MEMORANDUM

TO: General Public of Onondaga County
FROM: Lindsey Callahan, Julia Pasquale & Jason Mehta
SUBJECT: Consolidation Analysis - Impact on Financing Capabilities
DATE: May 5, 2017

Introduction

This memo is one part of a series of analyses that seek to answer whether or not the City of Syracuse and Onondaga County are "better together." Specifically, we assess the financing capabilities of the city and county should they move forward with the merger. We look at these capabilities through the lens of credit ratings. We then assess whether changes in financing capabilities will have equitable impacts on both city and county residents. Ultimately, we conclude that the consolidated city-county government should expect its credit ratings to be positively affected as a result of the merger. However, it is difficult to say whether or not all residents will benefit equally from improved credit ratings, as projects taken on with these improved financing capabilities seem to have inequitably distributed financial burden among residents in similar city-county consolidations.

Financing Ability - Impact of Consolidation on Credit Ratings

Credit ratings assess the creditworthiness of a bond issuer. Rating agencies (Standard and Poors, Moody's, and Fitch) can be hired to assign a credit rating to a private or public organization to make it faster and easier for market participants to evaluate risk (Bojinov 2011). The better an organization's credit rating, the lower its borrowing costs. Lower-rated bonds mean that organizations have to pay higher interest rates to investors (Farmer 2015).

Each municipality gets a credit rating if they purchase the service from one of the credit rating agencies. Rating agencies take into account all of the economic characteristics of the issuer and the bond issue. The goal of these rating scales is to predict default through evaluating the economic well-being of the area; evaluating median income, dependence on particular industries, diversified tax base, and population growth amongst other factors.

The three rating agencies (S&P, Moody's, and Fitch) have different rating schedules. On an ongoing basis, Moody's and S&P will evaluate bond issuers to determine if that government needs to be upgraded or downgraded. When a bond issuer is downgraded, the yield on the bonds from that issuer will usually go up; this is to compensate prospective buyers of the bonds for a perceived increase in risk reflective of the lowered rating (Bojinov 2011).

The Consensus report cites a Moody's review that evaluated consolidations, with the example of New Jersey's Princeton borough and Princeton Township as credit positives. Before the merger took place, the borough had a rating of AA+ and the township had an AAA, both given by S&P. A major uncertainty that the township had was whether consolidated finances would affect their credit rating. The borough and township merged in January of 2013, and in November of that year, they received the credit rating of AAA from S&P (Offredo 2013). A similar effect happened in the Louisville and Jefferson County merger too.

In June of 2016, Fitch ratings assigned an AAA rating to Onondaga County General Obligation Bonds for $26.5 million to finance various capital purposes. In their report, Fitch stated that the outlook for Onondaga County was stable. "The AAA rating reflects the county's underlying economic and demographic stability, conservative budget management, and a low long-term liability

burden." The City of Syracuse serves as the economic center of the region, but has a lower credit rating of A with a stable outlook given by Fitch. Like Fitch, the S&P and Moody evaluations gave the City of Syracuse a stable outlook. In the 2013 Fiscal Profile report distributed by the New York State Comptroller's Office, a recent Moody's report was cited, stating that the City's debt burden was high and likely to stay that way. It also said, that the City regularly borrows for short-term cash flow purposes. For similar reasons, S&P rated Syracuse an A- rating, indicating a strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances. Despite these lower ratings, Syracuse has been improving in recent years. In 2015, Moody's maintained an A1 rating for Syracuse but changed the outlook to stable from negative (Knauss 2015). Analysts noted that cost cutting has enabled the city administration to spend less of the fund balance than anticipated in recent years. But the city expects to continue using up its reserves to pay the bills in future years, mainly a result of pension and healthcare expenses. If the projected deficits happen, then the City could have trouble maintaining its good credit (Knauss 2015).

In today's world, investors do not care as much about credit ratings as they used to (Farmer 2015). Since the market crash, credit rating agencies' images have suffered greatly. Not only were they blamed for aiding the crisis, their credibility continues to suffer when different rating agencies do not give similar ratings to the same governments. Today 40 percent of all municipalities that have ratings from different agencies have a split rating (Farmer 2015). The rating firms attribute this difference to different rating approaches. As a result, a rating is often a good place for investors to start, but it does not dictate the kind of reception a government will actually get in the municipal market.

The City of Syracuse has a lower credit rating than Onondaga County. Given the evidence of other city and county mergers, there is reason to believe that the overall credit rating after the merger will be equal to the rating that Onondaga County has now. A higher rating will save additional funds (although how much is unclear) that the city would have spent trying to finance projects, although the city would no longer be able to pick/finance their own projects if they consolidate.

IMPROVED FINANCING CAPABILITIES - WHO BENEFITS?

Should the City of Syracuse and Onondaga County merge, we believe the consolidated government will have credit ratings equal to those that Onondaga County has now. Some may assume that city residents will benefit the most from consolidation financially, given that their credit ratings improve whereas county ratings remain the same. However, similar consolidations demonstrate that determining these benefits is complicated; past cases indicate that improved capabilities are often used to fund projects that benefit all residents but that place more burden on central city residents. In other words, while ratings may remain unchanged for a pre-consolidated city or county, a consolidated government has a larger tax base and can finance projects that once may not have been possible. This is often portrayed as a beneficial change in terms of the economic development capabilities of the newly consolidated government.

Indianapolis-Marion County Consolidation

The formation of Unigov in 1969 expanded Marion County's financing capabilities. The city-county merger increased the county's assessed valuation and thus raised the debt limit available to Indianapolis (Blomquist and Parks). Additionally, the consolidated government maintained

favorable bond ratings and acquired greater insurance coverage at lower premiums, making it cheaper and easier to borrow money. All of this enabled Unigov to undertake capital projects that might otherwise have been difficult to fund (Blomquist and Parks).

The residents from surrounding suburbs appear to have benefited more from these improved financing capabilities that those from the central city. Downtown Indianapolis experienced an impressive revitalization after the formation of Unigov. However, "the partial consolidation of Marion County's tax bases precluded the use of more progressive and equitable means for financing the redevelopment plan," (Rosentraub). The central city residents sustained a great deal of the financial burden associated with rebuilding the downtown, while the suburbs enjoyed much of the investment benefits (Savitch, Vogel, and Ye). For instance, many of these projects expanded nonprofit institutions and displaced private residences in the city center. While this was "beneficial" in terms of the downtown's revitalization effort, it effectively made the city center's tax base smaller, forcing residents to pay more for the same city services (Rosentraub).

Louisville-Jefferson County Consolidation

Like the Unigov case, the consolidation of Louisville and Jefferson County (Metro) in 2001 improved the government's financing capabilities. Also like the Unigov case, the merger was a partial one, where the region has a unified governing body, but separate tax structure. As a result of the consolidation, Metro's overall fiscal health generally improved, though it is hard to generalize because of these separate tax structures (Kelly and Adhikari). The solvency of the city improved, and so did Metro's credit ratings, with the government obtaining an AA+ from Moody's in 2004 and improving still more with AAA in 2010 (Kelly and Adhikari). This enabled Metro to take on

projects that effectively brought much investment to the economic core of the city, and little to the inner-city residential neighborhoods (Levine).

Metro's combined resources were, like Unigov's, used to develop the downtown and enhance tourism, and they did have a positive impact (Levine). However, as was also true with Unigov, suburban residents enjoyed much of the investment benefits. Furthermore, much public policy was geared towards building bridges and malls, which "promote sprawl, decentralize jobs, and bolster land values in one area to the detriment of values elsewhere," (Savitch, Vogel, and Ye). Inner-city residential neighborhoods in Louisville saw no such development.

Perhaps consolidation was the impetus that spurred downtown revitalization efforts in both of these metropolitan areas, but there is scant evidence that demonstrates that such development *would not* have happened had these governments not consolidated. In fact, a study in 2008 analyzed 195 consolidated and unconsolidated American cities and found no convincing evidence to support that consolidation positively affects economic development. There was also no evidence found to suggest that fragmentation inhibits economic growth (Yasuoka). Such studies highlight two important factors to consider in our own analysis: (1) While Indianapolis and Louisville did experience downtown revitalizations, we should not immediately conclude that they positively affected economic development, and (2) We cannot easily extend the findings of the Indianapolis and Louisville cases to other consolidation efforts.

DEBTS DISTRICTS

In the case of Syracuse, this question of "who benefits?" is even more complicated by the addition of a debt district (Murphy, Richardson, Walsh). A form of special district, a debt district

would mean all existing debts for the city of Syracuse would remain localized within the city. Debt is a major consideration in combining local governments. In order to spread the cost of capital projects, governments typically borrow funds. Since such projects benefit future taxpayers, debt supports generational equity within a locality. However, in cases of consolidation, debt can be transferred to taxpayers who did not previously benefit from the capital project/service but who now have access to it. More importantly, consolidation addresses the key challenge of free-riding. Suburban commuters contribute to the wearing down of city infrastructure, yet do not see this strain reflected in their taxes. In theory, consolidation would allow these taxes to be collected and thereby distribute costs more equitably across the greater metropolitan area. Under Consensus' vision of consolidation, debt would instead remain where it was incurred (Fahey; Murphy, Richardson, Walsh; Warner). This fails to take into account the outflow of resources from the city. Syracuse taxpayers would no longer be the sole beneficiaries; yet they would still be required to cover the costs even as the assets of the city become available for widespread use.

One of the main arguments for Consensus is that it would lift many financial burdens off of the city, allowing it to finally take on critical infrastructure projects and begin major revitalization efforts. As a debt district however, Syracuse would still be impacted by its existing burdens, even as the county benefits from greater access to resources. Under the current plan, the Onondaga County would be able to have all of the benefits of consolidating Syracuse with none of the challenges.

Under the Consensus Model, the Common Council would be replaced with a legislative body representing the county with a county executive at the head and a separate, appointed deputy county executive who would be primarily tasked with overseeing the debt district (Murphy, Richardson, Walsh). As a form of special tax district, the debt district would mean city assets such as

parking garages would be shared but the liability (in this case, cost of building and maintaining the parking garages) would remain on the shoulders of Syracuse taxpayers. More importantly, the two greatest challenges facing the city, school funding and legacy employment costs, would go unaddressed (Warner). Rather than spreading out these costs among a new county tax base, the city would suffer from an inequitable consolidation that requires them to hand over their assets but keep their debt.

This is not an intentional targeting of the city by the Consensus report, but rather a structural requirement due to legislation passed by the State's government. Under New York State law, a dissolving or consolidating municipality cannot pass on its debt to the entire county or unincorporated area. This means that consolidation efforts will in actuality fail to have their proposed effect. The heart of the issue remains Syracuse's outstanding debts, specifically its unfunded pensions and legacy costs. While future debt will instead be issued to the county, the existing burden on the city have no way of being spread out. A more realistic approach would be to share both assets and liabilities, strengthening the tax base and growth power of both the county and the city. Regional debt left on the books of the City is a historical throw-back to the period when all the resources were located in the City and the suburban area was mainly rural. Rather than turn Syracuse into a debt district, existing city facilities could be "sold" to the metro government with the City recovering the equity and even, a negotiable portion of operating expense. The metro government would issue debt to cover the transaction. In so doing, the consolidated region would be assuming the debt that it should have had all along for using city resources.

RECOMMENDATIONS

With regards to financing capabilities, can we say that the City of Syracuse and Onondaga

County are "better together?" As we have shown, the answer clearly depends on how we interpret benefits. We agree with the Consensus report's claims that the consolidated government will benefit in terms of credit ratings, specifically with ratings equal to those that Onondaga County has now. This is beneficial to Syracuse because the city's credit ratings will improve, and this is beneficial for the county because they will have a larger tax base, allowing them to take on larger projects. It is at this point where the idea of benefits becomes complicated. Similar consolidations demonstrate that the assumption that central cities stand to gain much more from improved financing capabilities may not be entirely accurate. If central city residents face a higher tax burden than suburban residents as a result of these projects, detracting from other important public services, this assumption is not valid.

The Consensus report affirms that the consolidation will be fair in terms of debt burden, that the consolidated government will maintain debt districts. However, if the community seeks to fairly distribute debt, a closer analysis should be given to the fair distributions of benefits. So, how can we define or distribute these benefits? Sharing assets and liabilities is not only the most equitable option, but one that will bring up the city alongside the county. How this language is couched however, is critical. Rather than arguing that the debt burden be spread across county taxpayers, contending that taxes should instead reflect usage of city resources would be a more tactful approach. Insisting that county residents suddenly take on debt would be unlikely to pass through the state legislature. By instead arguing that county taxes need to be readjusted to reflect the new flow of resources, the debt issue is resolved without mentioning the word.

We thus recommend that policymakers focus on the fair distribution of benefits because past consolidations have only been successful when prior debt was clearly kept separate (Leland and

Thurmaier). Inequitable benefits can be addressed through different means other than debt. The redesign of the tax-service structure can address jurisdictional spillovers that generate inefficiencies and inequities within an urban region (Vojnovic). Debt districts can function within a fairly functioning government consolidation, but this involves, "...establishing a clear relationship between the beneficiaries of the service and those responsible for the costs..." (Vojnovic). We thus believe that focusing on the consolidated government's tax structure, with the aim of making sure that it reflects a fair distribution of benefits, will be the way to move forward with Consensus' proposal.

ANNOTATED BIBLIOGRAPHY

Anderson, Michelle Wilde. "Dissolving Cities." *The Yale Law Journal* 121.6 (2012): 1364-446. Web. 5 May 2017.

> In a thorough analysis of the issue, Anderson discusses the history and legislative implications of municipal dissolution. Drawing upon examples of consolidation/dissolution within other metropolitan regions of the US, this piece specifically touches on the challenge of consolidation within the state of New York. Anderson provides a thorough discussion of the law, theory, and urban history surrounding consolidation in New York.. The piece concludes by questioning whether or not local government fragmentation is truly the step forward it is often touted as. Anderson asks the hard question of how governance, taxes, race, and community can contribute to the decline and ultimate death of a city.

Blomquist, William , and Roger B. Parks. "Fiscal, Service, and Political Impacts of Indianapolis-Marion County's Unigov." Publius 25.4 (1995): 37-54. Oxford Journals. Web. 15 Mar. 2017.

> The authors, researchers from Indiana University, compile all available evidence as of 1995 to provide an overview of the successes and shortcomings of Unigov, analyzing service delivery and performance, public finance, economic development, and voter participation. This comprehensive analysis highlights the relativity of the word "success" when discussing consolidation.

Bojinov, Stoyan. "Understanding Bond Rating." *MunicipalBonds.com*. 20 Aug. 2011. Web.

> This article was written to give a brief overview about what goes into bond ratings and the different rating agencies. It was published by Mitre Media, a financial consulting agency in Canada. It briefly discusses the metrics used for the ratings, such as the examination of median income, dependent industries, and population diversity. It also discusses what each rating means, such that is distinguishes the creditworthiness of a bond issuer and where the breakoff point is for likely to default.

Fahey, Joe. "Syracuse's top lawyer: Merging city, county would dilute minority vote.". Post-Standard,

22 February 2017. Web.

In an online opinion piece, former county judge and current Interim Corporation Counsel for the city of Syracuse Joe Fahey discusses the impact of government consolidation on representation. He contends that there is no evidence to support claims that a merger would both improve quality of services while reducing costs. He further states that the consolidated government is structured in a manner such that the citizens of Syracuse would lose their representative voice. The article supports these statements by citing a study and commentary piece critiquing the Louisville-Jefferson merger. This piece concludes by reiterating that the new legislative body would fail to represent the growing minority base within the city.

Farmer, Liz. "Do Credit Ratings Matter Anymore?" *Governing*. N.p., Jan. 2015. Web.

This article was written for Governing Magazine. Governing Magazine is aimed towards practitioners in government organizations. This piece was written to question the importance of credit ratings. Credit ratings are meant to give investors an idea of how likely a bond issuer is to default, but do investors actually care? The author discusses that since the stock market crash, these credit rating agencies have lost their credibility. Many times different credit agencies give very different ratings pertaining to the same bond issuer, this is the result of inconsistent rating mechanisms across the agencies, thus making it more difficult for investors to understand the risk.

Fitch Rates Onondaga County, NY's GO Bonds 'AAA' ; Outlook Stable. Rep. Fitch Ratings, 14 June 2016. Web.

This is a rating report produced by Fitch Ratings. It discusses the current financial state of Onondaga County and that it has a stable outlook. It discusses what reasoning went into this decision, including who the major employers were and the impact of the City of Syracuse. It discusses how the county basically needs the City because that is where the major employers are located, and without those employers the unemployment rate in the city would not be as well off.

Kelly, Janet M., and Sarin Adhikari. "Indicators Of Financial Condition In Pre- And Post-Merger Louisville." Journal of Urban Affairs 35.5 (2012): 553-67. Wiley Online Library. Web. 15 Mar. 2017.

The University of Louisville researchers perform various ratio analyses, commonly used in the private sector, to assess whether the merged government was financially healthier after the merger. They take their analysis further and also employ quasi-experimental designs, like interrupted time series, to test the hypothesis that the consolidation had no significant financial impact at all. This study provides a purely empirical analysis that highlights some direct, numerical changes to the consolidated government's finances.

Knauss, Tim. "Wall Street Maintains 'A' Credit Ratings for Syracuse, with Wary Eye on the Future." *Syracuse.com*. Advance Media New York, 08 May 2015. Web.

This article was written as a commentary on the credit rating for the City of Syracuse. It discusses how the city has been improving over the past few years by establishing cost savings initiatives, but that the long term financial outlook for the city is still uncertain. The city continues having to borrow funds to finance its operations because the amount of revenue it takes in is not sufficient to cover its expenses. Much like any government the main funding issues are a result of the pension and healthcare expenses. Since these large expenses are very difficult, if not impossible to reduce, the city is stuck and down the line its credit rating may begin to suffer as a result.

Leland, Suzanne, and Kurt Thurmaier. "When Efficiency Is Unbelievable: Normative Lessons from 30 Years of City-County Consolidations." Public Administration Review 65.4 (n.d.): 475-89. Wiley Online Library. Web. 15 Mar. 2017.

This academic study analyzes 12 local government consolidation attempt within the past 30 years. Leland et al. explore the the various arguments for consolidation and the variables that determine why some consolidations are successful and others fail. This piece finds that arguments for increased equity between suburban and city populations and increased efficiency fail. Successful arguments occur when civic elites develop an economic development vision that the current political structure can support and will benefit the greater community.

Levine, Myron A. Urban politics: cities and suburbs in a global age. New York: Routledge, 2015. Print.

This source is a textbook on urban governance and politics that is used in another Maxwell course. Levine is a well-known scholar in the field of urban affairs and local government collaboration, and his book provides context as to how one should be thinking about and tackling issues surrounding local government consolidations.

Murphy, Cornelius B., M. Catherine Richardson, and James T. Walsh. *Final Report of the Commission on Local Government Modernization: Consensus*. Rep. CGR, Feb. 2017. Web.

The consensus report was written by a volunteer group of city and county officials from Syracuse and Onondaga county. The report advocated for the consolidation of the city and county. The main concern illustrated in this document was the financial uncertainty of the city because it is financially unstable and may be forced into having a state financial control board if things do not change. In terms of financing capabilities, this report argues that neither the city or county will find their financing capabilities to diminish because the higher credit rating of the county will supersede that of the city and thus, together they will benefit from having lower interest rates.

New York (State). Office of the State Comptroller. Division of Local Government & School Accountability. *2013 Fiscal Profile, City of Syracuse*. By Thomas P. DiNapoli. Web.

This is a financial analysis of the City of Syracuse, put together by the Office of the New York State Comptroller. This discusses many of the financial uncertainties and problems with the city. It gives credit to the city for having a stable tax base, but that it relies heavily on unstable sales tax revenue. The city has a high debt burden and relies on debt for short-term cash flow purposes. Given these conditions it is susceptible to adverse economic conditions.

Offredo, Jon. "Princeton Receives AAA Bond Rating After Consolidation." *The Times of Trenton*. 05 Nov. 2013. Web.

This article is from a newspaper, and discusses that aftermath effects of consolidation between the Princeton Borough and Township in New Jersey. The author discusses the concern over the uncertainty of the consolidation impact on financing capabilities. After the consolidation, the townships credit rating did not go down. High credit ratings indicate good fiscal health, which reflected the township's ability to maintain good fiscal health despite consolidating with the borough that had a lower credit rating.

Rosentraub, M. S. "City-County Consolidation and the Rebuilding of Image: The Fiscal Lessons from Indianapolis's UniGov Program." State and Local Government Review 32.3 (2000): 180-91.

SAGE Journals. Web. 15 Mar. 2017.

The author, a renowned scholar with various publications regarding economic development and urban decline, analyzes the success of Unigov through the lens of Unigov's goal to revamp the image of the city and to rebuild the downtown. Although this goal is widely thought to have been achieved, Rosentraub points out structural incongruencies in the consolidation that make the burden that comes with such redevelopment inequitably distributed.

Savitch, H.V., R. K. Vogel, and L. Ye. "Beyond the Rhetoric: Lessons From Louisville's Consolidation." The American Review of Public Administration 40.1 (2009): 3-28. SAGE Journals. Web. 15 Mar. 2017.

Savitch and Vogel (from the University of Louisville) and Ye (from Roosevelt University) compare data from pre-merged and post-merged Louisville over a full 8-year period. The authors look at what politicians said to promote consolidation, and they then compare Louisville to itself before and after to see if these assertions came to pass. As such, the authors define "success" as whether or not results coincided with the results that were promised and that motivated residents to vote in favor of consolidation.

Vojnovic, Igor . "Municipal Consolidation, Regional Planning and Fiscal Accountability: The Recent Experience in Two Maritime Provinces." Canadian Journal of Regional Science 23.1 (2000): 49-72. Canadian Journal of Regional Science. Web. 15 Mar. 2017.

A scholar who focuses on urban redevelopment processes, Vojnovic's study analyzes fiscal accountability and whether or not local service provision is more equitable after consolidation, given the complicated nature of urban boundaries/spillover effects. While Vojnovic focuses on two rural-urban consolidation cases from Canada, his insight regarding angles from which we can address inequities is quite helpful for this paper.

Warner, Mildred E. "A more equitable Syracuse-Onondaga County merger plan could be a model for the Country". Post-Standard, 27 February 2017. Web.

In this news article, Cornell University professor of City and Regional Planning Mildred Warner provides a critical yet positive review of the Consensus report. Balancing local assets and voice with service sharing is seen as a step forward for the region, while concerns are raised about the debt district and lack of discussion on school consolidation. The article argues that rather than focusing on cost-savings, the narrative should emphasize the improvement in service quality, coordination, and equity. This piece cites several studies debunking cost-savings, and concludes by arguing that in order for consolidation to work and remain equitable, there must be a sharing of debt as well as assets.

Yasuoka, M. (2008). City-County Separation and Consolidation in the United States: The Impact on Urban Growth. The Japanese Journal of American Studies, 19, 177-196.

This study compares mean changes of various socioeconomic indicators among independent, consolidated, and other cities, specifically: population change, median household income, poverty rate, retail sales, crime rate, unemployment rate, and housing ownership rate. Because the author's definition of economic development includes so many different indicators (and because no specific counterfactual data exists specifically for our case studies), it serves as a counterfactual for our study.