MERGING DURING A TIME OF FISCAL CRISIS: A FINANCIAL CONDITION ANALYSIS OF THE AUGUSTA-RICHMOND CITY-COUNTY CONSOLIDATION

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ABSTRACT

City-county consolidation is an administrative reform prescribed to improve the fiscal health of local governments in the United States. However, city-county mergers are rare political events, and scholarship has presented mixed findings regarding the effectiveness of the reform as a fiscal tool. In the history of the nation, only around 40 cities and counties have merged, and this relatively small number imposes limitations on research into the phenomenon (Jespon, 2008). In this paper, we examine the effectiveness of consolidation in improving the fiscal health of local governments using a case study analysis, examining pre- and post-measures of fiscal health in Augusta, Georgia, in the period from 1990-2002. These measures were based on work by Rivenbark, Roenigk, and Allison (2010), Smith and Afonso (2016), and Kelly and Adhikari (2012). The findings from this study are of interest to public administrators regarding the effectiveness of city-county consolidation as a fiscal tool.

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The U.S. federal system is complex, consisting of more than 87,000 governmental units. This complexity causes confusion for citizens and makes it difficult for public organizations to take advantage of economies of scale. In attempting to address these problems, some administrative reformers have argued for city-county consolidation[15] as a means to cut costs. Proponents of consolidation argue that the reform reduces efficiencies and duplication of services, yields a more equitable provision of services throughout a county, and expands the tax base for local governments, especially in cases in which a central city is adjoined by suburban governments with wealthy tax bases (Leland & Thurmaier, 2005; Rusk, 1993, 1999; Smirnova & Ingalls, 2008). Only rarely, however, do such arguments convince local leaders and citizens to consolidate city and county governments; thus, in the nation's history, the process has been completed only 40 times (Jepson, 2008). The rarity of these political events makes it difficult for scholars to assess their efficacy.

Previous research on consolidation has demonstrated that the reform can improve local services and to eliminate redundant positions, but it has not provided evidence that consolidation reduces public expenditures (Carr & Feiock 2004; Taylor, Faulk, & Schaal, 2016). Yet while it may not improve the budgetary efficiency of local governments, consolidation has at least the potential to assist those that are struggling financially. We accordingly posed a research question asking about the efficacy of city and county consolidation for local governments that are suffering a fiscal crisis. To answer

[15] The National League of Cities (2016) has defined city-county consolidation as "A formal joining of a city (or cities) with a county (or counties) government. . . . The resulting unified body assumes the responsibilities of the city and the county" (see further www.nlc.org).

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this question, we analyzed financial data from before and after the consolidation of city and county governments.

In fact, few studies have investigated changes in the fiscal health of governments by comparing pre-merger and post-merger governmental units. One such study, by Kelly and Adhikari (2012), examined these data for the consolidation of Louisville and Jefferson County, Kentucky, but neither government had been experiencing a financial crisis at the time of the merger; and while gains were made in terms of financial health following this merger, many of the promises of efficiency did not materialize (Savitch, 2011; Savitch, Vogel, & Ye, 2012). Otherwise, little systematic analysis of the impact of consolidation on the financial health of public organizations has been published.

The present research effort was designed to help fill this gap by focusing specifically on the impact of consolidation on the financial health of a government in fiscal crisis. Using Augusta-Richmond County, Georgia, as a case study, we performed a pre- and post-merger financial condition analysis similar to the one performed by Kelly and Adhikari (2012). To be more specific, we built on these authors' work by replicating their design in order to study the effectiveness of consolidation in improving local financial health when one of the merged governments was experiencing a fiscal crisis. Data for this analysis were collected from the city of Augusta's Certified Annual Financial Reports (CAFRs) and other financial records in the period from 1989 to 2010.[16] Based on our review of the literature, which is discussed in the following section, we

[16] We thank Charles D. Taylor, Dagney Faulk, and Pamela Schaal of Ball State University for providing pre-merger data that they had collected from the City of Augusta's Department of Finance. We also thank Donna Williams and the Department for providing us with the additional financial records needed to complete this analysis.

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concluded that financial condition analysis has been underutilized in the literature on public organizations, despite the fact that this tool can assist in explaining the financial impact of consolidation on a jurisdiction in fiscal crisis.

The remainder of this paper is organized as follows. First, we briefly review the literature on mergers. We then describe the study area, Augusta-Richmond County, Georgia. Next, we describe the data and methodology that we used. We conclude by discussing the results of the analysis and its implications for public administration.

LITERATURE REVIEW

While most local governments in the United States enter into intergovernmental agreements to share the delivery of public services, few cities and counties have completely merged their operations (Zimmerman, 1973; LeRoux & Carr, 2007). There have, however, been numerous political campaigns to consolidate city and county governments across the country. The scholarly literature on consolidated governments accordingly consists mainly of case studies examining the political circumstances surrounding the defeat or success of campaigns for consolidation (Rosenbaum & Kammerer, 1974; Leland & Thurmaier, 2005). Thanks to the outstanding work of scholars in this field, the political forces behind consolidation have been brought to light. Given the relatively small number of merged city and county governments, though, it has been more difficult to describe the administrative effects of consolidation. The following discussion of the relevant literature will make clear our study's contribution to the understanding of these effects.

A considerable amount of this literature involves studies conducted in Georgia, in large part because, since

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1970, the state has witnessed more city and county consolidation referenda than any other (National League of Cities, 2016). Most states that allow for city and county consolidation require a local vote on the matter. While the economies of scale argument may be appealing to administrative experts, it has often proved unconvincing for citizens. As Leland and Thurmaier (2005) found, less than 15% of campaigns for city and county consolidation have been successful; the failure of the majority seems related to the radical shift in political power brought about by consolidation (cf. Rosenbaum & Kammerer, 1974).

As noted, the research on city and county consolidation offers a solid explanation for the frequent failure of efforts to merge local governments. According to the classic consolidation model developed by Rosenbaum and Kammerer (1974), mergers prevail only under certain rare circumstances in times of crisis, such as financial shortfalls, dramatic demographic changes, decreases in the quality and quantity of public series, or economic decline or physical blight in the core city. The inadequate response of local authorities to a crisis leads displeased civic elites to reject the local governmental structure, driving the consolidation debate and galvanizing public support for the reform.[17] From this perspective, addressing a local government's ineffectual responses to a crisis is a more compelling argument in favor of the reform than the potential gains in efficiency gains to be had from it.

Building on this approach, some researchers have attributed the failure of consolidation efforts to inadequate appreciation for the role of elites, insufficient grasp of the institutional context, or simply an ineffective charter campaign. Thus in developing their "3 Cs" model, Leland and Thurmaier (2004, 2005) identified a crisis climate as

[17] It is worth noting that increased efficiency was not a critical element of the Rosenbaum and Kammerer (1974) model.

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one of many variables favoring consolidation, along with support—or at least an absence of opposition—from elites or law enforcement, a strong political campaign, and making clear the economic development benefits.

While consolidation can lead to more efficiency through cost-saving and economies of scale (Campbell & Selden, 2000; Bunch & Strauss, 1992), realization of any savings is dependent on the design of the newly consolidated government's charter and the policy and management decisions of its elected and appointed officials. Each consolidation must be considered on a case-by-case basis and its fiscal impacts forecast based on the local context (Campbell & Selden, 2000). Lack of fiscal transparency, however, can make it difficult to determine whether apparent savings and/or improvements in fiscal health are real or illusory (Dollery & Worthington, 1996).

In the absence of transparency in local government, taxpayers may underestimate its costs and demand an increase in services, furthering financial decay (Leland & Thurmaier, 2004, 2005). In light of the tendency of labor costs to increase, policy makers and public administrators need to make tough choices to ensure that a merged government saves money in the short and longer term. However, consolidation often requires political agreements that protect city and county employees. Thus, for example, the charters of merged governments in Athens-Clarke County, Georgia, Miami-Dade County, Florida, and Lexington-Fayette County, Kentucky, mandated that no employees would lose their jobs as a result of consolidation and that employees in similar roles would receive uniform compensation (Durning, 1995; Hawkins, Ward, & Becker, 1991; Savitch & Vogel, 2010). Politics and the design of new charters are thus significant factors in the potential for realizing efficiency gains in local government.

The assessment of the overall fiscal effects of consolidation has accordingly been mixed. A study by

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Swanson (2000) of consolidation in Jacksonville, Florida, found no increases in efficiency afterward, nor did a study by Savitch, Vogel and Ye (2010) of Louisville and Jefferson County, Kentucky. Kelly and Adhikari (2012), however, using a quasi-experimental design in the paper discussed earlier, reported to the contrary that consolidation did improve Louisville's financial condition. In these cases, consolidation was framed mostly as a means to strengthen the community's economic development efforts.

One clear consequence of consolidation is that it expands the resource base for communities, and governments can leverage the new resources to attract new businesses by providing incentives and/or investing in measures to improve the quality of life and amenities for residents (Heim, 2006; Lowery & Lyons, 1989; Lowery, Lyons, & DeHoog, 1992; Orfield, 1997; Rusk, 1993, 1999; Stephens & Wikstrom, 2000). Such enhancements, and of course new job opportunities, may also attract new residents.

Furthermore, consolidation may improve coordination in local planning by removing barriers and burdens for business and increasing the attractiveness of a region to business (Carr, Bae, & Lu, 2006). Evidence of such economic benefits has again been found in Louisville (Savitch et al., 2010). So also Indianapolis, Indiana, was able to redirect resources into the downtown area, helping revitalize the urban core and increase job growth in the region (Segedy & Lyons, 2001). Conversely, consolidation may reduce the need for local governments to compete for citizens, in particular by giving them the freedom to increase property taxes (Brueckner, 2001), a policy with the potential to hinder growth.

Accordingly, the findings on whether mergers generate greater efficiency and growth are mixed at best (Reese, 2004; Taylor, Faulk, & Schaal, 2016). Carr and Feiock (2004) suggested that the focus on process may be

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responsible for the lack of evidence documenting the effects of consolidation. Cases like that of Indianapolis (Segedy & Lyons, 2001) have demonstrated that savings claimed by cities in such areas as police or fire services can be offset by additional costs in other areas. Furthermore, since studies have tended to examine larger urban areas, even less is known about smaller municipalities (Campbell & Selden, 2000). Lastly, and as stressed throughout this paper, the rarity of city-county consolidation makes it difficult to assess their effects on local governance (Jepson, 2008).

Our review of the literature on local consolidation thus makes clear that many of the factors impinging on the potential success of a merger are known to public administrators but that our field has yet to reach a consensus on the administrative effects. There is accordingly need for a better account of the ways in which consolidation affects local public administration. Our research attempts to describe the effect of mergers when one of the merged units is in a period of fiscal crisis. As discussed, the consolidation of Augusta with Richmond County, Georgia, has served here as a case study of such a situation. An understanding of the efficacy of consolidation under these circumstances can inform the work of public managers and elected officials at the local level going forward.

THE CONTEXT OF AUGUSTA-RICHMOND, GEORGIA

Augusta-Richmond is located on the eastern border of Georgia and is the state's second-largest Metropolitan Statistical Area (Table 1). In 1990, prior to the merger, the population of the City of Augusta was 44,639 and that of Richmond County 189,719. At that time, the City of Augusta had general governmental funds of roughly $35

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million and expenditures of just over $40 million, meaning that revenues did not meet spending, while for Richmond County the figures were $79 million and just over $84 million, respectively, meaning that its finances were not in a state of crisis.

For nearly half a century, the legislative delegation representing Richmond County in Georgia's General Assembly had considered various proposals to consolidate the two governments, with five attempts between 1970 and 1995. In 1988, voters narrowly approved a consolidation bill, but that vote was ruled invalid by the United States Justice Department on the grounds that the proposed merger violated minority voting protections under the Voting Rights Act of 1965 (Campbell, Gillespie, & Durning, 2004).

At the time of the 1995 vote, the merger of Augusta with Richmond County was considered a necessity: the city of Augusta was in a state of financial disarray, having been forced to fire more than 85 workers because of a deficit over $1.5 million (Campbell et al., 2004; Eidson, 2014). Many of the city's African-American leaders balked at the plan, fearing a loss of political strength, though consolidation was pitched as being a "race neutral" reform to address the fiscal crisis. Research gives credence to their concerns; thus Savitch and Vogel (2010) have argued that the act of consolidation may indeed decrease the political power of urban African-American leaders and increase that of suburban Whites, thereby shifting the locus of political control.

The efforts of former state Senator Don Cheeks brought the problems with the city's finances to light and moved local elites to support consolidation. For while Augusta was struggling during the mid-1990s, Richmond County was in a position of financial strength, enjoying low levels of debt, healthy fiscal reserves, and a strong revenue stream. The pro-consolidation campaign used many

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arguments that had been advanced in other jurisdictions, arguing in particular that the merger would eliminate duplication of public services, decrease local deficits and debts, and create a friendlier business community. In making the case for consolidation, Cheeks further told Richmond County voters that the merger would allow linkage of the county and municipal water lines, thereby benefiting residents of unincorporated areas in south Richmond County (Edison, 2014).

African-American leaders had actively campaigned against the consolidation effort in 1988, but in 1995 they were convinced that the post-merger city charter would protect minority representation. With city and suburban elites united behind it, the greater part of the community supported consolidation, though two cities in Richmond County, Blythe and Hephzibah, did vote against consolidation, and their municipal governments remain separate.

Georgia state law regarding consolidation requires that, after a community votes to abolish an existing local charter, a new one must be drawn up (Campbell, Gillespie, & Durning, 2004). The new charter for Augusta-Richmond thus created a consolidated city-county government, in this case with a weak mayor. The new plan did not allow for the firing of any former city or county employees; the promised reduction in staff was to occur through attrition. Many local leaders accordingly felt that savings from the merger were not maximized (Edison, 2014).

Since the Augusta-Richmond merger occurred when one governmental unit, namely the city of Augusta, was experiencing financial stress, this case meets the criteria for this study as outlined above. We accordingly posed a research question asking whether city and county consolidation can improve the fiscal health of local governments when one unit is suffering a fiscal crisis.

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METHODOLOGY AND DATA

We answered this research question by exploring the fiscal effects of consolidation in the case of Augusta-Richmond County through financial condition analysis, a tool that was developed in the private sector. This kind of analysis serves to explain the impact of an event, in this case consolidation, on an organization's fiscal health. A government's financial condition refers to its ability to meet its financial obligations, including expenditures and servicing of long-term debt, in a timely manner. Investors rely on final ratios to assess the financial health of public organizations. Such indicators began to be employed to monitor the fiscal health of governments in the 1980s, and the practice was reinforced by Governmental Accounting Standards Board Statement No. 34, which called for greater transparency regarding the fiscal health of state and local governments (GASB, 1999; ICMA, 2016). Financial condition analysis examines specifically the ratios of what are known as "stock" and "flow" indicators. *Flow* ratios are found by detailing the revenues and expenditures of an organization over a particular period of time; *stock* ratios are based on the organization's financial assets, liabilities, and equities. The financial statements of organizations often contain much of the data needed to construct both kinds of ratios (Rivenbark et al., 2010; Wang, Dennis, & Tu, 2007).

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Table 1
City of Augusta and Richmond County

	Richmond County	City of Augusta	Augusta-Richmond County Consolidated
1990			
Population	189,719	44,639	-
General Governmental Funds Total Revenues*	$ 79,059	$ 35,000	-
General Governmental Funds Total Expenditures*	$ 84,930	$ 40,585	-
2000			
Population	-	-	195,182†
General Governmental Funds Total Revenues*	-	-	$ 179,351
General Governmental Funds Total Expenditures*	-	-	$ 153,554

Notes: * Budget Figures in $1,000. † excludes the population living in the county but within Hephzibah and Blythe city limits (4,593). †
Sources: U.S. Decennial Census 1990 and 2000; City of Augusta (1990), Richmond County (1990), and Augusta-Richmond Consolidated (2000) CAFRs

We used the indicators for resource flow and stock identified by Rivenbark et al. (2010).[18] Following Kelly and Adhikari (2012), we kept our focus exclusively on financial condition by analyzing general governmental funds. These funds are often associated with the day-to-day operations of a local government but do not include enterprise funds, these latter being self-supported from the revenues on a product or service. Thus, for example, business-type functions of local governments, such as providing water and sewer service, are often organized into enterprise funds. Inclusion of such resources in our analysis

[18] These measures were also used by Kelly and Adhikari (2012). However, owing to limitations of the data, we were unable to include the dimension of leverage for resource stock.

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would have distorted the effect of consolidation because enterprise funds are not linked to administrative reforms per se but rather to the performance of a business-like activity being conducted by a public organization. We were able to exclude these data from our analysis by reporting the assets and liabilities of enterprises separately from those of governmental funds.

Figure 1. Augusta Richmond County

Table 2 provides an overview of our financial condition analysis of Augusta-Richmond County. In it, we included two factors, liquidity and solvency, to assess stock. For *liquidity*, we examined the quick ratio; in this type of analysis, a higher ratio suggests that a government is able to meet its short-term obligations. For *solvency*, we examined the organization's fund balance as a percentage of expenditures; in this case, a healthy fund balance

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suggests that a government is able to meet its long-term obligations and to weather fiscal storms. We included three factors to assess flow, namely financial obligations, dependency, and service obligations. For financial obligations, we used the debt service ratio based on the notion that, as more expenditures are dedicated to servicing debt, an organization has less inancial flexibility. For dependency, we assessed the reliability of the local government's non-local source revenue based on the intergovernmental aid ratio. Lastly, for service operations obligations, we looked at whether the local government's annual revenues were sufficient to fund its operations.

We collected the data needed to calculate the ratios from local financial documents. For the period from 1990 to 1995 (using fiscal years), we used the CAFRs from the city of Augusta.[19] For the period from 1996 to 2002, we collected the financial data from the consolidated government of Augusta-Richmond. Figures 2-6 present the results of the financial condition analysis. In the following section, we present the analysis of these results and discuss their implications for city-county consolidation.

[19] We were unable to obtain the financial statement for 1993.

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Table 2
Dimensions, Indicators, and Interpretation of Flow and Stock of Governmental Funds

	Dimension	Indicator	Interpretation
Flow	Service Obligation	*Operations Ratio*	A ratio of 1 or higher indicates that a government existed within its annual revenues.
	Dependency	*Intergovernmental Ratio*	A high ratio may indicate that a government lacks revenues diversity and is too reliant on other governments.
	Financing Obligation	*Debt Service Ratio*	Service flexibility decreases as more expenditure is dedicated to annual debt service.
Stock	Liquidity	*Quick Ratio*	A high ratio suggests that a government can meet its short-term obligations.
	Solvency	*Fund Balance as a percentage of expenditures*	A high ratio suggests that a government can meet its long-term obligations.

Source: Rivenbark, Roenigk & Allison (2010)

ANALYSIS AND DISCUSSION

Tables 3-5 and Figures 2-4 display the ratios relating to resource flow (i.e., the operations, intergovernmental, and debt service ratios). These ratios were calculated from the statement of revenue, expenditures, and changes in the governmental fund balance for the given years. Thus the operations ratio (Table 3 and Figure 2) was arrived at by dividing total revenues by total expenditures and then adding transfers to the debt service fund after subtracting the proceeds from capital leases. Any ratio greater than 1 indicates that the government was able to meet current expenditures from its current revenues and was in a position to save for future capital needs. Augusta's operations ratio, ranging from 0.7 to 0.97, is indicative of the city's struggles prior to merger, when it consistently outspent its revenues. By contrast, in

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the period when the city was consistently running a significant operational deficit, Richmond County's operational ratio ranged from 0.93 to 1.21, indicating strong fiscal health.

After consolidation, the ratio for Augusta-Richmond ranged from 0.97 to 1.17, suggesting that the fund balances were not being relied on as consistently to meet current obligations as had been the case for the City of Augusta beforehand. The implication is that the post-merger expenses of Augusta's city government were closely aligned with the revenues of the county government; thus the improved operations ratio indicates that the government was in a more sustainable fiscal position. The analysis, then, suggests that the government's operating budget was healthier after consolidation.

The intergovernmental ratio represents the dimension of dependency, indicating the extent to which a given government relies on other levels of government for financial support. The intergovernmental ratio is thus calculated by dividing the revenue from other governments by the total revenue. As can be seen in Table 4 and Figure 3, Augusta relied more on intergovernmental revenue before the merger, when the percentage of total revenue from other governments ranged from 22% to 34%. On the other hand, the county was less reliant than the city before or after the merger, with a ratio ranging from 0.2% to 0.8%. After consolidation, this percentage decreased significantly compared with that of Augusta, ranging from 3% to 11%.

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Table 3.
Operations Ratio: Service Obligation 1990-2002

Year	*Richmond County*	*City of Augusta*	*Augusta-Richmond Consolidated*
1990	0.93	0.86	-
1991	1.04	0.87	-
1992	1.00	0.84	-
1993	1.11	-	-
1994	1.07	0.70	-
1995	1.21	0.97	-
1996	-	-	1.01
1997	-	-	0.97
1998	-	-	1.09
1999	-	-	1.01
2000	-	-	1.17
2001	-	-	1.14
2002	-	-	1.17

Source: City of Augusta (1990-1995), Richmond County (1990-1995), and Augusta-Richmond Consolidated (1996-2002) CAFRs

Because Augusta was, as discussed in the midst of a financial crisis before the merger, it relied heavily on external governmental resources to fill gaps in the budget. The lower ratio indicates that the government had a greater diversity of resources than the city post-merger but not the county, though the range of ratios shown by the consolidated government indicates a healthy condition. This finding could indicate that the newly consolidated government enjoyed a greater diversity of revenue sources than the old city government. If a greater diversity of revenue was indeed achieved, the implication is that the financial position of the city was more sustainable after than before the merger, and thus that the merger helped the city to avoid further financial problems because the merged government had become more successful at funding local services through its own sources of revenue.

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Table 4
Intergovernmental Ratio: Dependency 1990-2002

Year	Richmond County	City of Augusta	Augusta-Richmond Consolidated
1990	0.002	0.28	-
1991	0.008	0.33	-
1992	0.004	0.21	-
1993	0.008	-	-
1994	0.004	0.20	-
1995	0.003	0.21	-
1996	-	-	0.07
1997	-	-	0.06
1998	-	-	0.03
1999	-	-	0.06
2000	-	-	0.10
2001	-	-	0.11
2002	-	-	0.04

Source: City of Augusta (1990-1995), Richmond County (1990-1995), and Augusta-Richmond Consolidated (1996-2002) CAFRs

The debt service ratio was calculated by dividing the amount of expenditures dedicated to paying the interest and principle on long-term general obligation debt. This measure needs to be understood with respect to the ways in which governments are able to take advantage of market conditions. Kelly and Adhikari (2012) offered an explanation for the manner in which market conditions affect decisions about the refinancing of debt, and state limitations on the amount of local taxes that can go toward servicing debt also have an effect. Georgia law limits the amount of tax-supported debt that a local government can incur; generally, the service debt ratio should be around 10% or less. Table 5 and Figure 4 present the ratios for Augusta before and after the merger. In the period before, it ranged between 2% and 9% and increased steadily until

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1995, while the ratio for Richmond County ranged from 0.4% to 5% and increased slightly each year until 1995.

After the merger, the county's ratio decreased significantly compared with the city's, ranging from 0.4% to 3.9%. A dramatic change took place from 1997 (0.1%) to 1998 (3.9%), but the ratio still indicates a healthier entity. It should be observed that volatility in the debt service ratio does not necessary indicate mismanagement, for it could be a consequence of aggressive debt management by the city. Thus the local government might have increased its debt service obligations to refinance and/or take on new debt under favorable interest rates.

Table 5

Debt Service Ratio: Financing Obligation 1990-2002

Year	Richmond County	City of Augusta	Augusta-Richmond Consolidated
1990	0.00	0.02	-
1991	0.02	0.03	-
1992	0.03	0.05	-
1993	0.03	-	-
1994	0.05	0.06	-
1995	0.05	0.09	-
1996	-	-	0.004
1997	-	-	0.001
1998	-	-	0.039
1999	-	-	0.033
2000	-	-	0.031
2001	-	-	0.025
2002	-	-	0.018

Source: City of Augusta (1990-1995), Richmond County (1990-1995), and Augusta-Richmond Consolidated (1996-2002) CAFRs

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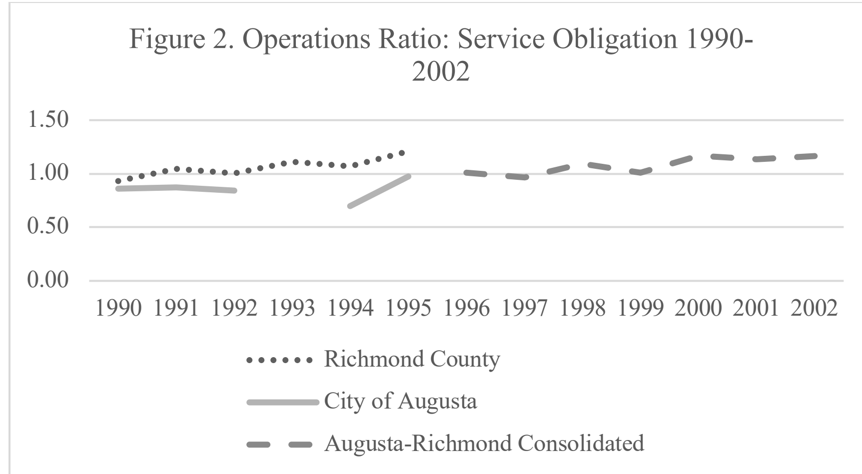

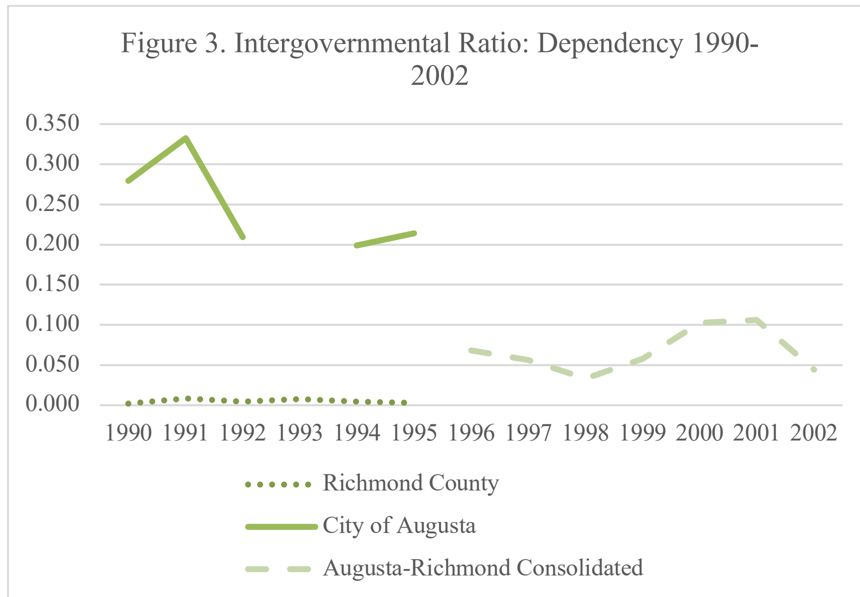

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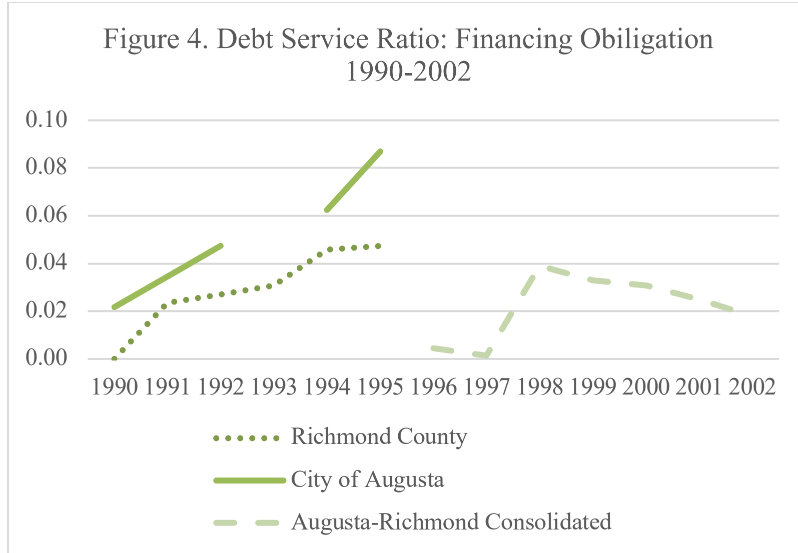

The remaining figures illustrate the ratios that explain stock. Most of the metrics needed for these calculations can be found on the balance sheets of governmental funds.[20] Liquidity is one of the more common financial ratios used for any type of entity, whether for-profit, public, or non-profit. The indicator for liquidity is a quick ratio, which is found by dividing current assets by current liabilities and indicates whether an entity can meet its short-term obligations. Ideally, an organization will have a ratio of at least 1:1, though 2:1 is preferred. Figure 5 and Table 6 demonstrate that, prior to merger, the city fell short of the optimal ratio; for while some of the data for the pre-merger years are missing, it appears that the city had such a low level of liquidity that it could not cover all of its current liabilities, or even, at times, much more than half.

[20] As noted, the incomplete data for the city's pre-merger finances precludes a full liquidity analysis, but the data available are sufficient for a post-consolidation analysis of the city's liquidity.

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After consolidation, the ratio for Augusta-Richmond exceeded 2 for every year, being particularly high from 2001 to 2002. This last finding is attributable to a special-purpose local option sales tax (SPLOST) levied at this time and to a large capital project, the latter being responsible for an increased cash equivalent that contributed to a large balance of liquid assets on hand. Thus, while the missing data impose limits on the liquidity analysis, the merger clearly appears to have enhanced the community's ability to manage the short-term obligations of its current assets in relationship to its liabilities.

Table 6
Quick Ratio: Liquidity 1990-2002

Year	Richmond County	City of Augusta	Augusta-Richmond Consolidated
1990	-	0.39	-
1991	-	-	-
1992	-	-	-
1993	-	-	-
1994	-	-	-
1995	-	0.52	-
1996	-	-	-
1997	-	-	2.92
1998	-	-	3.66
1999	-	-	2.75
2000	-	-	3.45
2001	-	-	5.34
2002	-	-	5.95

Source: City of Augusta (1990-1995) and Augusta-Richmond Consolidated (1996-2002) CAFRs

Whereas liquidity involves short-term liabilities, solvency involves longer-term obligations because it reflects the ratio of unrestricted balance funds to expenditures. Unrestricted fund balance funds are those that

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remain at the end of a fiscal year but have not been allocated for a future expenditure. An example of such an obligation is an encumbrance, a quantity of funds committed in one period and to be expended in a future period. The GASB recently redefined such obligations in an effort to clarify the concept. Ideally, the ratio needs to exceed 0.20; a lesser ratio can be seen as dangerous for financial health. Figure 6 and Table 7 show that, prior to the merger, the ratio indeed fell below 0.20 in 1990 and 1995, to 0.15 and 0.1, respectively. After the merger, however, solvency rose and remained above 0.2 in every year except 1998, when it fell slightly to 0.19. These findings indicate that the new entity was financially stable and able to meet its long term obligations, whereas Augusta had not had such stability before the merger.

Table 7
Fund Balance as a Percentage of Expenditures: Solvency 1990-2002

Year	Richmond County	City of Augusta	Augusta-Richmond Consolidated
1990	-	0.15	-
1991	-	-	-
1992	-	-	-
1993	-	-	-
1994	-	-	-
1995	-	0.10	-
1996	-	-	0.27
1997	-	-	0.22
1998	-	-	0.19
1999	-	-	0.22
2000	-	-	0.23
2001	-	-	0.27
2002	-	-	0.25

Source: City of Augusta (1990-1995) and Augusta-Richmond Consolidated (1996-2002) CAFRs

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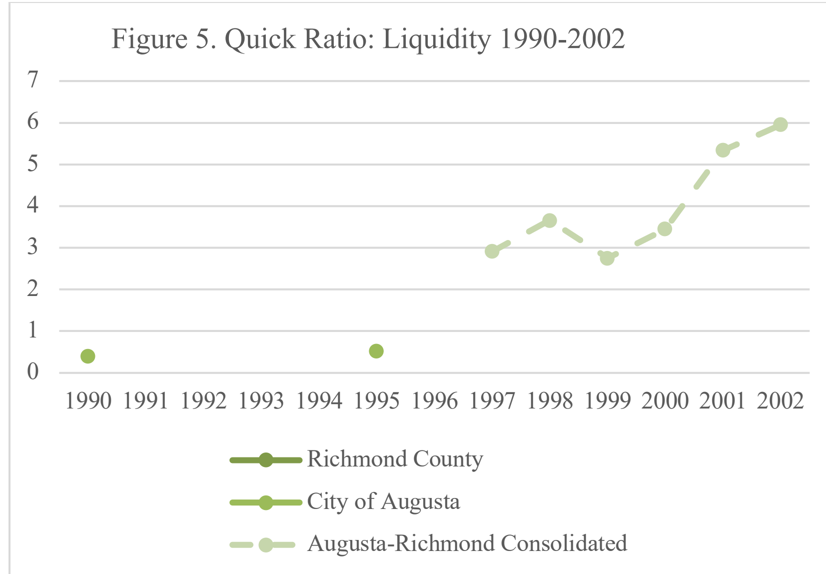

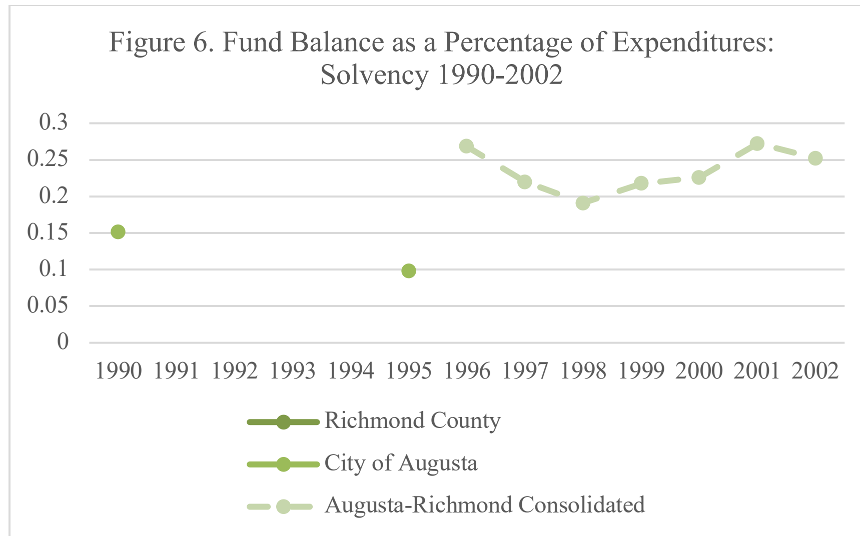

Our financial condition analysis of Augusta before the merger and of the Augusta-Richmond government afterward thus provides evidence that consolidation improved the fiscal health of the community. In other

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words, the merger seems to have produced positive financial results in terms the flow and stock ratios described above. Numerous benefits may accrue from such a positive impact on these indicators, beginning with the bond rating. Because bond ratings are affected by changes in these ratios, improvement in the consolidated government's fiscal health improved the community's bond rating of AA (Fitch, 2012). The health of the community's operating budget was one of the decisive factors in its improved bond rating. Thus the favorable rating report for the consolidated government served as an indicator of its healthy financial flexibility in terms of its capacities to maintain its reserves and to raise taxes (Fitch, 2012). Our findings thus constitute important evidence that consolidation improved the fiscal health of the Augusta-Richmond community.

CONCLUSIONS

In the mid-1990s, Augusta was facing a fiscal crisis as the city government struggled to maintain its operating budget and came to rely heavily on other levels of government for financial support. For decades, local political leaders had called for the consolidation of the governments of Augusta and of Richmond County. After the failure of a number of ballot measures, consolidation was at last approved in 1995, as a response to the fiscal crisis, and the city and county merged in the following year. This sequence of events provides a case study for assessing the efficacy of consolidation in improving the financial health of local governments.

We accordingly conducted a financial condition analysis of the city's fiscal health before consolidation and of the merged government's fiscal health afterward. Specifically, we analyzed the flow of the city's revenues and expenditures together with the stock of its assets and

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liabilities. The analysis provided some limited evidence that the consolidation had a positive financial impact on the Augusta community; and the fact is that, today, the consolidated government's financial health is better than that of the city beforehand. The city no longer faces a financial crisis; rather, as depicted by the ratios, Augusta-Richmond County is in a strong financial position.

Our study does, however, suffer from some limitations in terms of its generalizability. To begin with, Augusta was in a unique position prior to the merger, facing a financial disaster but with a willing partner in the county. According to Leland and Thurmaier (2005), such a crisis can motivate elites and other residents to support consolidation. Moreover, any merger that leads to the acquisition of high-value property and areas of economic growth will likely drive stock and flow indicators in a positive direction (Kelly & Adhikari, 2012).

The case of Augusta-Richmond County thus demonstrates that the merger of a financially healthy unit of government with a unit in fiscal distress can produce positive outcomes for the merged government and the overall community. Our analysis of the stock and flow indicators showing that the consolidated government has enjoyed a healthy fiscal system therefore helps to fill a gap in the literature regarding the efficacy of consolidation under these specific conditions. We conclude that consolidation should be considered as an administrative tool when local governments face periods of fiscal crisis.

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