

COLETTA & COMPANY

SCENARIOS FOR THE FUTURE

ALTERNATE VISIONS FOR
COUNTY GOVERNMENT

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PURPOSE OF THE SCENARIOS

COUNTY GOVERNMENT IS LOCKED IN A BATTLE to preserve its leadership in the region while coping with financial policies of the past that fundamentally threaten the integrity of its finances and operations. The county budgeting process has largely become an exercise in crisis management, and never more than it is today. Not only did the current administration inherit an operating budget based on tenuous assumptions and inject reality into the budgeting process, it must deal with crippling increases in bond payments already built into the budget when the mayor took office.

With such serious decisions facing it, County Government commissioned this report to explore options for its future. This report is faithful to the principles of the mayor's campaign platform. This report considers four possible scenarios for the future of County Government: 1) Extreme Makeover, 2) The Bill Gates Way, 3) (Really) Big County, and 4) The Last Person To Leave Should Turn Out the Lights.

This report is not intended to be a financial document, but it does interpret budgetary information in a general way to consider the various frameworks for the future. Ultimately, these scenarios are not strictly about budgets anyway, but about giving birth to new ways of thinking by and about county government.

INTRODUCTION

CHANGE IS THE ONLY CONSTANT IN COUNTY GOVERNMENTS TODAY. In county after county across the U.S., governments are coping with realities that are reshaping what they do and how they do it. Most urban county governments find themselves in an era of transition. It is an era marked by pressures on tax bases and reduced revenues, responsibilities shifted down from the federal and state levels, and a national economy moving from cheap labor, cheap land, and cheap services to quality workers, high value services, and public investments in creativity. Counties that prosper will be characterized by their resilience in anticipating change, adapting to new realities, rationalizing its role and responsibilities, and acting decisively.

There is no more opportune time for County Government to consider its role, its operating philosophy, and its options for innovation. The seriousness of its financial problems and the public's broad awareness of them gives it the justification for evaluating its options and changing the way it works. The county's decisions are critical to the future of the MSA, because most of the MSA's population resides within the county's borders. As a result, the policies of county government, as the regional government, will set the course for the future.

Like many major urban counties, the county faces problems caused by an aging workforce, economic and racial divisions, and low-density sprawl around the urban limits. These crosscurrents stand as obstacles to the region's ability to attract new people and new jobs. That is why the foundation on which this report is based is in its belief that county government must be the catalyst

for producing not just more jobs, but quality jobs; for attracting not just more investment, but targeted investment in the knowledge economy; for not just delivering the traditional menu of services, but services targeted at creating neighborhoods that last; and not just engaging in raising tax revenues, but in measuring equity and sustainability in tax policy.

TEN PRESUMPTIVE FACTORS AFFECTING THE COUNTY

A number of key factors will have significant impact on County Government's future. In evaluating these four scenarios for the future, this report considered the following influences:

1. ***The "New" Economy.*** An economy based on creative workers is transforming the global economy, and each county's ability to compete for high quality jobs will be put to the test. The county faces particularly troubling challenges. On the human capital side, the county must improve the educational levels of its workers and its reputation for creativity. The county's lack of "knowledge" industries and "knowledge" workers is a serious competitive disadvantage and the marketing of county as a warehouse and distribution center only exacerbates this problem. The "new" economy matters to county government because it will have direct impact on county revenues. To succeed in the knowledge economy, the county must attract and retain college graduates, invest in higher education and research, encourage higher educational attainment for its citizens, and create policies that respond to the county's unique strengths and distinct niche in the global economy.
2. ***Limited Revenue Capacity.*** County Government continues to deal with an over-reliance on property taxes as its main source of revenue. For example, county government's dependence on property taxes is about twice as high as the average of cities within its borders. Federal and state revenues are being limited or cut. In other words, the pursuit of more diverse, elastic sources of revenue by the county administration must be one of its highest priorities.
3. ***Suburbanization and Sprawl.*** In the past, the county has seen sprawl as largely beyond its control and "normal." However, the county's sprawl is not caused by growth in the number of new residents, but by the relocation of current residents. Population growth in the county is essentially an equation of births over deaths, not the result of in-migration. To understand the impact of sprawl on county government, it is only necessary to consider one fact: every new single family detached house valued at \$175,000 costs county government about \$4,030 a year for 20 years, primarily for schools and roads. It takes about 6,000 square feet of commercial/industrial development to offset the deficit to the county that is produced by one residential unit. (This assumes that the commercial/industrial development pays taxes in the first place, rather than receiving a tax freeze.) In addition, the "hollowing out" of residential development further weakens the county at its core with persistent problems of poverty, urban disinvestment, and middle class flight. *The inefficiency implicit in the repeated duplication of infrastructure is largely responsible for county government's financial problems.*

4. ***Education and Jails.*** Two of the largest parts of the county's budget are related – classrooms and cellblocks. The failure in the former produces increased costs in the latter. With city and county school districts spending more than \$1 billion a year and with the number of prisoners housed in county facilities exceeding more than 13 states, the county pays a significant price on both fronts. Since 1995, the largest increases in the county budgets have been the sheriff's department, 180 percent; attorney general, 100 percent; and education, 45 percent. Meanwhile, increases in the budgets of the mayor's administration amounted to slightly less than 20 percent. In fact, the administration's portion of the county general fund budget, which was about two-thirds a decade ago, has decreased to little more than one-third now. (The decrease does not result from smaller expenditures by the administration, as much as from dramatic increases in other areas.)
5. ***Changing County Roles and Relationships.*** County Government must exert its influence over policy development and regional leadership in a bolder, more targeted way. As its major city becomes characterized by personal political squabbles that consume its energy and divert its focus, the county must more fully exercise its role as the umbrella government that transcends municipalities' parochial considerations and serves as the mediating force in setting regional priorities and policies.
6. ***Inequitable Tax Burdens.*** The lack of clear, reliable policies defining the county's relationships with municipalities results in a hodgepodge of service delivery that causes inequities in tax burdens. Most of all, the property tax contributions by the major city, in services such as schools, health, planning and development, and major facilities (while other municipalities offer no such funding), produce a disparity in tax burden for taxpayers living in the county's largest city. In addition, the resulting differential between the tax rate of the largest city and its sister municipalities becomes an incentive for the abandonment of the urban core.
7. ***The Inefficiency of the Modern County.*** The county, like many large urbanized counties, has an inefficiency inherent in its structure, with the election of officials who are essentially department heads. Also, the county is becoming less efficient because of suburban sprawl. The county is consuming financial resources at rates higher than its growth of population. In other words, *older sections of the county are subsidizing their own decline.* The quality of the infrastructure influences personal decisions on where to live, how far to commute, and where to shop. Residents are tempted by their own county government to abandon older neighborhoods in favor of new ones, producing a decline in the quality of the infrastructure for older areas. In addition, there are the incalculable social costs: the decline in a sense of community, the inequality caused by the flight of wealth, the inefficient use of land, and the redundancy in public investment.
8. ***Decentralized Growth.*** The financial future of the county is affected by the decentralization of its population from its urban core. To control its budgetary pressures, county government must take the lead in the

coordination of land use, infrastructure, urban neighborhood revitalization, and public investments.

9. ***Growth Policy Opportunities.*** With annexation boundaries now fixed as a result of state law, County Government for the first time has a clear view into the future, when municipalities will cover its entire area except for two small pockets of land. The accompanying shift in responsibilities offers county government a unique opportunity to reconsider its roles and responsibilities, the services it provides, and its position in the region. Most of all, it offers an opportunity to reevaluate and define what is a county responsibility and what is a city responsibility.
10. ***Debt Service.*** The past administration's decision to structure bond payments so that debt service was pushed out beyond its term leaves the current administration with little alternative but to steel its resolve to meet these obligations and reduce this burdensome debt with cuts that may appear draconian to some. With debt service payments already more than \$100 million a year, county government must deal with a payment schedule that will double this amount before it shrinks. Dealing with these payments will drive everything in its path and require county government to make difficult decisions about its services and operations.

STATISTICAL FRAMEWORK

- **Assessed Value of Taxable Property.** Over a 10-year period, the total assessed value of property in county almost doubled. In 1993, the assessed value was \$8,489,720,796. In 2003, it had increased to \$15,166,206,216, but county government still outspent this growth, raising the property tax rate to generate more revenue.
- **Tax Disincentive for the Major City.** The inconsistency of county policies relating to the various municipalities and the functional consolidation with the City of some services and most public buildings produces a significantly higher combined tax rate for residents of the largest city when compared to citizens of other county municipalities. For example, county has historically paid a large part of the cost of major roads within the municipalities, except for the largest city. County provides total funding for schools and libraries in municipalities, except for the largest city. County provides ambulance service to all municipalities, except for the largest city and one other municipality. County provides law enforcement to two smaller municipalities.
- **County's Low Performance.** Peer cities – Atlanta, Birmingham, Charlotte, Dallas, Indianapolis, Louisville, and Nashville – are averaging larger cumulative increases in per capita income, population growth, in-migration, and reduction in poverty. For example, between 1992-2000, Nashville's net in-migration rate was 18 percent, compared to the county's 3.7 percent (U.S. Census); Nashville's personal income gained \$1.7 billion, compared to the county's loss of \$66 million (Internal Revenue Service).
- **Broad Use of Tax Freezes.** The number of tax freezes approved in the county is more than all the other metropolitan areas of the state *combined*. In fact, the state capital averages less than one tax freeze a year. When the tax freezes approved by various Industrial Development Boards are combined with the downtown redevelopment

agency, the tax freezes in the county account for almost half of the total in the entire state. In a number of urban counties across the U.S., there are policies prohibiting the freezing of taxes for education or policies reserving freezes for target industries. As a result of the county's liberal tax freeze policies, the amount of property taxes currently being waived is approximately \$39 million, or the equivalent of about 30 cents on the county tax rate.

- **Relatively Centralized MSA Population.** The county's share of the MSA's population is unusual. Compared to 13 other MSAs selected for this report – Indianapolis, Cincinnati, Columbus, Nashville, Louisville, Kansas City, Richmond, Charlotte, Jacksonville, Raleigh, Dayton, Birmingham and Greensboro – no county has a larger percentage of the total MSA than the county's 79 percent. Davidson County, for example, holds 46 percent of its MSA's population. In addition, the county has 87 percent of its MSA's total jobs, also the highest of the 14 counties. Davidson County has 60 percent of the Nashville MSA's jobs. This concentration of jobs and population uniquely positions the county to preserve and expand its economy through targeted incentives and tax policies, but also to assume the role as the primary leader of policy initiatives.
- **Lower Median Income.** When compared to the same 13 MSAs, only Birmingham has a lower median household income than the county. The county also has the highest percentage of poverty. While there has been some improvement, the average income of an African-American county resident is still about half of a white citizen. The income divide that exists in the county must receive priority if county government's tax base is to be improved.
- **More Diversity.** The county maintains its traditionally high percentage of African-American population – 48.6 percent black and 47.3 percent white. (In 1990, it was 43.6 percent black and 55 percent white.) Meanwhile, the foreign-born population of the county increased 171 percent. This growing diversity has implications for education and service delivery that require detailed consideration. For example, Hispanic and Asian families tend to be larger, with more children and more multiple generations living in the same house.
- **Lagging Educational Performance.** Of the 13 MSAs compared in this report, the county was 10th in university research and development. Only Greensboro had a lower percentage of 25 year-olds with a high school degree. Only Louisville and Dayton had a lower percentage of 25-year-olds with bachelor's degrees. Lagging in educational attainment results in more than lost bragging rights. It determines whether the county can compete in the "knowledge economy." Of the 50 largest metro areas, the county ranks 47th in the New Economy Index and 119th in 315 Metro areas in the Milken Institute Tech-Pole. *Taken together, these statistics, if left unchanged, means that the county will be a non-player in the knowledge economy.*
- **Slow Growth Demographics.** Population growth of the county lags behind its peer counties and underscores the importance of county government focusing on policies that grow the wealth, rather than grow the population, since all projections indicate that growth until 2020 will be at about the same pace as the past decade; or essentially, births over deaths. The following are the projections of the University Center for Business and

Economic Research, Commission of Planning and Development, and each jurisdiction.
 At their most optimistic, these projections indicate a future of continued slow growth:

Jurisdiction	Population (Current)	University (2020)	CPD (2020)	Each Jurisdiction (2020)
Entire County	897,472	1,002,359	1,084,973	1,106,570
City 1	2,569	2,089	15,487	32,000
City 2	40,543	46,045	58,428	60,000
City 3	31,872	37,521	59,473	49,200
City 4	37,348	42,613	42,000	46,500
City 5	6,862	6,547	15,623	25,000
City 6	10,433	18,766	28,052	28,000
City 7	650,100	719,142	848,451	848,451
Unincorp.	117,745	129,636	17,459	17,459

“The key actors in those places which have exhibited growth share certain qualities: open-mindedness and a willingness to take risks; clear focus on long-term aims with an understanding of strategy; capacity to work with local distinctiveness and to find strength in apparent weakness; and a willingness to listen and learn. These are some of the characteristics that make people, projects, organizations, and ultimately, (counties) creative.” -- Charles Landry

SCENARIO 1: EXTREME MAKEOVER

THE FIFTH MAYOR OF COUNTY GOVERNMENT takes his place at the head of his conference table for the mid-term review of his administration’s record and for setting the agenda for the final two years of his term. It is a small gathering with his executive team in attendance -- his chief administrative officer and the directors of health and criminal justice whom he supervises and his chief financial officer and the directors of financial services and administrative services who answer to her.

The mayor opens the meeting, as he frequently does, by claiming the county’s legacy as one of the most innovative local governments in the nation and by reminding them how grateful they should be for its manageable size, its clean reporting relationships, and the small number of services that it directly provides.

It was not always this way, and the mayor knows it. Because of the previous mayor, the hard choices have been made, and county government has been reborn. Little more than a decade before, county government was moving toward a future of bankruptcy and coping with dramatic population losses caused by high taxes. Innovation was not a tradition in county government so the drift toward the financial cliffs seemed unavoidable.

But all of that changed in what the new mayor came to call his “Medhealth Moment,” one of those transcendent times when the confusion around an issue lifts and the course of action seems obvious. The process that he set in motion, he said, was “peeling the onion,” because each time he removed a layer of conventional wisdom and peeled back “the way it’s always been done,” he uncovered another option for improving the county’s future.

It was a bold move for an urban mayor, where success is more customarily measured in greater political power as defined by bigger budgets and bigger government. And yet, it was not merely budgetary pressures that led him to consider a different role for county government. It was his sense that county government had become so unwieldy that its mayor was constantly mired in the operational crisis of the day, minutiae that always seemed to be delegated upward, and problems that preoccupied him and kept him from the disciplined focus he wanted and needed.

In was within this context that his “Medhealth Moment” changed everything. The mayor was in the midst of a heated discussion about what it would take for the county to get its fair share of state Medhealth funding, when the thought occurred to him: If my state is in the business of Medhealth, but doesn’t take the position that it has to directly provide the service, why shouldn’t my county do the same? It was a moment of illumination that created the core questions that drove him for the next four years and allowed him to think about county government in a new way: Yes, it’s the county’s responsibility to ensure that vital services are provided, but why does it have to directly

deliver them itself? If the county saw itself as a source of revenues, rather than the source of direct services, could it become more efficient and economical?

It was a dramatic distinction. As a provider of services, county government routinely looked inward for ways to deliver services as diverse as building roads, bridges and parks to intervening in the lives of at-risk children and educating HeadStart students.

The mayor said that opening his mind caused him to see things with new eyes. First, he saw the impact of the Smart Growth Plan which fixed the future boundaries of each city. For the first time, cities knew with certainty what areas they would annex, and they understood they had a vested interest in the direction of these areas. Projecting the impact of the Smart Growth Plan, the mayor saw an unincorporated area that would dwindle from 382 square miles in 1999 to only 49 square miles by 2020 with a population dropping from more than 110,000 to fewer than 20,000. The other million residents of the county would be living in one of seven cities, and because of it, he saw a time when county government would not have to deliver urban services, such as fire services, ambulance service, roads and parks, across wide expanses of unincorporated land.

Second, the mayor saw capital investments in a new way. The five-year CIP budget called for \$134 million to be spent on roads and public works within the smaller municipalities and their annexation reserve areas, and he questioned why county government continued to subsidize other governments.

All of this gave him a historic opportunity for the county to develop a coherent philosophy for its relationships with municipalities. The emphasis had to be built on parity and equity, eliminating the conflicting approaches which resulted in county government providing municipal services in a smaller municipality (which didn't have a property tax rate); to funding road projects within all cities except the largest city; to paying the total cost of education and libraries within all cities except the largest one; and to providing ambulance service within all cities except the largest two cities.

Because of these factors, the mayor concluded that the size and span of county government had to be altered, giving it the opportunity to sharpen its focus and strengthen its policies. With fewer worries about direct provision of services, he was convinced that he and his executive team could concentrate on over-arching issues shaping the future – transportation, environment, economic development, and urbanization.

By shifting its perspective from being the provider of services to being the source of revenues, county government liberated itself to consider a wider variety of options. The mayor began to peel the onion, beginning with his first idea: contracting with municipalities for services.

CONTRACTING WITH MUNICIPALITIES

The mayor began with a simple mandate to his staff: evaluate every service to determine if there is another way to deliver it or if it has to be delivered at all. Chief among the options was contracting with municipalities to provide services within their annexation reserve areas. Political considerations led the county in the late 1970s to begin providing traditional urban services like fire, ambulance, and parks in the unincorporated areas of the county, blurring the lines between county and municipal services.

When the relationships between county government and the municipalities in the county were established, three municipalities were small, rural villages rather than the robust, growing cities they

had become. In light of the sophistication of the municipalities' services, the mayor said it seemed only logical that they should be considered as sources for services.

To test his theory, the mayor turned to fire services. Until the late 1970s, the county had a volunteer department, but its fire department had grown to become one of the five largest in the state; however, in light of the Smart Growth Plan, its area of service was shrinking, and it was becoming harder to attract and keep qualified firefighters. Meanwhile, almost every municipality had its own fire department. Contracting with municipalities was so logical, but it required serious and determined negotiation that the mayor personally directed to get it accomplished. Eventually, the county successfully negotiated contracts for municipalities to assume the county's fire-fighting responsibilities throughout the county. County government was in the business of funding firefighting, but it no longer had to provide the direct service itself.

Meanwhile, as directors warmed to this new approach, they identified other areas for contracts -- engineering, parks, road maintenance, and traffic light maintenance. Where the mayor was first met with a litany of reasons why contracting services with municipalities would never work, the enthusiasm for innovation grew with each new contract. While the county did save a small amount, the mayor learned that there was another benefit as important as the financial one: he had sent a message that there would be no such thing as "business as usual."

With time freed from managing employees who were delivering direct services, the mayor's administration had time to consider the big picture, to pursue innovation, and to carry through with broad policy initiatives.

The mayor said it was time to peel the next layer of the onion, and he turned his attention to outsourcing services to private firms.

OUTSOURCING COUNTY SERVICES

While the county negotiated with municipalities for services, the mayor was sent an article about Fiorello LaGuardia. The former New York City mayor's most famous quotation caught the county mayor's eye in a new way. LaGuardia said there was no Democratic way and no Republican way to clean the streets. When it came to delivery of services, he said party and ideology are irrelevant. *Performance is the only thing that matters.*

With performance as the primary outcome being sought, the mayor decided contracts for services should not be restricted to other governments, but should also include the private sector. It was a politically volatile concept, and he learned firsthand that outsourcing often begins with ideology and proceeds to real-world evidence, not the other way around. Each side had strong views. One side said private enterprise is the morally superior answer to any government service. The other side claimed the specter of privatization was one more step in the retreat of government from its appropriate responsibilities. To complicate clear evaluation of outsourcing, the county had poor experience with management of its nursing homes. It was contracted to a private company more as a political statement than being done careful analysis, open bidding and detailed performance criteria. The mayor told his directors they could not afford the same mistake and ordered research to back their decisions.

From these instructions, it was learned that there was not a single government service that somewhere was not being outsourced to the private sector -- from corrections to public works, from firefighting to computer services, and from building and grounds to child support enforcement, from

human resources to financial management. One government even allowed employees to restructure their department into an employee-owned company, cutting costs by 30 percent.

Reprising his “Medhealth Moment,” the mayor used health care to announce his intention to pursue outsourcing. He said: “The real question is not how county government keeps open the doors of our public hospital, but how it best ensures quality health care for poor citizens. In truth, the county’s allegiance is not to an institution, but to its responsibility.”

The public hospital opened at a time when there were few options for health care by poor people, but that was no longer true. So, the real question was whether it was county government’s responsibility to keep a hospital open, or whether it was county government’s responsibility to be the funding source that made it possible for indigent citizens to access hospital care.

He told the board of commissioners that outsourcing was not a panacea, but it was a tool that must be available to management, because outsourcing could result in detailed cost accounting, management analyses of services, and competition for public employees. From the research by his administration, he concluded that outsourcing could be successful because of: 1) the ability of private contractors to complete jobs faster and with fewer employees; 2) private sector’s cost advantages by purchasing equipment better suited to performing specific tasks; and 3) private sector managers’ use of cost management techniques more effectively and more often. Based on the case that the mayor made, the board of commissioners approved a pilot program for outsourcing services for two departments.

Following approval of the pilot program, the mayor visited Indianapolis and Chicago to learn more about their successes in outsourcing services. From this first-hand experience, it was decided that the two services would be Information Technology and Fleet Maintenance. After setting performance measures for each service and determining the full cost for each, including direct and indirect operating expenses, capital asset depreciation, and overhead, county government requested bids for services from private firms and in-house departments. This approach responded to the commissioners’ concerns about current employees.

While the results of this experiment justified greater outsourcing, the first two services were instructive. Fleet maintenance remained in-house when employees of the auto shop responded to competition by developing a budget showing cuts of 20 percent. At the same time, a private company which specialized in modernizing and economizing computer operations won the contract for Information Technology, and within the first 12 months, it saved about \$2.2 million.

The mayor’s administration now had contracts with municipalities for fire services and recreation, a contract with an in-house department for fleet maintenance, and contract with a private company for operating the IT department. In pursuing such dramatic actions, county established an emerging national reputation for public entrepreneurship.

It was time to peel the last layer of the onion.

REDEFINING COUNTY SERVICES

With experience in thinking differently, the county’s severe financial distress was seen as not just a problem, but as an opportunity for redefining and repositioning the county for the 21st century.

Although the county was now providing services in new ways, it seemed to the mayor that county government was still not addressing core question: what was county service and what was city

service? The answer would come from determining the cost of providing each public service and imposing taxes in a manner that was fair and equitable. In other words, Who pays? Who benefits? What is the most equitable philosophy of funding each service?

It was no longer enough to address financial challenges. Until county government addressed the burdensome double taxation for citizens of its largest city, the exodus across county lines would continue. Efficiency and economy were not enough. Equity had to be added to the equation. There was no question that it was inequitable for the residents of the major city to pay significantly more taxes than other residents of county. While the smaller municipalities' most cherished services included schools and libraries, they did not pay any of their costs. In turn, residents of the urbanized city were contributing city taxes *and* county taxes for schools, libraries, health clinics, environmental health and other services.

And so the county began its "exercise in equity." It determined the quantity and location of county services, and followed this with an analysis of whether each taxpayer received their fair share of services and paid their fair share of taxes.

As long as the county was determining which services were municipal and which were regional, or county, the mayor decided his administration should also determine if every service was a core business of the county. County services evolved from the days of the ox cart. Their configuration owed nothing to evaluation and deliberation, but everything to political considerations. Evaluating services solely on whether they were a core business, the county eliminated duplicative services like help centers, veterans services, agricultural services and environmental conservation.

With every city aware of its ultimate geographic boundaries due to state law on smart growth, county government got out of the road business. If a city wanted roads within its border or in its annexation reserve area, it had to pay for them. The same held true for parks and libraries. For the first time, the county brought coherence to its relationships with municipalities and equity to a tax structure where it had been largely absent.

County Government had no tradition of strategic planning. Faced with budgetary crises, county government passed across-the-board cuts that punished honest budgeters and showed no difference between safety net services and optional services. With this in mind, the mayor revamped the budgeting process, replacing the boilerplate language in budget documents with strategic priorities and performance measurements for every department. The shift to performance-based budgeting was perhaps the most dramatic innovation of all, but the new mantra became: "a team without a scorecard is not playing the game; it is only practicing." And because the new budgeting process was invented by all managers, not just the finance department, the budget was no longer an accounting document, but a scorecard with a mission and vision, and priorities and plans of action.

In the end, the mayor's peeling of the onion transformed county government, producing a new way of evaluating county government by integrating all of the forces shaping future success – financial, customer, internal business process, and learning and growth. The financial perspective included measures of financial performance. The customer perspective determined who the customers were and their needs. The internal business perspective identified the processes that were most critical to the satisfaction of customer needs and the achievement of organizational objectives. The learning and growth perspective recognized that the county would only reach a level of efficiency and effectiveness commensurate to the ability of employees to adapt to hanging work environment.

What began as a modest question in the middle of a Medhealth discussion had grown to comprehensive reinvention of county government. By the end of the mayor's terms, the county had pared down to its vital services, shifted public works responsibilities to municipalities, outsourced information technology and other administrative processes, and contracted with municipalities for fire services and law enforcement. Most of all, county government finally had a framework for making the hard budgetary choices that were needed, it was achieving a clear vision for the future, and it was setting the standard for e-government.

Reflecting on his predecessor's legacy, the newest mayor of the county called the previous decade of revolutionary thinking the most progressive, most exciting exercise in governance in the nation. Because of it, the new mayor inherited a system characterized by its overriding commitment to equitable taxation and to constant reinvention and its willingness to make the toughest decisions of all.

SCENARIO 2: THE BILL GATES WAY

LOOKING BACK, IT SEEMS SO CLEAR THAT THE COUNTY HAD LITTLE CHOICE. There was a tide of people moving to adjacent counties. The sprawl that county government had financed in the 1990s produced a tax rate so onerous that it was becoming home mainly to the very poor and the very wealthy. Those in the middle were squeezed out, and they voted with their feet.

County officials remained in denial until the middle of the first decade of the 21st century. But finally, there was no longer any way to ignore the inevitable: unless county government became the dominant government in the region, taxes would continue to be inequitable and climb, particularly for citizens of its largest city who were being taxed twice -- by city and county governments -- for so many services and projects.

The mayor knew the problem firsthand. He saw it in his neighborhood, and he heard it from his neighbors. County government was considered the enemy, consuming taxes while urban taxpayers had no clear understanding of what it did. To clear up the confusion and address the tax problem, the mayor saw the answer in county government becoming the most powerful, the most influential regional government in the Southeast U.S. With most of the MSA's population and jobs within its borders, the county was the logical government to drive major policy issues for the region and to be the mediating force in the conflict between the largest urbanized city and its suburban neighbors. However, rather than announcing his plans to expand the county's reach, he instead embarked on initiatives that established it first as the region's dominant force.

First, he led the creation of the Metropolitan Council whose members represented the governments of the MSA. The Council developed an agenda for regional action and the process gave the governments the chance to cooperate and establish trust. After some quick wins to show progress, the Council set more ambitious goals in transportation and cultural attractions, and in support of its goals, the Council called for revenue sharing legislation that pooled resources for its priorities. It was an unprecedented action, but with unified support, the Council was able to get the legislation passed by the Tennessee and Mississippi legislatures. Arkansas voted it down, but the remaining members were undeterred and continued on.

Meanwhile, within the county, the mayor's administration worked to bring parity to the property tax rate, convinced that the combined (city and county) tax burden in the largest city had to be more in line with the other cities of the county, and unquestionably, it was in county government's self-interest to make sure taxpayers in its largest city were no longer given incentives to move out of the city.

Only a few years earlier, when the mayor was elected, there was the risk that the county would become irrelevant. It was consumed by its fiscal challenges. But faced with such problems, county government, as the common denominator for every citizen in the County, whether they live in the largest city, a smaller municipality or the unincorporated area, decided that taxes should be equalized. For this reason, as many services as possible should be placed on the largest tax base -- the county.

To this end, the county assumed sole responsibility for libraries, health department, schools, public transit, and the public utility. The shifting of these services to county government lowered the

property tax rate of the largest city to a level more commensurate with the other cities of the county. The county also became responsible for public assembly facilities such as the Arena, the Convention Center, and the Stadium. As assets for the total region, it was not reasonable that the citizens of the largest city should be taxed twice for them. For example, when both this city and the evenly funded a new arena, city residents paid 100 percent of the city funds and about 55 percent of the county funds, placing an inequitable tax burden on them for a facility that benefited the entire region.

By expanding its reach, the county positioned itself as the major urban government that it was. This shift in services left the largest city with primary services similar to the other municipalities in the county – police, fire, sanitation, and parks. To expand its influence, the county contracted its services to other governments, particularly public works where the county’s massive investments in road building and maintenance and traffic signal maintenance produced new sources of revenues.

By making the county the dominant government in the region and moving funding for schools, libraries, health department, and mass transit to county government’s tax base, the tax rate for the county was increased about 85 cents and the tax rate decreased for the largest city by about \$1.30. For the first time in the modern history of the county, the combined property tax burden for citizens of the largest city was commensurate with smaller cities in the county. The combined rate for its residents went down from about \$7.27 to about \$6.81 (compared to the new combined rates of \$6.58 and \$6.33 in the two major municipalities).

By moving regionally-oriented services to the regional (county) tax base, the mayor set County Government on a path in which it dominated the political landscape of the region, and in the process, it rationalized taxes and set the regional vision.

SCENARIO 3: (REALLY) BIG

FOR THE FIRST TIME IN DECADES, THE COUNTY IS AT PEACE. The new mayor of the consolidated government brings with him the broad perspective that is needed to usher in an era of cooperation and progress.

It was not always so. His election had been preceded by years of political conflict that regularly degenerated into personal name-calling and partisan bloodletting. The residue from the conflicts hardened political lines and had isolated the county's largest city as an island in a sea of suburbs with nothing but ill will for the city in their midst.

The volatility of city politics poisoned relationships across the region. In the end, it produced the perception that the city was out of control, and the reality that it was a risky place to buy a home. The negative attitude toward the city had become pervasive, and if left unchecked, it would infect the entire county, producing the flight of population and wealth. It was in the midst of this atmosphere of crisis that the mayor convinced the municipalities that their futures depended on consolidation as the means to end the conflict and unify the region.

Faced with the reality that consolidation had been a rare occurrence for counties as large as his county, the mayor knew it was an uphill battle. But he began as he always did – with research and firsthand inspection. His review determined that consolidation normally came from either conflict or corruption. He would use conflict as the basis for his advocacy of merging the city and county governments.

After visiting Louisville to study its successful consolidation in 2003 after three failed efforts, the mayor issued a call for consolidation to be built on four primary advantages:

- *Accountability.* A unified government allowed voters to know who had ultimate responsibility and set forth a single agenda for the area.
- *Efficiencies through Economy of Scale.* Functions by each government could be provided at less cost through shared equipment, personnel, and purchasing.
- *Eliminated Duplication.* These included the elimination of services such as duplicative administrative services, public works, and emergency services.
- *Economic Development.* A single focus and vision for economic growth and recruitment would eliminate confusion and increased efficiency.

As he moved on, however, he never lost sight of the disadvantages that he had identified:

- *Structural Limitations.* The Tennessee Constitution required the election of eight constitutional officials, and at a time when government needed to centralize, these independent elected officials had the effect of decentralizing control.
- *Distribution and Control of Resources.* When consolidation takes place, the new jurisdiction is divided into an urban services district (the former city) and a general services district (the former area outside of the city), but the revenues previously generated by the

former city now goes to the county, and city residents lose control over how they are spent.

- *Citizen Satisfaction.* Some surveys showed that for specific services, citizens are more satisfied with smaller units of government.
- *Decision-making Problems.* It was the norm for the legislative bodies of consolidated governments to be quite large. Nashville/Davidson County had a Metropolitan Council with 42 members. Louisville/Jefferson County did not reduce the number on their two legislative bodies, but combined them. These large legislative bodies are frequently unwieldy and unresponsive.
- *Financial Realities.* Taxes frequently go up, rather than down, with consolidation, and this creates disenchantment among citizens who assumed it would be less costly. Most counties where consolidation had taken place cautioned against selling it as cost-cutting move.

The mayor's momentum was also spurred on by the dim prospects from state government for any help with county's inelastic tax base and the county's over dependence on property taxes. A renewed emphasis on saving money by creating "smart" governments was just getting started, and the mayor saw consolidation as the logical outcome. By combining the largest city's more diverse revenue sources with its own, county government had a more balanced financial base for the first time.

The mayor's initial step toward consolidation began with a needs assessment. Then a feasibility study determined that consolidation made sense economically, operationally, and administratively. In the end, the conclusions were resounding: to compete in economic development, to stimulate new investment, and to make services more efficient, the county must consolidate. Through consolidation, the county immediately attracted national attention for its entrepreneurial public leadership.

A major plus for consolidation in the county was its simple governmental structure. In Jefferson County (KY) after consolidation, there were still more than 90 different governmental entities. St. Louis was ringed by dozens of small, incorporated towns, and its airport had about a dozen towns surrounding it. His county government was an anomaly, with only a handful of incorporated towns within its borders. Few county governments had taken on such an urban character. The fact that county government operated a fulltime fire department, built arenas, operated a hospital, and led economic development set it apart from its peers, which most often act merely as an appendage of the state, charged with the responsibility of implementing and enforcing state laws.

There was a time when in lieu of full consolidation, functional consolidation was sought for operations like planning and health services. This experiment was well-meaning, and it was hoped that it would be the impetus for total consolidation, but in truth, the departments sharing city and county allegiance often suffered from "drift" and lack of accountability, because each government assumed the other was monitoring their actions.

Because most of the county was within urban growth areas, the consolidated government's urban services tax created equity across most of the county with a tax rate of about \$6.13. This produced a significant decrease in taxes for a majority of county taxpayers – those who lived inside the largest city.

From so many perspectives, consolidation was the perfect answer to so many problems. It created equity in taxes. It eliminated the inevitable conflicts that came from two major urban governments. It created a single vision and a single, powerful leader defining it. It streamlined the economic development process. It eliminated identical layers of senior management and duplicate services like engineering and public works that existed in both city and county governments.

In the end, the longtime opposition to consolidation that existed in the municipalities was overcome by an overriding motivation: to eliminate the city mayor and his government. Sitting at the helm of the new consolidated government, the Metro mayor found it invigorating to understand that the days of competing mayoral agendas and political careers built on warfare between city and suburb were at an end.

SCENARIO 4: THE LAST PERSON TO LEAVE SHOULD TURN OUT THE LIGHTS

THE COUNTY IN 2014 HAS LITTLE TO DO. Its legislative body meets once a month, but there are few issues to address. The mayor, as CEO, has little to do, because county services were severely scaled back years ago.

On most days, county government appears paralyzed. The same cannot be said for its people. Their rage about skyrocketing taxes has been channeled into constant barrage of petitions for recall or referendum. It all began with a recall vote of 11 of the 13 members of the board of commissioners, and before it was over, there was even a failed attempt to recall the mayor. When six commissioners were voted out of office, county officials were never able to regain their balance, because special elections and governmental changes mandated at the ballot box inspired political leadership that played it safe and risked little. A long-range view seldom extended beyond six months, because planning for the future had become impossible.

There was a time not too many years ago when it could have been different, but confronted with climbing property taxes, county government never mustered the political will to make the hard choices that were needed. Eventually, they had no choice. The crippling debt service on record levels of bonded indebtedness climbed to more than \$200 million, and the financial house of cards collapsed.

In time, it was clear to everyone in the county that the hundreds of millions of dollars that the county spent on new schools and new roads ultimately produced a sprawl that was not financially sustainable. Bond debt topped \$2 billion. Bond ratings were lowered. Services were cut. Payroll was slashed. Ultimately, disgusted voters rebelled and recall petitions became as regular as the seasons. The seething anger of seniors fueled much of the political volatility. They believe they have the most to lose from higher taxes. They also have the most time to lead the grassroots-led revolt against spending for education and early childhood intervention.

And yet, the passage of the recall efforts produced something even more troublesome – government by referendum. Buoyed by their success, activists put referendum after referendum on every ballot, even limiting county government’s ability to approve any capital project that cost more than \$20 million.

Without question, it would be a long and painful road back to financial health.

The county should have seen it all coming. Based on 10 years of revenues and expenditures from 1994 to 2003, the cost of county government routinely outstripped the growth in the property tax and returned time and time again for higher tax rates. The tax rate paid by residents of the county, and significantly, the combined tax rate for citizens of its largest city, reached its flash point. This was exacerbated by the inelasticity of the county’s revenue sources and the number of citizens with little ability to pay more taxes.

In 2003-4, when the first rumbles of the revolt to come were heard, the combined rate for the city and county was \$7.27. The combined city/county tax rates for the other metropolitan areas of the state were \$5.66, \$5.58, and \$4.58. The disparity with its sister metro areas continued to grow in

the first decade of the 21st century. The private sector complained that the combined tax was hurting economic development, because Louisville, Charlotte, and Dallas' taxes were about one-third lower.

The county tax rate was routinely used by homebuilders in adjoining counties as a common marketing hook for home buyers, and anecdotal evidence indicated that the rate was causing record numbers of liens on houses owned by seniors and others on fixed incomes. In the end, the county had no choice but to take drastic action to get its finances under control. The county did finally stabilize its tax rate, but at tremendous cost to its reputation and effectiveness.

And yet, something unexpected happened. As county government cut services, it forced the largest city in its borders and the smaller municipalities to consider what services they valued. If a city wanted a service, it had to decide to pay for them. As a result, there were services shifted to municipalities that could in turn set their own service levels and budgets, rather than looking to the county's largesse as it had done for so long. For the first time, the division of labor between city and county was clearly understood.

County Government honed its focus and got back to basics. County government was forced to identify its core services and its overriding mission. The county stripped away services, became lean and mean, better motivated to make hard choices, and sticking to the fundamental services as defined by the state government that created it in the first place.

APPENDIX

Land Area.

The following shows the current size of various jurisdictions, as of December 30, 2003, and columns marked all annexed acreage and square miles reflects each city's total area when its annexation reserve areas are annexed by 2020:

Jurisdiction	Present Acreage	Present Sq. Miles	With Annexed Acreage	With Annexed Sq. Miles
City 1	15,125	23.63	22,069	34.48
City 2	13,235	20.68	28,163	44.00
City 3	18,568	29.01	32,563	50.88
City 4	12,664	19.79	12,664	19.79
City 5	11,450	17.89	15,483	24.19
City 7	202,992	317.18	313,263	489.47
City 6	20,423	31.91	47,564	74.32
Combined Cities	294,457	460.09	471,770	737.14

Unincorporated	208,508	325.79	31,195	48.74
Total County	502,965	785.88	502,965	785.88

Sources of the County Property Tax

The following chart showing the sources of county property taxes indicate the burden placed on residents of the largest city (#7) when its government joins with the county in funding a building, a service or a program. Not only do citizens of the city pay 100 percent of its city's share, but it pays 55 percent of the county portion. The other taxpayers in the county only pay their percentage of the county portion.

Municipality	Property Tax Collected	Percentage of Total
City 1	\$ 1,735,282.24	0.74
City 2	16,664,038.60	7.07
City 3	19,351,007.04	8.21
City 4	24,530,685.75	10.41
City 5	3,350,341.67	1.42
City 7	129,133,123.00	54.81
City 6	1,832,861.12	0.78
Unincorporated	39,017,433.92	16.66
Total	235,614,773.34	100.00

