary of Short-Term Cost-Benefit Estimates

Cost-Benefit Factor	FY01	FY02	FY03	FY04	FY05
Position Reductions:					
Governance & executive <sup>54</sup>	\$255,000	\$510,000	\$766,000	\$1,021,000	\$1,148,000
Financial management <sup>55</sup>	241,000	482,000	722,000	963,000	1,204,000
Other general government <sup>56</sup>	197,000	394,000	591,000	788,000	920,000
Asset management <sup>57</sup>	93,000	186,000	233,000	280,000	326,000
Pay Parity Increases:					
Governance & executive	(47,000)	(47,000)	(47,000)	(47,000)	(47,000)
Financial management	(28,000)	(28,000)	(28,000)	(28,000)	(28,000)
Other general government	(96,000)	(96,000)	(96,000)	(96,000)	(96,000)
Asset management	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)
Net Benefits (Costs)	\$585,000	\$1,372,000	\$2,111,000	\$2,851,000	\$3,397,000

The net benefits should be \$585,000 in the first year of merger, and increase rapidly each year thereafter as attrition allows the unified government to reduce more positions. Under a merged government, and unified management, there will likely be opportunities for even greater efficiencies after merger is fully implemented. In the long-term<sup>58</sup>, additional benefits should be realized, primarily as a reduction in the rate of expenditure growth.<sup>59</sup>

The overall financial condition of the merged entity should be as least as strong as the fiscal strength of the City and County as separate entities. Assuming the use of the service district model, and the full access of the unified government to the traditional City and County revenue sources, we have concluded that there will probably not be any material revenue changes as a result of merger.<sup>60</sup> In the case of intergovernmental revenues, we believe that a unified grants management approach could ultimately enhance revenues. Pooling investments could generate minor revenue enhancements.

<sup>53</sup> Assume merger will achieve 20% of the position savings in the first year, 40% in the second year, 60% in the third year, 80% in the fourth year and 100% in the fifth year.

<sup>54</sup> 18 central legislative, administration, legal & budget staff positions @ \$63,800, including salaries & benefits.

<sup>55</sup> 20 central financial, purchasing & risk management staff positions @ \$60,200, including salaries & benefits.

<sup>56</sup> 14 central information technology & human resource staff positions @ \$65,700, including salaries & benefits.

<sup>57</sup> 7 general services, facility & grounds management staff positions @ \$46,600, including salaries & benefits.

<sup>58</sup> Long-term is defined as Years 6 – 10 after merger is initially implemented.

<sup>59</sup> We have assumed that long-term costs for this area under a merged government will increase at a 25% lower rate than they would if the City and County governments remain separate.

<sup>60</sup> The merged entity will have to be careful in determining its allocation of the sales tax to any urban service district; the variance could be as much as \$6 million per the City Budget Office.



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Merger could have an impact on risk management costs, but we have not projected one. The City and County have different risk management strategies. The most important distinction, at least from the perspective of City-County merger, is each entity's approach to governmental immunity. The County, as a matter of policy, takes a harder line on claims, invoking immunity whenever available.<sup>61</sup> In contrast, the City does not always invoke governmental immunity even when it is available. If the unified government adopts the City's philosophy, rather than the County's, overall liability claims could increase.<sup>62</sup> Alternatively, if the unified body adopts the County's approach, overall risk management costs could decline significantly.

Another overhead function with potential merger-related fiscal implications is asset management. The City and County manage substantial assets, including real property, facilities, vehicles and equipment. We believe that a unified approach to asset management could generate significant efficiencies, in such areas as facility, fleet and equipment management costs. For example, a uniform, state-of-the-art work order system could generate maintenance savings in the order of five percent.

A unified approach to facility management could reduce facility operating costs. The City manages 75 facilities.<sup>63</sup> The County owns 40 facilities<sup>64</sup> and leases another 21 facilities.<sup>65</sup> Both entities own or lease significant office space. Merger, and a coordinated facility planning program, should reduce office space needs. The City's average office lease costs per employee are over \$2,300 per year. Together, the two entities also might achieve significant contract savings. For instance, the County has \$982,000 in facility-related contracts (e.g., janitorial, preventive maintenance and security).

There are probably some fleet management cost reduction opportunities. The City maintains 1,900 vehicles, including 53 leased vehicles. The County owns 369 vehicles, 217 of which belong to the Sheriff's Office. The City has a centralized fleet repair system, but the County does not. A coordinated fleet program could generate some savings in vehicle acquisition, leasing and repair costs. The City's average annual lease cost is at least \$4,500.

<sup>61</sup> According to the County Attorney, the County enjoys broader immunity than the City for some functions (e.g., sovereign immunity and statutory limits for the Sheriff).

<sup>62</sup> Additional data will be required from the City in order to assess potential risk management costs.

<sup>63</sup> The City owns most of its buildings (e.g., City Hall, fire stations, recreation centers and parking garages), but leases many others (e.g., police substations and Police Headquarters).

<sup>64</sup> Per the County Master Space Plan (draft), the County & ABC Board own facilities with a total of 1,158,000 square feet, the largest 10 of which account for 86% of total owned space (e.g., detention center, Judicial Building, Courthouse and Main Library).

<sup>65</sup> Per the County Master Space Plan (draft), the County & ABC Board lease facilities with a total of 112,000 square feet, with the largest being the Mental Health Access/Crisis, Mental Health Child and Family Services and Adult Probation facilities.



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## D. Environmental Services

We believe that the merged government will be able to eliminate at least three positions and avoid creating at least two new positions in environmental services over the initial five-year merger period. For analytical purposes, we assumed an average cost of \$37,800 per position<sup>66</sup> and the incremental reduction of positions over five years.<sup>67</sup> The primary costs associated with merger would be \$54,500 annually for pay parity for 30 affected County employees.<sup>68</sup> The projected short-term benefits and costs are summarized (in current dollars) in the table below.

Summary of Short-Term Cost-Benefit Estimates

Cost-Benefit Factor	FY01	FY02	FY03	FY04	FY05
Position Reductions	\$37,800	\$75,600	\$113,400	\$151,200	\$189,000
Pay Parity Increases	<u>(54,500)</u>	<u>(54,500)</u>	<u>(54,500)</u>	<u>(54,500)</u>	<u>(54,500)</u>
Net Benefits (Costs)	\$16,700	\$21,100	\$58,900	\$96,700	\$134,500

The staff positions that can be eliminated or avoided through City-County consolidation and subsequent staff attrition are discussed below:

- Solid waste management - one administrative or supervisory position
- Sewer line maintenance - the equivalent of at least one contract employee position work by using City sewer maintenance staff<sup>69</sup>
- Laboratory and pretreatment - one laboratory technician by having the City provide lab support for the County plant and pretreatment sampling of the unincorporated area businesses
- Storm water management – two supervisory and administrative support positions that will be required by the County for a stand-alone County program<sup>70</sup>

Even greater savings could possibly be achieved if the City staff took over sewer line maintenance responsibilities in the unincorporated area.

There also are potential long-term cost savings associated with establishing an efficient countywide wastewater treatment system. These savings, which can best be derived from a detailed engineering study of system-wide wastewater treatment alternatives, could be enormous, perhaps as much as \$2.5 million in annual operating costs and \$16.7 million in avoided capital costs.

<sup>66</sup> This assumes \$30,250 for salary cost and an additional 25 percent for fringe benefits.

<sup>67</sup> Gain 20% of the position savings in the first year, 40% in the second year, 60% in the third year, 80% in the fourth year and 100% in the fifth year.

<sup>68</sup> This assumes a 6% increase to achieve parity with City salaries applied to an average annual salary of \$30,250 plus benefits.

<sup>69</sup> Current City staff could provide on call services in the unincorporated area as a first option before requesting contract work, depending on the availability of staff to provide such services.

<sup>70</sup> This assumes that the County program will require supervision and administrative support equivalent to the City, and that merging City and County operations will reduce the requirement by two positions.



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For example, an engineering firm hired by the County provided a preliminary cost estimate of \$31.4 million to expand the County Plant to 12 MGD capacity and, as an alternative, \$14.7 million to build conveyance facilities, including pumps, conveyance lines and retention ponds, to pump the wastewater to the City South Durham Plant. The annual operating costs of the expanded County plant were estimated at \$2.5 million.

An engineering firm working for the City provided a lower preliminary estimate of \$10 million for conveyance costs (excluding the retention pond costs).<sup>71</sup> The engineering firm indicated that, if the South Durham Plant started treating wastewater from the Durham County Plant, it could forestall an expansion on line until 2010.<sup>72</sup> The firm estimated the cost of a 10 MGD capacity expansion at \$50 million in 1999 dollars.

In other words, a merged City-County government could save as much as \$2.5 a year in operating costs for the County plant and \$16.7 million for not expanding it<sup>73</sup>. Alternatively, a good portion of the South Durham Plant's expansion could be funded from the accrued savings. It would be unwise to count on any preliminary calculations until a total systems engineering approach has been used. Still, the fact that merging the governments could facilitate such an approach is a significant benefit of merger.

## E. Law Enforcement

The organizational structure for law enforcement under merger is a political decision that has yet to be made. However, in order to conduct the merger impact analysis, we had to make some assumption about law enforcement structure. We assumed that the unified government will have a consolidated, county-wide law enforcement agency, under the supervision of the governing body (i.e., a police department) or the elected Sheriff.

Under a county-wide law enforcement structure, we have assumed that the uniform patrol would continue to be organized in four districts, expanded from the City's current police districts to absorb the Sheriff's patrol areas. The districts would be decentralized to the extent that they would include the property crimes investigators and community activation teams. The Uniform Patrol Bureau also would include the Downtown Patrol and Traffic Control divisions of the Police Department's Special Operations Division.

We believe that the merged government will be able to eliminate or avoid adding at least 36 law enforcement positions over the initial five-year merger period. For this analysis, we assumed that the position reductions would occur incrementally over the first five

<sup>71</sup> The increased operations and maintenance costs for the South Durham Plant treating the wastewater piped from the Durham County Plant are expected to be minimal.

<sup>72</sup> This would entail expenditures in the 2007 to 2009 timeframe.

<sup>73</sup> The projected operating cost of the new plant could be high, but the \$14.7 million conveyance cost estimate also may be high (thereby increasing the savings) since the retention ponds would probably not be required if the total system were owned by the same governmental entity.



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years.<sup>74</sup> The primary costs associated with merger will be \$537,000 in annual pay parity costs for 183 affected County employees and \$899,100 in transition costs. The projected short-term benefits and costs are summarized (in current dollars) in the table below.

**Summary of Short-Term Cost-Benefit Estimates**

Cost-Benefit Factor	FY01	FY02	FY03	FY04	FY05
Position Reductions	\$315,000	\$630,000	\$945,100	\$1,260,100	\$1,575,100
Pay Parity Increases	(537,000)	(537,000)	(537,000)	(537,000)	(537,000)
Uniform Costs	(264,100)				
Radio Conversion Costs	(410,000)				
System Conversion Costs	(225,000)				
Net Benefits (Costs)	\$(1,121,100)	\$93,000	\$408,100	\$723,100	\$1,038,100

In the first year of merger, there will be an increased net cost of about \$1,121,100, if the pay adjustments and all uniform and radio expenditures are made that year. After that, net savings should increase rapidly. Subsequent net savings should offset the initial investment by the fourth year of merger.

We have identified 36 staff positions that can be eliminated or avoided through City-County consolidation and subsequent staff attrition as discussed below:

- Uniformed patrol – 19 patrol officers or deputies
- Uniformed patrol supervision – 9 captain, lieutenant and sergeant positions
- Dispatch operations – 3 telecommunicator positions
- Other law enforcement units – 5 investigative, administrative support or other non-patrol positions

Of the functional areas shared by the two departments, the area that is the most staff-intensive and thereby merger-sensitive is uniformed patrol staffing. For this analysis, we applied our patrol staffing methodology (the same approach used to determine patrol staffing requirements in our 1997 City Police Department study) for the entire County disregarding City limits. This methodology determines the number of patrol officers needed for answering calls for service (CSF) and paperwork associated with those calls.

Based on our analysis, we have estimated that a unified law enforcement agency would require no more than 217 patrol officers (see chart below). This estimate is based on several key assumptions, a change to any one of which could materially alter the estimates. For example, we assumed that proactive time requirements for patrol officers (time not spent on citizen-generated calls) represent 50 percent of total patrol officer time requirements. However, if we assume a 25 percent proactive time factor (more common in urban areas), total patrol staffing needs could be significantly reduced.

<sup>74</sup> Assume an average cost of \$39,800 for telecommunicators and \$41,100 per position for all other positions. Achieve 20% of the position savings in the first year, 40% in the second year, 60% in the third year, 80% in the fourth year and 100% in the fifth year.





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## Patrol Staffing Requirements Analysis

Data Element	Quantity
<b>Reactive CFS Requirements:</b>	
Call handling time in hours (169,805 CSFs @ 0.55 hours)	93,393
Call backup time (40% of CFS & 50% of primary units)	18,679
Report preparation time (40% of CFS & 0.33 hours/report)	22,414
Arrest time (9,902 arrests/bookings @ 1.5 hours)	<u>14,853</u>
Total reactive time requirements (hours)	149,339
<b>Total Time Requirements (with proactive time):</b>	
Minimum Staffing (reactive hours = 75% of total hours)	199,118
Optimum Staffing (reactive hours = 50% of total hours)	298,677
<b>Total Patrol Officer Availability:</b>	
Gross work hours	2,190
Less: vacation, sick leave & holidays	498
Less: training time	72
Less: non-field shift time (1.5 hours per shift)	<u>202</u>
Total patrol officer availability in hours	1,418
<b>Minimum Patrol Staff Requirements:</b>	
Patrol officers required (time requirements/availability)	140
Turnover/training allowance (1.5 hours per shift)	<u>6</u>
Total patrol officers required	146
<b>Optimum Patrol Staff Requirements:</b>	
Patrol officers required (time requirements/availability)	211
Turnover/training allowance (1.5 hours per shift)	<u>6</u>
Total patrol officers required	217

Note: CFS and arrest data based on departmental records<sup>75</sup>.

Today, the City and County have a combined total of 226 patrol officers, including 207 authorized patrol officers/deputies, 8 traffic accident control officers, 4 canine officers and 7 downtown patrol force FTEs.<sup>76</sup> If we assume that a unified law enforcement agency would only require 207 patrol officers (95% of the optimum requirement), then merger could yield opportunities for reducing 19 positions. We believe that deploying patrol officers throughout the County in an efficient manner should allow the current level of service to be maintained even with the elimination of these patrol officers.

A unified law enforcement agency should achieve other staff efficiencies as well. Merging the two forces into a single force with four districts should allow the elimination of nine patrol supervisory positions, including one captain, four lieutenant and four sergeant positions. Integrating the law enforcement radio and dispatch systems (i.e., using 911 operators to handle Sheriff dispatches and improving the use of squad car computers) will generate annual cost savings of \$119,400.<sup>77</sup> We also estimate that at least 5 positions

<sup>75</sup> The CSF estimate assumes that 151,310 or 54% of the City's 280,203 CSFs in 1999 were community-initiated and that 18,495 of the Sheriff's Office CSFs calls were community-initiated calls for service.

<sup>76</sup> While the City's public housing officers, park rangers, and community activation team members probably cannot answer many calls due to their respective local assignments, it is reasonable to assume that the downtown patrol force is available to answer calls at least 50% of the time.

<sup>77</sup> The elimination of one 24-hour dispatch slot would eliminate the need for three telecommunicator positions at \$39,812 per position, including salaries and benefits. The Sheriff has two dispatchers operating around the clock and is considering adding a third position during peak hours.



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not related to patrol requirements could be eliminated. These staffing efficiencies could be achieved through attrition or cost avoidance.

The primary cost associated with merging the departments involves salary increases to enable the Sheriff's staff to achieve pay parity with the Police Department staff. That increase was determined to be \$463,840 for FY00 based on the current midpoint salaries of the sworn staff positions of the respective departments (see table below).

Summary of Pay Parity Estimates for Law Enforcement

Sheriff Classes	Salary Range Midpoint	Police Classes	Salary Range Midpoint	Midpoint Variance	No. of Officers	Total Pay Impact
Deputy	\$ 34,197	Officer	\$ 36,115	\$ 1,918	95	\$ 182,210
Corporal	\$ 35,928	Corporal	\$ 39,695	\$ 3,767	9	\$ 33,903
Sergeant	\$ 41,666	Sergeant	\$ 47,958	\$ 6,292	15	\$ 94,380
Lieutenant	\$ 48,322	Lieutenant	\$ 52,711	\$ 4,389	11	\$ 48,279
Captain	\$ 53,336	Captain	\$ 63,681	\$ 10,345	6	\$ 62,070
Major	\$ 56,036	Major	\$ 69,994	\$ 13,958	2	\$ 27,916
Chief Deputy	\$ 61,853	Lt. Col.	\$ 76,935	\$ 15,082	1	\$ 15,082
Totals					139	\$ 463,840

An estimated \$73,195 would be required to increase the salaries of 44 Sheriff Office's non-sworn positions to achieve midpoint parity with similar positions in the Police Department. This brings the total estimated amount to achieve law enforcement pay parity to about \$537,000 (\$463,840 + \$73,195).

There will be a one-time cost associated with standardizing law enforcement uniforms. The uniform cost associated with acquiring new uniforms for 139 Sheriff's deputies would be \$264,100, while the cost associated with acquiring new uniforms for 470 police officers would be \$893,000.<sup>78</sup> We have assumed that the governing body would select the more cost-effective option.<sup>79</sup>

A second major one-time cost issue is the cost of standardizing radio systems. The cost of purchasing 800-megahertz radios for Sheriff deputies is estimated at \$375,000.<sup>80</sup> This cost could be reduced by up to 50 percent by selling the Sheriff's radios to another governmental entity which is not on an 800-megahertz system. It will cost an additional \$35,000 to add a communications console to the 911 Center to accommodate the Sheriff's patrol traffic. Some training will be required to integrate the two systems, but we believe that this can be achieved as part of current training programs without added costs.

<sup>78</sup> Based on an estimate of \$1,900 per set of uniforms per officer.

<sup>79</sup> Alternatively, new uniforms could be issued in over a five-year period or as new officers are hired.

<sup>80</sup> Assumes 150 radios at an estimated cost of \$2,500 per radio.



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While it might be desirable to install one or two more towers<sup>81</sup> to improve communications throughout the County, there is no convincing evidence that placing Sheriff deputies on the 800-megahertz system without these towers would detrimentally impact communications. In fact, there is a good possibility that the 800-megahertz system might improve radio reception for Sheriff deputies. In any event, since the County's EMS responders are using the 800-megahertz system, the Sheriff's system should be improved regardless of merger. Therefore, any costs associated with additional towers should be considered an enhancement cost, not a merger cost.

A third potential cost issue involves the integration of the Sheriff and Police information Systems. The Sheriff's Office uses the Vision System while the Police Department uses an HTE System. Since the Police Department has encountered problems with the HTE System, the Vision System appears to offer a reasonable integration solution. The estimated one-time cost of converting the Police Department to this system is \$225,000.<sup>82</sup>

A fourth potential one-time cost issue involves repainting patrol vehicle designations. If the 75 Sheriff Office vehicles were painted with new designations, the cost would be \$25,500, but if the 426 Police Department vehicles were painted with new designations the cost would be \$144,800.<sup>83</sup> We assumed that vehicle designations would only be changed as vehicles are replaced and thereby not result in an initial merger cost.

The Sheriff has a five-year vehicle rotation policy while the Police Department rotates their vehicles annually from their patrol staff to other City employees. The Sheriff's Office has a vehicle take home policy while Police Department patrol officers share two sets of vehicles. It is our opinion that policy differences with regard to vehicle rotation and utilization can be resolved without a material cost impact resulting from merger.

The other potential cost issue relates to office space. In the near term, realigning functions within the current available space should accommodate the merger. For example, narcotics investigators or even the total Investigative Bureau could be moved to the current Sheriff's Office with all remaining functions consolidated at the Police Department site. While we have assumed the realignment of resources within current space for the purpose of this analysis, we believe that, in the long-term, other alternatives (e.g., the new courthouse) should be explored to optimize the overall efficiency of the merged departments.

<sup>81</sup> At an estimated cost of approximately \$2 million per tower.

<sup>82</sup> Assumes \$50,000 for hardware, \$100,000 for software, \$25,000 for central record conversion and \$50,000 for training and other implementation costs.

<sup>83</sup> Assumes a cost of \$340 per vehicle per the fleet management captain in the Sheriff's Office.



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## F. Fire Protection

For this study, we have assumed the formation of a Fire Commission appointed by, and accountable to, the City-County governing body. This Commission would adopt county-wide fire protection policies, including capital plans and annual budgets. The City-County Fire Chief would supervise the City Fire Department, county-wide prevention, investigation, code enforcement and training activities, county-wide emergency management and OSHA safety programs, and the deployment of all available fire fighting assets. The district fire chiefs would answer to their local boards for asset management funding and the day-to-day personnel management.

The short-term impact of City-County merger on fire protection services will probably be minimal, primarily because merger will not significantly impact the operational autonomy of the fire protection districts. The primary costs associated with merger will be \$47,600 in annual pay parity and position upgrade costs and \$50,000 in annual administrative support costs for the new Fire Commission. The projected short-term costs are summarized (in current dollars) in the table below.

Summary of Short-Term Cost-Benefit Estimates

Cost-Benefit Factor	FY01	FY02	FY03	FY04	FY05
Pay Parity Increases	\$(27,600)	\$(27,600)	\$(27,600)	\$(27,600)	\$(27,600)
Position Upgrade Costs	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
Commission Costs	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>
Net Benefits (Costs)	\$(97,600)	\$(97,600)	\$(97,600)	\$(97,600)	\$(97,600)

However, the long-term benefits of the proposed Fire Commission, through better planning of future capital investments (e.g., station construction and equipment purchases) and coordination of resource deployment, could be substantial. Fire protection costs will likely continue to increase with or without merger. The real question is how much of these increased costs can be avoided through a system-wide approach to planning new facilities, acquiring new equipment and deploying personnel resources.

Much of this growth could be incurred by the City in capital and other non-personnel costs, especially as it continues to annex new areas. For instance, from FY99 to FY00, the City's fire protection budget increased by 7.3 percent while the County's costs remained constant. The principal elements of this increase were capital outlays and non-personnel operating costs. For the same period, personnel costs increased 5.9 percent, but this was largely a function of pay increases.<sup>84</sup>

The most promising opportunity for reducing fire protection costs would be to empower the Fire Commission to take a system-wide approach to future capital budgeting decisions. Since the independent fire districts serve areas with declining population

<sup>84</sup> The Department's staffing remained constant at 272 from FY99 to FY00 and only increased by three positions from 269 to 272 from FY98 to FY99.



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bases, this system-wide approach will most significantly impact the City Fire Department.<sup>85</sup> However, it also will require the independent fire districts to view their capital resources as part of a system-wide fire protection network serving the entire County.

To illustrate the possible long-term impact of merger, if the Fire Commission model had been in place in FY98, it is possible that at least \$265,500 could have been saved in annual capital and operating costs.<sup>86</sup> With the better utilization of system-wide resources, especially those maintained by fire districts located near future City annexation areas, the City should be able to reduce its need to build new stations and buy new equipment. A system-wide fire station and apparatus deployment study would provide a more detailed analysis of the potential cost savings.

A system-wide approach to fire protection services could also generate some long-term personnel savings for the City and the fire districts. The urbanization of Durham County's unincorporated area has forced fire districts to increase their reliance on paid firefighters. Today, these districts incur about \$1.8 million each year in salary costs, the equivalent of 53.6 paid FTE positions. If the pressures on the fire districts to hire paid firefighters continue to mount, the long-term personnel cost reduction opportunities will be large.

The only costs associated with merger would involve City-County Fire Chief salary costs and Fire Commission expenses. Restructuring four positions, the City Fire Chief, City Fire Department Operations Officer, County Fire Marshal and Fire Department Administrative Services Director positions, would involve position upgrades and salary costs of \$20,000. While the Fire Commission could be staffed by the unified government, we have assumed incremental annual administrative expenses of \$50,000.

It is conceivable that merger would require some fire districts to replace volunteers. The Fair Labor Standards Act prohibits a public entity from allowing paid staff to work a second job (or volunteer) without being paid overtime. If this were construed to prevent City fire fighters from serving as volunteers for the volunteer fire districts, the districts, especially the Bahama, Bethesda and Redwood districts, could lose several of their current firefighters upon merger.<sup>87</sup> If ten paid positions were required to replace the lost volunteers, the fire districts could incur increased annual costs of \$344,800.<sup>88</sup> This cost appears unlikely so long as the fire districts retain their independent status.

<sup>85</sup> This could affect the future locations of City Fire Stations 8 and 15 proposed in the FY00 budget.

<sup>86</sup> If the City's cost increase had been reduced by 25% to 5.5% (still about three times the City's rate of population increase), \$265,500 could have been saved.

<sup>87</sup> 42 of the current 284 volunteers are current City employees, most of whom work for the Fire Department.

<sup>88</sup> Assumes a cost of \$34,477 per firefighter, including salary and fringe benefit costs, based on the current budgeted cost for seven firefighters for the Lebanon Fire District.



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## G. Other Potential Costs & Benefits

The merger will likely generate other benefits and costs over both the short-term (i.e., the initial five-year merger period) and the long-term (i.e., six years and beyond). For the short-term, we have estimated \$613,000 in recurring compensation equity costs as well as nearly \$2.5 million in one-time merger implementation costs. The projected short-term costs are summarized (in current dollars) in the table below.

Summary of Short-Term Cost-Benefit Estimates

Cost-Benefit Factor	FY01	FY02	FY03	FY04	FY05
Pay Parity Increases	\$(173,000)	\$(173,000)	\$(173,000)	\$(173,000)	\$(173,000)
Paid leave equity	(440,000)	(440,000)	(440,000)	(440,000)	(440,000)
Pay & other personnel studies	(250,000)	(100,000)	(100,000)		
Other professional services	(350,000)	(150,000)	(150,000)		
Technology/process integration	(500,000)	(500,000)	(250,000)		
Staff relocation costs	(130,000)				
Net Benefits (Costs)	\$(1,843,000)	\$(1,363,000)	\$(1,113,000)	\$(613,000)	\$(613,000)

The pay parity cost estimates are based on the salary mid-point differentials of 230 employees with comparable job titles. The paid leave equity cost estimates are for increasing the City's vacation and holiday leave benefits to match those of the County, and providing County employees with the City's school volunteer paid leave benefit. Staff relocation costs are based on our estimates that 260 employees will be moved.<sup>89</sup>

The long-term benefits and costs of merger are more difficult to forecast. We have estimated that the benefits will include at least \$750,000 in information technology cost savings (assuming that a merged entity will only have to replace one financial and administrative information system in the next ten years).<sup>90</sup> We have also projected the impact of long-term efficiencies in the programs impacted by merger.<sup>91</sup> These long-term cost savings have been expressed as a 25 percent reduction in the projected growth rate.<sup>92</sup>

We have not projected any savings related to other capital costs. However, if the two entities plan any capital investments that could be shared (e.g., new administrative facilities), merger could result in capital cost avoidance. As the City and the County complete their current space utilization studies, they should explore such opportunities. Similarly, if the City and County acquire a new digital radio system within the next ten years, a single system would yield large savings.

<sup>89</sup> Assumes an average cost of \$500 per employee, including \$300 for moving and \$200 for other costs.

<sup>90</sup> This estimate is based on a survey of software vendors and technology consultants.

<sup>91</sup> Governance & executive, financial, other general government, asset management, environmental services, law enforcement and other public safety services.

<sup>92</sup> This formula is based in part on the experience of Durham's functional mergers.



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## V. OTHER FINDINGS & RECOMMENDATIONS

### A. Merger Recommendation

We recommend that the City and County continue to consolidate their operations, either as part of a comprehensive political merger or a series of incremental functional mergers and inter-local joint ventures. We believe that full scale political merger is not only financially feasible, but offers many impressive intangible benefits as well. However, if merger of the governing bodies does not garner sufficient political support at this time, we urge the two governing bodies to pursue an aggressive functional merger strategy.

As we reported at the end of the Phase 1 study, we believe that the effective consolidation of Durham's city and county governments is well underway. Several events and factors are drawing the two entities more closely together, including the following:

- The City and County already share a common name and identity, and share common interests in competing for economic development opportunities
- The County has only one incorporated municipality based therein and is unlikely to have a new city formed within its boundaries<sup>93</sup>
- The state's liberal annexation laws make it relatively easy for the City to annex developing areas in the unincorporated portions of the County
- When the County's residents implemented school district consolidation, they inextricably linked the fates of urban and suburban neighborhoods
- The City and County share many key characteristics, including the council-manager form, professional public administration and strong financial capabilities
- Many functions are already consolidated or operating under unified management (e.g., planning, inspections, tax collections, animal control, emergency management and certain public safety communications)

As the City annexes an ever-increasing portion of the County, the real public policy issue pertaining to merger in Durham will not be if the City and County should merge, but rather when and how the two entities should merge.<sup>94</sup> Phrased differently, will the consolidation of the two operations occur seamlessly, as part of a carefully-planned strategy, or in an ad hoc fashion, without a broad-based consensus of the community?

We believe that the City and County should proceed as though political merger will occur, even if political or legal hurdles prove difficult to surmount this year or next. That is, the two entities should begin expanding the number of functional mergers and standardizing personnel and other operating policies and procedures. If political merger is approved by the voters, it will be implemented in the most efficient manner possible.

<sup>93</sup> One area in the County was annexed by Chapel Hill and another will be annexed by Raleigh.

<sup>94</sup> While watershed restrictions will likely prevent full annexation, annexation that does occur will likely capture nearly all of the County's population.



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If political merger is not approved, many of the benefits of merger will have already been attained.

The most critical potential barrier to merger today is not its financial feasibility, but rather its legal feasibility. Distilled to its essence, the key legal issue is whether the merged entity will be as least as great as the sum of its parts. Under North Carolina law, will the unified government possess the full legal powers and capabilities of the City and County as separate entities? If not, political merger should be reconsidered until such time state law can be modified to more effectively facilitate merger.

However, if the merged entity will be legally capable of acting as both a city and county, and will not lose any of the City's or County's current powers and rights, then we believe that political merger should be pursued as part of a thoughtful plan. While City-County merger will generate some net fiscal benefits, it should not be promoted solely on that basis. Rather, it should be pursued because it offers so many other benefits to the public, including improved accountability and better services.

Most communities that have merged report that their consolidations were successful in terms of intangible (if not indirect) benefits. Such benefits include an enhanced public image, more competitive economic development efforts, more convenient and effective services (e.g., better access and one-stop shopping) and stronger financial capabilities. One of the most common advantages cited is greater accountability and responsiveness (through the reduction of inter-governmental buck-passing).

The potential qualitative merger factors, which were initially outlined in the first section of this report, include the following:

- Transition challenge – legal barriers, stakeholder support and cooperative spirit
- Public confidence – local government image, accountability, diversity, responsiveness and citizen involvement
- Regional competitiveness – regional clout, business climate and investment appeal
- Fiscal strength – fiscal capacity, revenue equity and overall operating efficiency
- Service delivery – service quality, responsiveness, effectiveness and accessibility

Our assessment of these qualitative advantages and disadvantages is summarized below.

## **B. Transition Challenge Issues**

It was not within the scope of this scope to review legal consolidation requirements or barriers, or to assess the degree of political support for merger. However, our assessment of other transition issues is summarized below. As indicated, we believe that City-County merger will face several daunting transition challenges.

### **Summary of Qualitative Advantages & Disadvantages**





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Merger Advantages	Merger Disadvantages
<ul style="list-style-type: none"> <li>✓ The governing boards have demonstrated a strong commitment to inter-local cooperation</li> <li>✓ The prior City-County mergers have succeeded &amp; provided useful experience to staff who must plan &amp; carry out full scale merger</li> <li>✓ The entities have similar fiscal capabilities</li> <li>✓ Both entities have proven commitments to effective public administrative practice</li> <li>✓ The salary plans are relatively competitive &amp; most employee benefit programs are similar</li> <li>✓ Planned migrations to network-based, distributed processing platforms will facilitate merger</li> </ul>	<ul style="list-style-type: none"> <li>✓ The governing bodies &amp; executive units operate under different management cultures</li> <li>✓ The autonomous County boards &amp; officials could resist efforts to implement merger</li> <li>✓ Require Fire Commission structure debate</li> <li>✓ Many City &amp; County employees possess different property rights to employment</li> <li>✓ Some key operating polices vary (e.g., fiscal, purchasing, personnel &amp; EE/EA)</li> <li>✓ The integration of incompatible systems and processes could disrupt services</li> <li>✓ Merger could engender anxieties among many employees about job loss or demotion</li> <li>✓ Citizens could be confused during transition</li> </ul>

There are several obstacles associated with merger implementation that must be addressed. The human resource issues inherent with merger will lead to employee anxieties about job changes, compensation reductions or demotions. The internal management issues are also formidable (e.g., the challenge of integrating different law enforcement cultures between the Sheriff's Office and Police Department).

Citizens may have different service expectations in the City and County (e.g., different law enforcement expectations). The sheer complexity of merger can be difficult to explain to citizens and, without an effective public information campaign, hurt the new entity's image.

### **C. Public Confidence Issues**

Our assessment of the public confidence factors is summarized below. As indicated by the chart, we believe that City-County merger offers several exciting opportunities for enhancing the image and accountability of local government in Durham. Despite some of its potential disadvantages and risks, merger should ultimately clarify the administration and accountability of merged activities and enhance overall public trust and confidence in local government.



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## Summary of Qualitative Advantages & Disadvantages

Merger Advantages	Merger Disadvantages
<ul style="list-style-type: none"> <li>✓ Unified accountability (one board) will provide single vision &amp; voice for community</li> <li>✓ Single governing board will reduce buck passing among agencies &amp; more quickly resolve service disputes (improving customer convenience)</li> <li>✓ Reduce City-County tension where policies vary (e.g., growth management)</li> <li>✓ Merger could enable new body to standardize EA/EO rules, increase diversity training &amp; improve racial relations</li> <li>✓ Simpler governance structure could enhance citizen access &amp; participation in government</li> <li>✓ Simpler political structure could increase citizen participation in elections</li> <li>✓ Less public sniping would improve public image of local government</li> <li>✓ Perceived commitment to efficiency could further bolster public confidence</li> <li>✓ Influence of rural areas could be strengthened</li> </ul>	<ul style="list-style-type: none"> <li>✓ Fewer elected officials could result in less representation &amp; a perceived loss of checks &amp; balances</li> <li>✓ Undermine citizen choice &amp; competition among local governments</li> <li>✓ The autonomy of some County boards &amp; officials could undercut unified management</li> <li>✓ Different employee property rights as to employment will threaten unified management</li> <li>✓ Merger could impair perceived opportunities for protected business classes &amp; reduce the overall diversity of local government</li> <li>✓ Merger could reduce the number of appointed boards &amp; thereby the opportunities for civic involvement</li> <li>✓ Influence of rural areas could be impaired</li> </ul>

There are important differences between City and County employees pertaining to employee rights. All City's employees are considered *at will* employees.<sup>95</sup> In contrast, only about 23 percent of the County's employees are considered *at will* employees (the Sheriff's employees). The other County employees have a vested property right to employment either under the State Personnel Act or county ordinance. This could undermine the unified management's ability to ensure entity-wide accountability.

### D. Regional Competitiveness Issues

We do not anticipate that City-County merger, in and of itself, will dramatically enhance Durham's national image, impact corporate siting decisions or attract federal or private investment. However, merger certainly will not negatively affect such factors and, in the long run, could positively influence perceptions about Durham's regional leadership.

Our assessment of the regional competitiveness factors is summarized below. As indicated by the chart, we believe that the potential advantages of City-County merger for regional competitiveness outweigh the potential disadvantages.

<sup>95</sup> With some exceptions, they may be dismissed by their employer without explanation or legal penalty.



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## Summary of Qualitative Advantages & Disadvantages

Merger Advantages	Merger Disadvantages
<ul style="list-style-type: none"> <li>√ Provide a single portal for businesses hoping to relocate to or expand in Durham</li> <li>√ Minimize city-county competition</li> <li>√ Standardize economic development incentives</li> <li>√ Minimize decision-making delays on incentives</li> <li>√ Enhance Durham's image among metropolitan communities as an innovator &amp; leader</li> </ul>	<ul style="list-style-type: none"> <li>√ Does not address regional problems (e.g., growth) or offer any regional solutions</li> <li>√ Does not reduce competition for economic development among other local communities</li> <li>√ Could result in single board with strong anti-development or anti-regional philosophy</li> </ul>

The two entities' current economic development activities appear to be well-coordinated, with each playing a distinct role. The City's economic development involves urban revitalization and commercial development while the County, through the Chamber, focuses on industrial recruitment.

Nevertheless, a single governing board would ensure a cohesive economic development strategy and provide for a unified approach to helping the private sector initiate or expand businesses. A standard process, with one set of private meetings, public hearings, legal negotiations and contracts, would be more efficient. In rare instances, it might even result in development that might otherwise go elsewhere.

The effect of merger on Durham's ability to respond to future regional issues and challenges (e.g., Smart Growth) will depend on numerous factors. Durham could enjoy more regional clout with one board, so long as that board articulates the most effective public policies. On balance, we believe that merger will distinguish Durham from other communities in the region and enhance its regional prestige.

### E. Fiscal Strength Issues

While there are some potential risks, we strongly believe that City-County merger will strengthen the fiscal capabilities of local government in Durham. Our assessment of the fiscal strength factors is summarized in the chart below.



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## Summary of Qualitative Advantages & Disadvantages

Merger Advantages	Merger Disadvantages
<ul style="list-style-type: none"> <li>√ Strengthen financial condition &amp; debt capacity (e.g., County wastewater fund)</li> <li>√ Enhance opportunities to increase ratings for selected revenue bonds &amp; reduce financing costs</li> <li>√ Increase economies of scale &amp; overall operating efficiency of merged entity</li> <li>√ Provide opportunities to improve capital asset utilization &amp; reduce asset management costs</li> <li>√ Offers long-term opportunity to share tax base derived from RTP</li> <li>√ Preserve fiscal viability of fire districts</li> </ul>	<ul style="list-style-type: none"> <li>√ Threatens some governmental immunity now invoked by County &amp; could increase overall risk management costs</li> <li>√ Will probably not enhance any revenues or improve the elasticity or equity of overall revenue structures</li> <li>√ Could reduce inter-governmental competition</li> </ul>

Our biggest concern in this area involves risk management. As we reported in Phase 1, there are several key differences between City and County risk management programs, including the following:

- City services tend to generate more claims than do County activities, especially for worker's compensation
- The City offers a more generous worker's compensation reimbursement policy (e.g., an income supplement in addition to the statutory reimbursement)
- The City has a more centralized and structured safety program than the County
- The County may enjoy broader immunity than the City for some functions, but the City does not always invoke governmental immunity even when it is available
- The County appears to take a consistently hard line on claims in contrast to the City's more lenient, "case-by-case" policy
- The City has a deficit in its risk retention fund, while the County designates funds for risk management in its general fund

To the extent that the City's worker's compensation and other risk management programs are more costly, and the merged governing body decides to employ the City's policies (instead of the County's), merger could result in substantial added costs. These costs could be offset to some degree by implementing a centralized risk management program like the City's with coordinated safety and training programs.

The status quo also poses threats. If annexation continues at its current pace, the tax base for some independent fire districts will erode. Eventually, the residents of those districts will have to increase taxes to maintain current levels of service. As indicated by the table below, some of these tax rates have already increased from FY95 to FY00.



# Durham City-County Consolidation Feasibility Analysis Report



**Tax Rates & Operating Budgets by Fire District**

Fire District	FY95 Actual	FY99 Actual	FY00 Approved	Percent Increase	FY00 Budget
Bethesda	.0300	.0550	.0550	83%	\$849,000
Parkwood	.0600	.0800	.0900	50%	806,000
Lebanon	.0630	.0800	.0750	19%	483,000
Redwood	.0755	.0755	.0800	6%	419,000
Bahama	.0600	.0600	.0600	0%	193,000

In this case, merger, or at least a more coordinated, system-wide approach to fire protection services and asset planning, could have the indirect benefit of preserving the fiscal viability of the volunteer fire districts.

## F. Service Delivery

Service enhancement is perhaps the single most important benefit of City-County merger. Through unified management, better coordinated service planning and delivery, and the cross-fertilization of best practices and innovations, we believe that merger will dramatically improve the convenience and efficiency of public services in Durham. Our assessment of the service delivery factors is summarized in the chart below.

**Summary of Qualitative Advantages & Disadvantages**

Merger Advantages	Merger Disadvantages
<ul style="list-style-type: none"> <li>✓ Improve use of technology</li> <li>✓ Streamline the management of public facilities</li> <li>✓ Standardize fleet maintenance practices</li> <li>✓ Standardize other asset management procedures</li> <li>✓ Improve coordination of engineering, roadway appearance &amp; solid waste management services</li> <li>✓ Optimize wastewater services</li> <li>✓ Improve law enforcement services in terms of patrol efficiencies &amp; investigative capabilities</li> <li>✓ Improve fire protection services in terms of efficiency and resource deployment</li> <li>✓ Enhance community development programs</li> <li>✓ Increase one-stop outreach &amp; intake services</li> <li>✓ Expand code enforcement services</li> <li>✓ Extend human relations program Countywide</li> <li>✓ Expand parks &amp; recreation services</li> </ul>	<ul style="list-style-type: none"> <li>✓ Could result in larger bureaucracy with less responsive service delivery approach</li> <li>✓ Would not necessarily reduce service inequities between urban &amp; rural areas</li> <li>✓ RTP customers may question the validity of their service agreements with County</li> <li>✓ Could impact road construction &amp; maintenance services provided by NCDOT</li> <li>✓ Higher call volume in urban areas could divert deputies away from rural areas</li> <li>✓ Full merger would reduce the pool of volunteers for fire districts under FLSA</li> </ul>

The City's and County's transition from legacy mainframe systems to distributed, network-based computing is well underway. As the Internet and e-government applications grow, they also will migrate to *thin client* software architecture, Microsoft NT servers and packaged applications. This shift will not necessarily reduce costs, but it will make it easier for the City and County to integrate their technology platforms.



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Both the City and County have central Information Technology departments and, for FY00, they have similar central technology management budgets (\$3.8 million) and staffing (32-33 employees). They have different technology platforms, strategies and responsibilities, and most of their applications meet distinct needs, but their systems have become increasingly compatible in the sense that all City and County computers are now connected via their networks and the GIS. This should facilitate the merger of technology resources.

Over the next ten years, merger will provide many opportunities for promoting the efficient integration of technology resources. Merger would force the entities to reengineer their core business processes, generating added efficiencies. Merger would enable them to buy a single financial management system. A single GIS-driven system philosophy, and standardized platform, would lead to efficiencies in networks, support, maintenance and training. A single data center could reduce data center staff and system maintenance costs.

Merger should improve asset management practices. For instance, merger could result in a single vehicle maintenance facility and standardized maintenance procedures, and these practices could reduce repair turn around time and prolong the lives of vehicles. A uniform Countywide radio system and standardized facility and equipment management procedures could also increase overall efficiencies.

As described in more detail in Appendix E, merger offers significant benefits for public works and environmental management functions. It will enhance the coordination of engineering, development review, para-transit and roadway appearance services. It will facilitate the expansion of street maintenance services as annexation continues. In environmental services, merger will spur the optimizing of wastewater treatment and line maintenance resources, improve the coordination of solid waste operations, and provide a structure for extending storm water services to the unincorporated area.

Merging the two law enforcement departments should have several benefits. It will provide a unified countywide command structure and reduce citizen confusion as to which agency to call. By removing patrol pockets in the unincorporated area and ensuring patrol officer mobility throughout the County, merger should yield some patrol efficiencies. It should greatly improve investigative services, especially narcotics interdiction and investigative service where current city-county cooperation appears limited. A single radio and dispatch system should improve public safety communications.



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The merger of law enforcement functions will pose some potential disadvantages as well. One potential disadvantage would be the loss of complementary capabilities associated with having two departments. Another is that, under a county-wide police force, it would be more likely that urban crisis situations would be responded to at the expense of outlying areas which would be more thinly patrolled.

As described in more detail in Appendix F, merger could improve the fire protection system by optimizing response capabilities with current assets, enhancing service and making funding more equitable. Fire suppression services could be more efficient if protocols enabled the nearest appropriate vehicles to respond to calls without regard to political boundaries. Other benefits of consolidation would include better resource deployment, enhanced training and greater mutual cooperation between City and independent fire departments. A fire commission could also help address annexation-related funding issues and improve the planning of future facility and apparatus investments.

Merger and unified management could benefit community development programs, especially where there is potential overlap (e.g., weeding lots and removing junk cars). A comprehensive countywide code, including commercial building provisions, yet calibrated to different areas, could strengthen enforcement. Greater inter-agency cooperation, and uniform abandoned vehicle and minimum housing codes, would increase the utility of the Community Life Court (environmental and housing code court). We believe that the City's code enforcement unit could start extending services with only a marginal increase in staffing.

City-County merger could afford an opportunity for the new governing body to revisit its approach to human service-related outreach and intake services. Merger could enhance the new entity's ability to increase outreach activities among key agencies (e.g., Police, Housing and Community Development, Human Relations, Social Services, Cooperative Extension and Public Works). It could facilitate the development of a more uniform application and intake process for similar clients. Merger could ultimately help improve agency linkages (e.g., Social Services, Police, Housing and Recreation for latch key children) and services (e.g., abuse and neglect investigation).

Merger could facilitate the extension of the City's Human Relations program to the County. A county-wide program would offer all County residents and employers more convenient hearing centers and faster response times. This office would provide all County citizens with a higher level of services for equal opportunity and housing complaints. It also could lower unit costs and enhance fees. EEOC investigations generate \$500 each in fees and HUD cases generate \$1,700 each. This would require additional personnel, but increased program costs should be offset by additional fees.

Finally, merger would enable the City to expand many parks and recreation services to the entire County, and serve residents of unincorporated areas, especially in northern portions of the County. The City's Parks and Recreation Department has the capabilities



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to begin extending many services with only marginal cost increases.<sup>96</sup> It already manages over 400 acres in the unincorporated area and serves many residents there. The department is eager to find additional park sites in potential annexation areas, and encourages joint ventures with the schools, libraries and private, nonprofit athletic associations. Consolidating this department with the County's Open Space program would strengthen overall property planning, acquisition and development activities.

## G. Other Recommendations

As we indicated earlier, we urge City and County leaders to position their governments for political consolidation. To achieve this objective, we offer several recommendations for removing the bureaucratic barriers between them. Those recommendations, which are described below, include extending some municipal services and accelerating functional mergers between appropriate City and County agencies.

### 1. Extend appropriate municipal services to unincorporated areas.

There are a few opportunities for extending City services to residents in unincorporated areas for marginal net costs. Such service extensions could increase good will and perhaps increase citizen support for City-County merger. The County should conduct citizen surveys in these areas to identify any municipal services that their citizens would like to receive pre- or post-merger. Possible candidates for service extension include the City's Human Relations, code enforcement and parks and recreation services.

### 2. Accelerate the pace of cost-effective functional mergers.

There is little doubt that the functional mergers executed by the City and County for planning, building inspections and tax administration have reduced operating costs and improved services. We urge the City and County to build on this success and plan additional functional mergers. Initial candidates include the following:

- Economic development program
- Citizen outreach and public information programs
- Human resource management
- Procurement management and outsourcing program
- Treasury and grants management functions
- Technology management and business process reengineering
- Risk management
- Asset management

Establishing a joint business process reengineering and technology strategy would support merger efforts. Many of the City's and County's core business processes have

<sup>96</sup> The City has estimated that implementing two recreation programs like the current Whippoorwill Athletic Association program in North Durham would cost about \$88,000 per year.





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similar external requirements (e.g., accounting, financial reporting, fixed assets, treasury management and budgeting). Harmonizing appropriate codes, policies and procedures (e.g., standard pay lag) could greatly ease the merger transition process.

The City and County should establish a joint information technology department, perhaps in the form of a nonprofit data center, regardless of merger. At a minimum, they should develop a joint long-term technology plan for replacing hardware and upgrading and developing information systems. This will accelerate efforts to modernize their technology platforms and facilitate merger.

A joint risk management program with uniform risk management, worker's compensation and immunity policies would help address a major merger issue. Pooling City and County property and general liability insurance programs could generate some premium savings. Establishing a single, comprehensive safety program with accredited and experienced safety officers, regular safety inspections and training classes and a rigorous loss prevention program could reduce overall claims.

We recommend that the City and County establish a joint City-County Asset Management Department under the City's supervision. This department's functions could include engineering, project management, building maintenance, grounds maintenance, radio maintenance and fleet management. As a prelude to this effort, we strongly urge the City and County to complete their long-term space projections and facility plans as part of a single, integrated planning process. This should enable the City and County to identify opportunities for improving the overall utilization of facilities and perhaps even sell or some unnecessary properties or terminate some leases. As part of a central fleet management program, the two entities should start buying standard vehicles and using the same vehicle maintenance and repair programs.

Each functional merger will require careful planning and extensive contract negotiations. Most importantly, we believe that these functional mergers should ensure unified management and accountability, rather than employ joint boards. Implemented properly, these functional mergers should ease the implementation of full city-county merger.

### 3. Establish a coordinated environmental services program.

We recommend that the City and County explore the feasibility of a joint Environmental Services Department, providing water and wastewater line maintenance services, solid waste management and sanitation, transfer station, rubble fill and household hazardous waste and recycling programs. At a minimum, they should conduct a detailed engineering study of system-wide wastewater treatment alternatives, including the integration of the County waste water treatment plant as part of the City system. They also should explore a joint storm water management program with sufficient resources to meet state and federal requirements.

### 4. Establish a City-County growth management policy.



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We believe that the City and County should consider formulating a unified growth management policy. As part of this effort, they should negotiate an agreement allowing the County to levy impact fees on behalf of the City outside of City limits. It is our understanding that the City can levy impact fees for infrastructure, but not beyond City limits. State statutes permitting counties to levy impact fees (if distributed to cities) should be used to set aside more public funds for future growth. It also would provide another way for the City and County to link their interests.

## 5. Develop a long-term law enforcement strategy.

The City Police Department and County Sheriff should begin working together to develop a long-term plan for improving the utilization of available law enforcement resources. The continuing annexation of the remaining areas of the County will result in additional patrol pockets in outlying areas that are inefficient for either the Police or Sheriff to patrol. Annexation will also further strain the Sheriff's law enforcement budget and, in all likelihood, increase unit patrol costs.

The answer is for the two agencies to start working together more effectively. Possible strategies for consideration include the following:

- Require the Police Department and Sheriff to develop a plan for deploying patrol resources and minimizing the inefficiencies that often attend annexations
- Establish a unified communications system for all law enforcement, fire and public safety services agencies, including the Sheriff, County EMS, City and volunteer fire departments and City Police Department
- Build a compatible radio network (especially as current radio systems are upgraded) allowing direct car-to-car radio communications between the Sheriff's patrol deputies and other public safety departments in the City and County
- Establish a free-standing 911 operation with its own board to encourage individual agencies (e.g., the Sheriff) to use the same radio system
- Require the City Police Department and Sheriff to use the same law enforcement information system
- Adopt standard logos, vehicles, uniforms and equipment and establish a uniform schedule for replacing existing resources as dictated by normal depreciation
- Explore ways to improve resource sharing and reduce duplication of effort in such critical areas as investigation, warrants, evidence control and traffic control
- Established a common personnel system for law enforcement employees
- Create a joint City-County law enforcement budgeting process and start budgeting Sheriff's law enforcement costs as a distinct cost center



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We believe that the City Police Department and County Sheriff will find it in the public interest to seriously consider such alternatives. However, if necessary, the Council and Board of County Commissioners should consider using their respective budget processes to help achieve these objectives.

## 6. Establish a joint fire commission and a long-term fire protection plan.

We believe the City and County should develop a plan to improve County-wide fire asset utilization and, if possible, reduce the annexation-related fiscal pressures facing the independent fire districts. This effort should begin with a system-wide fire station and apparatus deployment study to assess the current deployment of fire fighting and emergency assets and identify opportunities for improving their utilization. This should be done before the City or the fire districts approve any major capital investments.

The entities should also establish a fire commission to coordinate planning, policy formulation and system monitoring for all fire protection services in the County. This commission should be formed regardless of whether the city-county merger occurs. We believe that a system-wide approach to fire protection will enable the City and County to optimize response capabilities, enhance services and improve accountability.

## 7. Develop an effective merger organizational structure and management plan.

The lessons learned from prior city-county mergers stress the importance of effectively addressing human resource and other organizational issues and earning the support of employees. One reason that Durham's functional mergers succeeded is that good faith efforts were made to engage the affected employees and make them important participants in the process. The following strategies should be considered:

- Identify any cultural differences between the merging organizations
- Clarify elected official and appointed board authority and roles
- Clarify management authority, roles, responsibilities and policies
- Develop an employee communications and participation plan
- Fully address employee relocation needs and costs, and related facility issues
- Establish a detailed organizational structure before merger
- Adopt an employee investment and protection policy (e.g., no reductions in force in non-management and non-supervisory positions within three years except due to normal attrition or fiscal stress, priority status for new and newly-consolidated jobs and special training for staff holding redundant positions)
- Initially hold all employees harmless as to pay and benefits, but adopt an equitable, market-driven and performance-based strategy to ensure that all jobs are compensated to attract and retain the best employees in the region
- Conduct a detailed, independent analysis of compensation systems and related human resource issues, and implement the new pay and classification system in phases, beginning with lower ranking positions



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The compensation and personnel study should address such issues as pay structure and equity, compensation, employment property rights and personnel rules. This year, the City and County should strongly consider expanding the City's benefit procurement process to include County employees. After merger, the new governing body should conduct concurrent analyses of the salary and benefits structures.

## 8. Draft a clear, flexible charter and thorough, far-sighted enabling legislation.

In our view, given the inevitability of effective City-County merger in Durham, it would be better to delay merger than to proceed with a poorly-conceived merger charter and enabling legislation. Even if the voters of Durham approve merger, a weak charter or enabling bill could undermine the ultimate success of merger.

Some possible strategies to consider in drafting the charter include the following:

- Build on, and borrow from, the best provisions of other charter models (i.e., do not feel compelled to reinvent the wheel)
- Ensure that the unified entity functions as both a city and county (e.g., full access to the full powers, immunities and revenues available to either the County or City, whichever is in the community's best interest, under state law)
- Clearly define the roles of all key players, especially elected officials and appointed bodies (e.g., establish policies and procedures for the unified legislative body to meet as a City Council or a County Board under applicable law)
- Establish an internal code hierarchy within the charter and legislation to resolve the inevitable conflicts between state, county and city codes
- Establish a multi-tiered service strategy (e.g., urban, suburban and rural) for tailoring codes and service standards to different needs (e.g., housing code mobile home provision or public safety response targets)
- Establish a flexible service district approach, authorizing the governing body to adjust service districts in accordance with clear criteria and reallocate service responsibilities, revenues and obligations as needed
- Consider setting flexible policy targets (e.g., cost reduction) in the charter,<sup>97</sup> but avoid overly-restrictive charter provisions (e.g., ironclad position retention or pay equity guarantees)<sup>98</sup>
- Ensure that the enabling legislation addresses any issues unique to Durham (e.g., authorization for handling HUD housing complaints County-wide)

The Charter Commission will have to strike a balance between externally-imposed deadlines for completing their work and the need to craft a document that could guide local government operations for many years. To the extent that they experience conflicts

<sup>97</sup> The Kansas City-Wyandotte County charter included targets (e.g., per capita cost reduction of 8% of combined baseline costs over first five years plan and 50% reduction of all general fund unfilled positions)

<sup>98</sup> The 1996 Athens-Clarke County Unified Government Overview Commission concluded that charter constraints (e.g., charter prohibition against firing or demoting any employee due to merger) made it tough to fully realize the anticipated cost savings.



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between these two goals, they should look past the short-term deadline and ensure that their charter document will stand the real test of time—the public interest.

## 9. Establish a transition budget and merger cost-benefit tracking process.

The experiences of other communities suggest that it is easy to underestimate the implementation costs of merger, and even easier to ignore post-merger costs and benefits. As such, we recommend that the City and County set aside ample funds for merger implementation and unforeseen events or contingencies. Moreover, we recommend that the City and County engage a merger transition coordinator to begin documenting, tracking and thoroughly reviewing all transition issues and costs. Finally, the charter should require the merged entity to fully report all merger-related costs and benefits either as part of its annual financial report or another formal document.

\* \* \* \* \*

According to officials from merged city-county governments, it requires at least five years to fully and effectively implement a city-county merger—for example, to standardize service strategies and effectively meld operating cultures. For Durham, merger should be viewed as a long-term, if not inevitable, process.

In our view, this means that merger does not need to be hurried and that, even if political merger cannot be achieved in the short-term, the two entities should position themselves for political merger in the long-term. It also means that ignoring merger will not make the issues of consolidation and cooperation disappear.

Further growth and annexation will only increase fiscal pressures on elements of local government that must be addressed even if merger does not go forward. As such, the merger debate should not be regarded as a political end game by citizens or as a distraction by staff, but rather as a timely foundation for future cooperation between the City and County of Durham.