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# **COOPERATE, COLLABORATE, CONSOLIDATE**

## **OPTIONS FOR LOCAL GOVERNMENT IN MONROE COUNTY**

*A report of the Rump Group and Monroe County Council of Governments*

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## TABLE OF CONTENTS

<b>Table of Contents</b> .....	<b>i</b>
<b>Executive Summary</b> .....	<b>1</b>
Why This Report .....	1
An Imperative for Action .....	2
Deficits in Local Governments .....	2
High Taxes .....	3
Severe Job Loss .....	6
The Challenge for Local Governments .....	7
What the Report Addresses .....	9
Short Term and Long Term Opportunities.....	10
Setting Priorities for Action .....	11
Three Functional Areas for Action .....	12
Four Other Areas for Action.....	12
To Be Reviewed Next.....	13
Implementation Plan.....	14
Conclusion .....	15

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## EXECUTIVE SUMMARY

### Why This Report

Local governments in Monroe County are caught in the convergence of several trends that are producing current and projected multi-million dollar budget deficits in the two largest governments – the city and the county – and have strained town, village and school district budgets as well. These trends are:

- the rising cost of government at all levels;
- a stagnating local economy; and
- high local taxes.

This convergence has served to create a crisis that, while reinforced by the national recession, will not be solved merely by a turnaround of the national economy. In order to achieve the financial stability necessary to meet local needs and remain regionally competitive, the community needs to more aggressively and permanently manage the local government expense base.

Recognizing this, a group of local business leaders (the “Rump Group”) approached CGR (Center for Governmental Research Inc.) in early 2003 to initiate a study to identify actions local governments in Monroe County could take to reduce costs while still providing acceptable levels of service. At the same time, the Monroe County Council of Governments (COG) – which includes representatives from the 19 towns and 10 villages, the City of Rochester and Monroe County – was preparing to develop a report documenting steps local governments have taken to achieve efficiencies through inter-municipal cooperation. Since the timing of these efforts coincided, both groups agreed to cooperatively engage CGR to assist in preparing a report to the community that would address opportunities for functional consolidations and other opportunities to improve cost efficiencies across governments in Monroe County.

The Rump Group and the COG (the Group) agreed that the primary objective of this report should be “*To inform and update the*

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*public about opportunities to make government more effective and efficient through cooperation, collaboration, and/or consolidation.”* The Group agreed to present the report by early summer 2003, so that it might contribute to the financial management discussion in the campaign for the next County Executive, and preparation of local government budgets in the fall of 2003.

## **An Imperative for Action**

The community of Monroe (to use a term that was coined by former County Executive Lucien Morin to describe the collection of governments, as well as the citizens and businesses in Monroe County) is facing a fiscal crisis that local governments must address. An end to the national recession will certainly help, but improvements in the local economy will take time, and opportunities to raise additional tax revenues are limited. Therefore, in order to produce the financial stability to meet local needs, preserve an attractive quality of life and make our community competitive for economic development, the community needs to aggressively pursue ways to reduce both the short- and long-term cost of local government.

The current fiscal crisis affects many dimensions of life in our community.

## *Deficits in Local Governments*

Local governments are encountering severe cyclical pressures on their budgets. As one indicator, both the City and County debt ratings have been downgraded in the last two years. An April 2003 Moody's Investors Services review for Monroe County estimated that County expenses exceeded revenues in 2002 by about \$20 million. The County recently announced plans to use tobacco settlement funds to fund its current deficits. However, while the County has not made public projections for its 2004 budget, according to Moody's, increases in pension benefit costs, employee health insurance and Medicaid costs, along with limited revenue options are likely to put ongoing fiscal pressures on the County. The recently released 2003-2004 City of Rochester Proposed Budget indicates that the City projects an all funds deficit for the next fiscal year (2004) of \$41.2 million, which expands to \$110.1 million in 2008. These deficits are projected despite large cuts already made in the last year by both governments that totaled over \$40 million.

## High Taxes

Residents and businesses in the community have clearly been affected by the costs of local government. Table 1 shows that metropolitan areas in New York have the highest local property tax burdens in the country. Greater Rochester has the dubious distinction of being the *third highest* in the country.

Ranking	Metropolitan Area	Real Estate Tax
1	Syracuse, NY	\$28.82
2	Buffalo, NY	\$28.34
<b>3</b>	<b><i>Rochester, NY</i></b>	<b><i>\$27.59</i></b>
4	Jamestown, NY	\$26.88
5	Elmira, NY	\$26.83
6	Utica-Rome, NY	\$25.94
7	Binghamton, NY	\$24.31
8	Rockford, IL	\$23.58
9	Albany, NY	\$22.97
10	Madison, WI	\$21.40
	<i>Average for all Metro Areas</i>	\$11.37

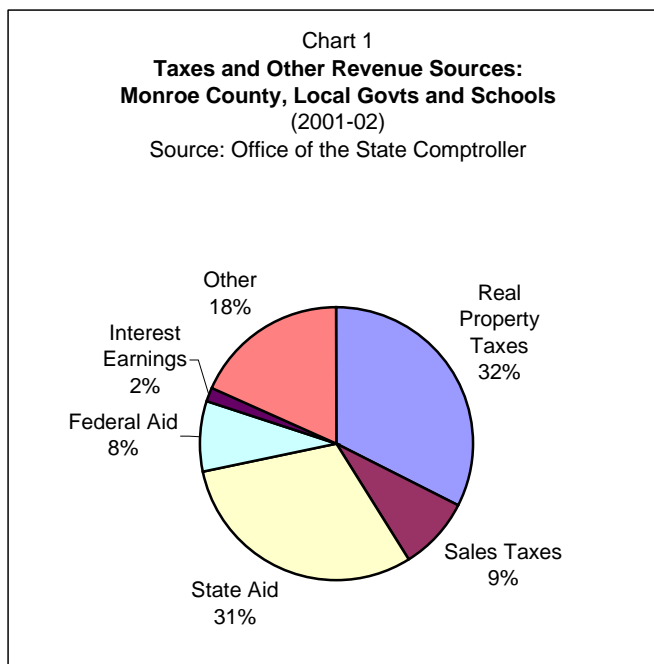
(Source: Census Bureau; American City Business Journals, March 30, 2003)

Our local sales tax burden is also high. Compared to average sales tax rates for states across the country, Monroe County would rank as the 4<sup>th</sup> highest, as shown in Table 2.

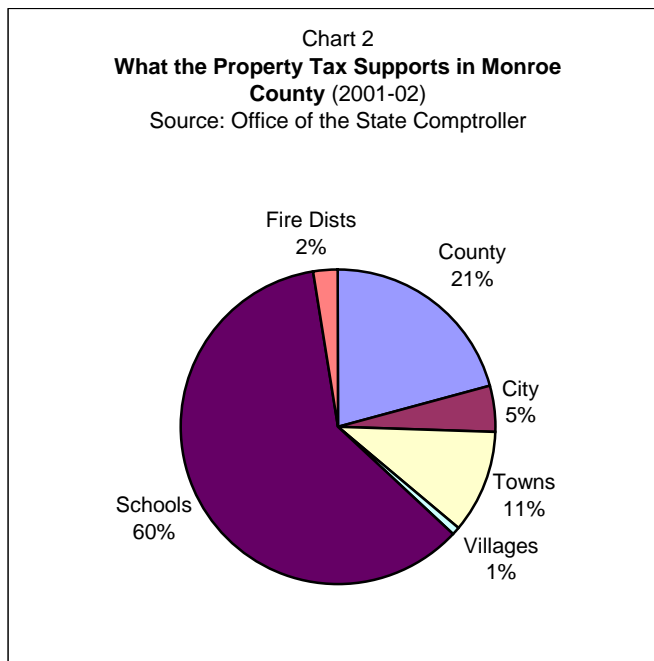
Ranking	State	Sales Tax Rate
1	Tennessee	9.35
2	Louisiana	8.45
3	Washington	8.30
<b>*</b>	<b><i>Monroe County</i></b>	<b><i>8.25</i></b>
4	Texas, California	7.90
5	Oklahoma	7.85
6	Alabama	7.75
7	Arizona	7.60
8	Illinois	7.40
9	Nevada	7.15
10	Mississippi, NC, Rhode Island	7.00
11	Arkansas	6.95
	<i>Average Across all States</i>	6.25

(Source: Sales Tax Clearinghouse; Rates are average across all counties within each state)

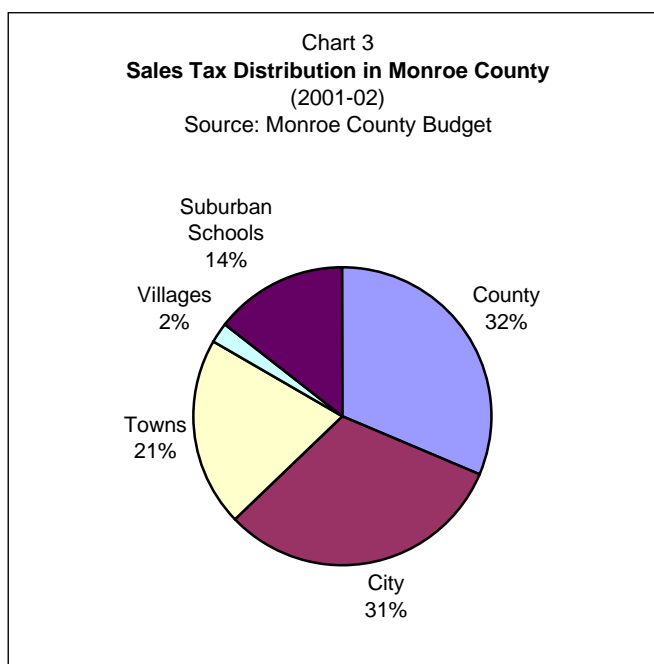
Property taxes and the local sales tax account for 41% of the revenue collected by local governments and school districts (Chart 1). However, school districts are more heavily reliant on property taxes as a primary source of revenue; in fact, almost two-thirds of the local property tax burden (\$610 million out of approximately \$1 billion total) is collected to support local school districts.



Real property taxes account for the largest share of the local tax burden, but where do those revenues go? Chart 2 illustrates that 60 cents per dollar of local property taxes flow to school districts (more than \$600 million total), while 38 cents flow to the community's county, city, town and village governments.



The second largest locally-originating source of tax revenue for the community's local governments is sales tax. As indicated in Chart 3, the county and city together receive nearly two-thirds of the sales tax take locally, with towns, villages and suburban schools receiving a combined 37 percent. Last fiscal year, this local share of sales tax topped \$281 million.



Local taxes are often cited as one of the primary factors that affect the business climate in a community, because taxes are a cost of doing business. New York state taxes are among the highest in the country, as shown in Table 3, which lists the tax burdens in the nation's largest states. The cost of doing business in New York State, including the community of Monroe, is one of the contributing factors to our severe job loss.

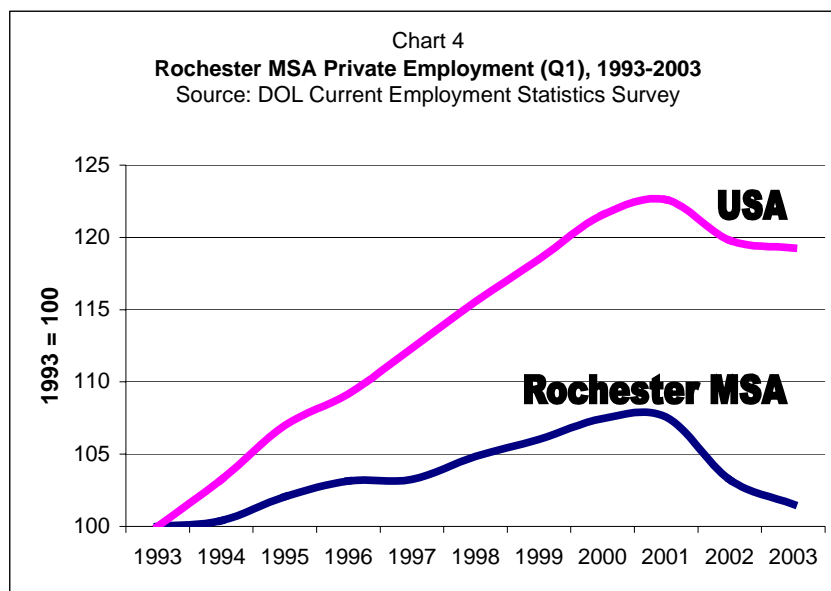
Ranking	State	Per Capita Taxes
<b>1</b>	<b><i>New York</i></b>	<b><i>\$4,578</i></b>
2	New Jersey	\$3,903
3	California	\$3,545
4	Illinois	\$3,241
5	Michigan	\$3,167
6	Ohio	\$3,016
7	Pennsylvania	\$2,979
8	Georgia	\$2,841
9	Florida	\$2,624
10	Texas	\$2,505

(Source: Census Bureau; Public Policy Institute of NYS)

### *Severe Job Loss*

Job creation in the Rochester metro area has consistently lagged the rest of the nation over the past 10 years. The metropolitan area lost nearly 10,000 jobs between Q1 2002 and Q1 2003, a 1.8 percent decline. That rate of loss was more than three times the state average of 0.5 percent, and the worst performance among New York state metropolitan areas with the sole exception of Binghamton. The trend has not abated in 2003 – the Rochester metro area lost jobs at a rate of 3.4 percent from Q4 2002 to Q1 2003, still second worst only to Binghamton. Over the last year, the region has shed 3,500 jobs in the manufacturing industry alone, more than 8 percent of the total manufacturing base. The Rochester metro area ranked 268<sup>th</sup> out of 284 metro areas for January 2002-2003 employment growth. The recent downward turn presented in Chart 4 illustrates the scope of the current problem.

Stemming the tide of this decline and ensuring that the current trend does not continue unabated is vital to the future economic and fiscal health of the community of Monroe.



## The Challenge for Local Governments

Thus, the immediate challenge facing local government is to identify ways to reduce costs. In November 2002, the Blue Ribbon Commission on Monroe County Finances defined the challenge this way: “All of the local governments in the county are involved and have something to lose ... They will need to work together to manage the expense base ... The effort to manage the expense base will require a broad based cooperative effort to consolidate and coordinate activities and services ... All jurisdictions ... need to seriously commit to this process.”

Local governments in the community of Monroe face difficult choices in the current economic climate. They are confronting rising service costs driven by personnel, capital equipment and rapidly growing employee benefit expenses. Yet local governments need to run their businesses without sacrificing the community’s ability to compete in the international marketplace for businesses and jobs. To counter the tide of increasing costs, local governments have a limited number of options.

- ***Generate revenue through increasing taxes and/or borrowing money.*** Both options, however, have the potential to hurt this area’s short- and long-term growth

prospects, by making it more costly to do business and placing the public sector service network on shakier financial footing. The community of Monroe is already at a competitive disadvantage with other areas of the country because of a high level of debt weakening public creditworthiness (as noted by the bond rating agencies) and a tax burden that is already relatively high.

- ***Seek additional revenue from the state or federal governments.*** Three factors suggest diminished prospects for financial assistance from these sources. First, New York State is facing its own multi-billion dollar fiscal crisis. Second, the federal government is projected to run multi-hundred billion-dollar deficits for at least the next several years. Third, New York has lost seats in the House of Representatives – its delegation down to 29 seats, a 15 percent reduction from 1980 – due to population shifts to high growth states.
- ***Reduce services.*** In an era where quality of life and levels of service are selling points in a competitive market, cutting the type or level of public services can be counter-productive. Reducing service levels in the long run has the potential to degrade a community's quality of life and viability, making it a less attractive place to live and do business. Both the City of Rochester and Monroe County have had to make difficult decisions to reduce service levels in a number of areas, and groups affected by these changes have voiced legitimate concerns about the impact of more cuts.

If borrowing and raising taxes are undesirable responses, and reducing services is a limited response to the economic and fiscal challenges facing local governments, what options remain? There are two key strategies that can be pursued.

- ***Operate more efficiently.*** This option means providing services better, cheaper, faster. It means eliminating duplicative functions, structures and approaches that waste public dollars and stretching the tax dollar farther so that

the community can continue to afford the services that support the quality of life the area has come to expect.

- ***Reduce the impact of mandates.*** Mandates are estimated to affect over 70% of the costs of local government in the community of Monroe. Unfunded mandates, primarily imposed by state government (especially social service mandates), directly add to the costs of every level of government in Monroe County. Mandates that impede the ability of local government managers to run their businesses cost effectively are also a major factor driving expenses – mandates like New York’s Wicks Law and Taylor Law, which constrain localities’ ability to manage contractual and bargaining processes more cost effectively.

## What the Report Addresses

This report is intended to be a starting point for moving forward to make the changes required to reduce the cost of local governments through inter-governmental cooperation beyond the efforts that have been made to date.

Certainly, as a result of local government initiatives over the past decades, numerous initiatives for intergovernmental cooperation have resulted in more efficient delivery of services in many functional areas. In key functions such as water, sewers, public safety training and emergency communications, the community has moved in varying degrees toward full consolidation of services through one regional agency.

These functional consolidations are consistent with the two-tier government framework developed by the GRIP-NAPA (Greater Rochester Intergovernmental Panel/ National Academy of Public Administration) project in the early 1970s. The underlying premise of the two-tier model, which the Rump/COG Group endorses, is to retain core local government entities to provide the services desired by local communities, while having the highest level of government (i.e. at the county level) deliver services that are common to governments throughout the area and can most efficiently and effectively be provided by a single county-wide entity.

In the thirty years since the GRIP-NAPA report, the community of Monroe has consolidated a number of functions. Most of these have occurred incrementally, on an evolutionary basis, after an initial central agency was put in place as a catalyst for change (for example, Monroe County Water Authority, Monroe County Pure Waters Agency, 911/Office of Emergency Communications, Public Safety Training Academy).

***Still, many additional opportunities remain to reduce the cost of providing local government services by using efficiencies of scale without reducing service quality.*** The strategies to achieve these savings are to ***cooperate, collaborate and consolidate***, within the framework of the two-tier model of regional governance.

This study is not intended to be a comprehensive review of all potential opportunities for improvement; for example, schools are not included in the analysis, nor are operational (departmental management) efficiencies. Rather, this report identifies examples of the types of efficiency opportunities that could be accomplished by specific actions of local governments working together in functional service areas under their control. This report focuses on expenditures by local governments, since the objective is to identify ways to reduce the total cost of government, not simply net local costs.

## Short Term and Long Term Opportunities

Cooperation and collaboration opportunities have been, and will continue to be, accomplished among groups of two or more governments, working together, to pool resources and achieve economies of scale, without requiring a change in any structure of government. For example, six entities (the Village of Fairport, Town of Perinton, Fairport School District and two fire districts and an ambulance corps) share two vehicle-fueling facilities. As another example, all local governments in Monroe County use the Monroe County highway materials bid to take advantage of volume prices.

***Because they do not require significant structural changes, cooperation and collaboration opportunities are the most likely means of reducing costs (achieving results) in the short run (a year or less).***

Consolidation opportunities typically involve changing one or more structures or organizations in local government. Home rule legislation, the desire to retain local autonomy and control, and the precedents created by laws and past practices restrict the ability to consolidate operations in New York. For example, to consolidate water operations, a new entity needed to be created – the Monroe County Water Authority. Over time, most municipal water operations have been turned over by individual governments and consolidated into MCWA. As another example, the Office of Emergency Communications was created as a new governmental entity, which allowed individual governments to eliminate call center costs from their individual budgets over time.

*Because they are likely to require structural changes, i.e. changes in fundamental laws and/or the way one or more local governments are organized, consolidation opportunities are more likely to require a longer time horizon to produce cost savings, i.e. savings will happen in the long run (after a year or more).*

One topic that the Group discussed in detail was the question of the benefits of pursuing a complete merger of the city and county governments. Because together they represent over 80% of local government expenditures, it seems reasonable to speculate that substantial savings might be achieved by merging the two entities. Without more detailed study, it is not clear what level of savings might be achieved from such a merger in Monroe County. In any event, the substantial legal and political challenges to carry out a structural change of the size and scope required to merge the City of Rochester and Monroe County caused the Rump/COG Group to assume that the time horizon for such an event to occur would be much longer than the time horizon for more achievable changes. Therefore, the Group believes that the community would be better served by focusing on the functional cost savings proposed in this report at this time.

## **Setting Priorities for Action**

The Rump/COG Group recommends that the community pursue long term as well as short term efficiency opportunities, in order to make significant changes in the underlying cost structure of local government in the community of Monroe. While it is tempting to focus only on those short term opportunities which can be

achieved through cooperation and collaboration, structural changes in the way certain functions are provided are likely to offer significant opportunities for achieving cost efficiencies.

*Thus, the Rump/COG Group recommends setting steps in motion to achieve both short term and long term changes.*

As a starting point, the Rump/COG Group recommends taking action in three functional areas for which cost reductions have been estimated for this report. The Group also recommends taking action in four other areas for which specific cost reductions could not be identified at this time, but which should be pursued because they are major factors in the cost of government in the community. The Group also identified a list of opportunities that should be systematically reviewed during the rest of this year, to identify the next set of priorities for action.

### **Three Functional Areas for Action**

*The Rump/COG Group recommends starting with three functional areas: purchasing insurance coverage, providing water, and delivering fire protection, where CGR estimates making changes could save the community from \$3.1 to \$5.7 million per year.* Steps to make these changes could be set in motion immediately, although results would be achieved at different times in the future, because of the strategies required to achieve the savings. For example, local governments could develop a cooperative strategy for purchasing insurance that could be achieved as soon as current contracts expire, not requiring any fundamental structural changes in local governments. At the other end of the spectrum, the Group believes that the community could re-think the way fire protection services will be provided in the future. This would require developing a community-wide strategic plan for providing fire protection services more efficiently, which would be implemented over a number of years.

### **Four Other Areas for Action**

*The Group also believes that the community should initiate action to streamline and consolidate economic development services, reduce the cost of mandates on local governments, address the cost of social services and address the cost of local schools.* This report does not estimate local cost savings that might result from these actions, however, social services represent over 25% of the total cost of local government in the community of Monroe, mandates are estimated to be a factor in

over \$1 billion of the cost of local government, and local schools cost over \$1.6 billion, so even small percentage cost reductions will save millions of dollars in the community. While creating a consolidated economic development agency for the community might well reduce costs, equally important is the need to create a single unified approach to marketing and economic development activities. Steps to initiate these actions could be set in motion immediately, but because potential changes would likely entail structural changes and/or changes in the law, results would not be anticipated until the long term.

## **To Be Reviewed Next**

The analysis of local government expenditures in Table 4 identifies 24 general functional categories of expense (as defined by the State Comptroller) where more than half (sixteen or more) of local governments spent money in the last fiscal year. These represent potential opportunities for cost savings through cooperation, collaboration or consolidation.

Four categories were reviewed in detail for this report: insurance (benefits), water, fire protection services and economic development, and immediate action is recommended for these areas. The Rump/COG Group will continue meeting on a regular basis, to systematically evaluate opportunities and develop action plans for some or all of the functional categories. The next six functions to be reviewed, based upon total expenditures, would be: law enforcement, highway/public works, debt service, shared administrative services, special services, and sewage collection and treatment. The Group intends to prepare a report for the community on cost reduction opportunities in these six areas as the next phase of the project, as well as a detailed analysis of the cost and service opportunities from a merged city/county government. Additional functions can be pursued in subsequent phases.

TABLE 4  
Last FY Expenditure by Monroe County & Local Governments  
Functional Areas with more than Half of Local Governments Spending

	Total Countywide Expenditure (\$Millions)	Percent of All Spending
Law Enforcement	180.6	10.4%
Highway	125.0	7.2%
Debt Service	101.3	5.8%
Fire	77.7	4.5%
Water	71.7	4.1%
Shared Services	68.3	3.9%
Benefits	56.0	3.2%
Special Items	51.4	3.0%
Sewage	49.8	2.9%
Other Protective	46.3	2.7%
Staff	42.1	2.4%
Recreation	40.2	2.3%
Culture	37.7	2.2%
Judicial	32.2	1.9%
Sanitation	31.9	1.8%
Finance	19.0	1.1%
Economic Opport.	13.7	0.8%
General Environmt	7.5	0.4%
Traffic Control	6.4	0.4%
Executive	4.4	0.3%
Special Services	3.9	0.2%
Legislative	3.8	0.2%
Environment	3.8	0.2%
Animal Control	0.9	0.1%
<i>TOTAL of Above</i>	<i>1,075.9</i>	<i>62.0%</i>
TOTAL (All Expenditures)	1,736.0	

Source: Office of State Comptroller

## Implementation Plan

Table 5 summarizes the Rump/COG Group's recommended action plan for each of the functional areas discussed in this report. The Group understands that making these changes will require leaders in the community to step forward and become advocates for change. The Group recognizes the need to involve those organizations that are most affected in the change process. For example, the Group plans to invite local fire officials and school districts to actively participate in developing options for improvement in their areas. This will also require planning up-front, to manage the change process, and accountability down-the-road, to measure and report the impact of these changes to the

community. The Group intends to identify advocates and push for these changes during the coming months.

Function	When to Initiate Action	Results Expected Within One Year	Results Expected After One Year
Purchase of Insurance	Immediate	X	
Water Services	Immediate	X	X
Fire Services	Immediate		X
Economic Development	Immediate	X	X
Mandate Relief	Immediate		X
Social Services	Immediate	X	X
Local Schools	Immediate		X
City/County Merger	Next Phase	To Be Determined	
Law Enforcement	Next Phase	To Be Determined	
Highway/DPW	Next Phase	To Be Determined	
Debt Service	Next Phase	To Be Determined	
Shared Admin Services	Next Phase	To Be Determined	
Special Services	Next Phase	To Be Determined	
Sewage Collection/Treatmt	Next Phase	To Be Determined	

## Conclusion

The combined cost of all the services provided by local governments in Monroe County, excluding schools, is more than \$1.7 billion each year. In this context, even seemingly minor reductions in the cost of doing the business of local government can be significant. Efficiency studies typically set a 2% goal for annual cost savings that should be achievable by continuously improving operations. If the community's local governments could cut the cost of local government by that 2 percent, taxpayers in the community would save over \$34 million annually.