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**PURSuing CAREFUL ASSUMPTIONS
AND GROUNDED STUDIES**

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SHARED SERVICES AND MUNICIPAL CONSOLIDATION: PURSUING CAREFUL ASSUMPTIONS AND GROUNDED STUDIES

Marc Holzer and John Fry

***Shared Services Institute: National Center for Public Performance
School of Public Affairs and Administration
Rutgers University-Campus at Newark**

This is the first paper of the second volume in NJLM Foundation's "Friends of Local Government" Policy Paper series. These papers will offer perspectives and analysis from organizations focused on helping local governments address the fundamental challenges that lie ahead.

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Michael F. Cerra, Policy Advisor
NJLM Educational Foundation
222 West State Street
Trenton, New Jersey 08608
www.njlmef.org

About the Authors

Marc Holzer is Dean of the School of Public Affairs and Administration (SPAA) at Rutgers-Newark, and the Executive Director of SPAA's National Center for Public Performance (NCPP). Dr. Holzer may be contacted at: mholzer@rutgers.edu

John Fry is a former municipal administrator and the Director of NCPP's Shared Services Institute. Mr. Fry may be contacted at: jfry76@comcast.com

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Introduction

One of the main reasons for the existence of government is to provide public services that would not or could not otherwise be provided by individuals or private interests. This political philosophy makes service delivery the primary purpose of local governments. The public pays for the delivery of public services and expects service delivery to be efficient. The structural organizations of local governments, and the service delivery structures developed by those organizations, are major determinants of service efficiency.

It would be a disservice to New Jersey to treat shared services and municipal consolidation as narrow subjects. This paper addresses shared services and consolidation in the context of a range of forms of municipal collaboration and alternative mechanisms for the delivery of public services. We do not begin with any preconceived determination of the best answers for local government in New Jersey; rather, starting from the goals of local government service delivery and the results we need to achieve, we focus on how to craft a solution to specific circumstances and problems. We also reflect on what knowledge might assist local governments to better serve the public.

In a time of fiscal stress, the primary goal of improving municipal service delivery must be efficiency or in other words cutting the costs of government. Of course, cost cutting may bump up against other goals of government such as equity, democracy, quality, and local control. These goals can be amorphous, and individual local governments may weigh them differently on behalf of those they represent. Even when they are not considered explicitly, they are often operating in the background. Such ambiguities and values may mitigate the applicability of alternative organizational mechanisms, such as shared services and local government consolidation.

Defining Service Levels

Local government determines how a service is to be accomplished, how much it should cost, how it should be funded, and even whether it is delivered by government. All of these determinations are part of the responsibility for provision of the service. Solid waste pickup and recycling is a good example in New Jersey as there is a range of service delivery mechanisms throughout the state, such as:

- Once a week pickup curbside
- Twice a week pickup curbside
- Backyard pickup
- Collection through a utility for which user fees are charged, often proportional to the amount of service required
- No provision of service. Public may pay a private carter directly for service.

While provision is the determination of the nature and the funding of the service, production is the actual delivery of that service. Although the most common form of production in New Jersey remains direct delivery of service, contracted service is a growing method of production:

awarding the bid to a private carter, working out a shared service contract, or establishing some other form of government collaboration. When a municipality gives up production responsibilities, it usually retains provision responsibilities, paying for the service and specifying the nature of the service through a contract or agreement.

“One-size-fits-all” does not work. Whatever the choices about service delivery, the municipality must evaluate each of them before implementation and understand their impacts (or strengths and weaknesses) on cost and quality, as well as on the concerns of the public.

What about Consolidation?

Most studies of the feasibility of consolidation look at each of the municipal services provided by the constituent municipalities. They then consider how those services can be made more efficient or effective if the delivery of each service were consolidated. While collaborations such as shared services are widely considered to be more effective than the direct delivery of services by multiple municipalities, full municipal consolidations do not share the same popularity. Consolidations have neither been easy to accomplish nor uniformly successful. If pushed to say “Yes” or “No” to consolidation, we would reluctantly be forced by the evidence to choose the latter. (See http://nj.gov/dca/affiliates/luarcc/pdf/final_consolidation_report.pdf for the report *Literature Review and Analysis Related to Municipal Government Consolidation* prepared by Rutgers for the New Jersey Local Unit Alignment, Reorganization and Consolidation Commission.) A determination to merge municipalities assumes economies of scale that simply may not exist in practice. Surprisingly, smaller municipalities may achieve more economies than their larger counterparts due to factors such as more pervasive volunteerism, broadbanding of positions, expectations that elected officials will take on some administrative duties for no additional compensation, greater informal communications and cooperative arrangements, etc. This conclusion may run counter to the assumptions of state-level officials, the media and some citizens groups, but is clearly suggested by the academic literature. (See the report *Literature Review and Analysis Related to Optimal Municipal Size and Efficiency* prepared by Rutgers for the New Jersey Local Unit Alignment, Reorganization and Consolidation Commission at http://nj.gov/dca/affiliates/luarcc/pdf/final_optimal_municipal_size_&_efficiency.pdf.) A full accounting of consolidation costs may also give pause to its advocates; the law typically requires that salaries of merged work forces rise to the level of the highest paid group, and few consolidation proposals account fully for the costs of a merged identity in terms of expensive signage, electronic and print identity updates, and the like. Such heavy upfront investments may push potential savings several years down the consolidation path.

The process now occurring in New Jersey is educating us, although it is frustratingly slow to those who are convinced consolidation is the answer to the problem of high property taxes. A few municipalities, which believe they may have something to gain from consolidation, are studying it carefully, evaluating consolidation of each of the services provided--often with a resolve to consider the functional consolidation of selected services, if not full municipal consolidation. Service consolidations are the backbone of full municipal consolidations, but while service consolidations are a necessary component of a full municipal consolidation, service consolidation can occur independently from full consolidation. In fact, most of the towns that consider full municipal consolidation have a tradition of shared services, formally or informally, between them.

A main disadvantage of evaluating service consolidations as a means to assessing the feasibility of municipal consolidation is that some alternative mechanisms of service delivery are not considered. Service consolidations can also entail delivery mechanisms that reach beyond two constituent municipalities considering municipal consolidation. We will return to this later, after we investigate what benefits can result from service consolidations and begin to understand why, looking beyond a perspective restricted to economies of scale.

Seeking Improvements in Service Delivery through Structural Changes

Service consolidations (shared services are one of the forms) can be cost effective or improve the quality of the services delivered. They can do both. “Economies of scale” can play a part, but these economies are often not present in the simplistic manner assumed by many.

If one is consolidating a service, and not merely sharing a piece of equipment, the targeted budget reduction will usually need to address salaries, wages, and benefits to be effective. This means staff reductions, either at the time the services are consolidated or with a practical plan for attrition-based reductions, for which there must continue to be the political will to adhere to the plan. Staff reductions are difficult, but they have been achieved, even in New Jersey and even with services with strong labor traditions, such as police patrol. Our research indicates there have been a number of successes in this difficult arena of public safety. The parameters usually include at least one small town that was not able to afford the cost of minimally adequate 24/7 coverage with appropriate backup for the safety of the officers and the public. Additionally, one of the partners was willing to dissolve the police department and contract to the remaining department for police services.

Ironically, the literature suggests that police services are not a service for which economies of scale obtain because they are labor-intensive, rather than capital-intensive services (which may more readily show a positive impact from economies of scale). Economies of scale might not be realized when combining two large departments, but for smaller departments the phrase “minimally adequate 24/7 coverage” is important. A jurisdiction simply cannot do the job with six officers or nine officers. Since the recommended staffing to provide safety with appropriate backup requires that there always be two officers on duty, at least 12 patrol officers are required for minimally adequate staffing. This scenario for collaboration addresses quality because the small town gains increased security and safety from the functional consolidation.

Consolidation of the service addresses cost if the consolidated department can be smaller than the total of the pre-merged departments. A larger consolidated department has more flexibility to respond to absences, both scheduled and unscheduled, and to the need for ancillary activities, such as training and administration. Smaller departments are forced to have excess capacity at some times in order to have adequate capacity at others. If both pre-merged departments were reasonably small, say fifteen and nine patrol officers, span of control for supervision would not be an obstacle, since no supervisor would have too many individuals reporting to them. Finally, if the towns were adjacent or they were a donut and donut-hole, the logistics of coverage would benefit from no longer stopping at the borders.

The notion of excess capacity is an important one. Excess capacity may be necessary for a variety of reasons, in addition to the ability to cover for absences and the ability to respond to events. It also occurs because of the need for a high level of expertise or specialized equipment to support infrequent tasks. Building on the example of police services, fully utilizing detective skills and crime lab analysis is difficult in a small municipality. The choices for delivering these services can yield poor quality in the service or high cost for the underutilized service, but collaboration can make such services available and fully utilized. Regional or county-based solutions are common in other states and are beginning to get attention in New Jersey. Some of this occurs already through the use of county detective squads for investigation of certain infrequently occurring crimes, or the lending of expensive equipment owned by the county or another central organization to the constituent municipalities on an as-needed basis.

To Find the Answer, One Must Understand the Problem

It is important to note how we have approached the examples above. We have analyzed the needs and difficulties in delivering the service in a cost-effective manner. Then, we have proceeded to look for a solution that will meet the needs and prevent the creation of additional problems. This is the opposite of an approach that begins with the answer and looks for the problem it will solve.

Municipalities need to analyze their services to determine where there are excess capacities, unmet needs, or other misalignments between the service and the needs. This task, itself, is not an easy one for municipalities because it requires the analytic expertise and the time to accomplish it. Department heads may be the best sources of information, but effort and analytic capacity need to be provided at a county or state level (or through a paid consultant) to investigate the services and the best delivery mechanisms. (Indeed, if a municipality has the capability to perform these analyses on its own, it may indicate there is excess capacity of administrative resources.)

Characteristics of services differ. That is, some services can be scheduled; others cannot. The latter require response to unpredictable demands. Fire response is different than fire prevention. Some services are needed universally and at the same time by all municipalities. Examples are snow plowing and seasonal leaf pick-up. Some services require a high level of expertise or specialized equipment. Some, such as sewer treatment, require expensive infrastructure. Some are transaction based, depending on labor to deliver the service, in an amount proportional to the workload, negating the benefits of economies of scale. For example, many tasks in court administration require resources proportional to the number of summonses to resolve, but other costs of courts may be spread more efficiently with a greater workload. Some services are needed infrequently, but require specialized expertise or equipment, which are expensive, such as crime lab analysis.

Services do not fit neatly at one extreme end or the other of each of the criteria mentioned above. Further, the specific combination of the criteria for any specific service will suggest a particular delivery mechanism is best. A bucket truck, needed about 20% of the time by a particular municipality and not overly expensive, may best be shared by a small group of neighboring municipalities. However, a specific municipality may seldom need the very expensive equipment for repaving entire roads and is best contracting with the county (a shared service) or

a private vendor, which more fully utilizes the equipment. A municipality looking to increase its efficiency must recognize the characteristics of a service do not apply on a department level, but on an activity or task level, and that activities with different characteristics may be performed by the same individuals or use the same equipment. For example, a patrol officer, in addition to routine patrol, responds to calls and crime activity, attends court sessions, and completes routine administrative tasks. The analysis of such service delivery criteria is not easy.

An Array of Answers

While we caution against finding *the answer* and applying it broadly, despite the nature of the problem, the important first step of an analysis of the services and their characteristics is informed by understanding the tools that are available. In addition, it is important that practitioners in New Jersey are aware of some “best practice” mechanisms that are believed to be effective in other states or other countries because their perceived advantages make us aware of service delivery modes or mechanisms that might otherwise be overlooked.

A municipality can involve other governments as partners in the production of the service at a lower per unit cost, while still retaining the responsibilities of provision, thus controlling and monitoring how their citizens receive the service. **Shared Services** are the most common form of such arrangements. The partners agree to a contract that names one of them as the lead agency, which is responsible for producing the service and is paid by the partners who receive the service. **Joint Services** differ in that all partners are involved in production and share the costs through payment mechanisms in the agreement, usually specified by allocating to the partners different parts of the costs as direct payments rather than as payments to the lead partner. Because the responsibility for production is shared, rather than relinquished, there are fewer issues of loss of control, but developing the agreement requires the partners to have very cooperative attitudes and necessitates a practical reporting relationship to all parties.

Municipalities can form another government entity to deliver one service or several related services. Most states refer to these as **Special Districts**. An appointed board or management committee makes the provision decisions and oversees the special district in producing the service. In New Jersey, special districts include **Authorities, Commissions, Fire Districts, and Joint Meetings**. The creation of the new entity entails creating a duplicative administrative structure and moves away from direct control of the municipality. This is a potentially expensive and dysfunctional organizational solution, when only one municipality forms the authority or commission, which serves only the residents of that municipality. **Regional Special Districts** can provide economies, when size is a factor, presumably offsetting administrative redundancy. In New Jersey, by definition, regional joint meetings fund their costs by allocating them to the partnering municipalities in the region and reporting these costs annually through the required management committee, so the municipalities retain some arms-length control over funding decisions. Some authorities and commissions have the additional power to raise the funds through user fees, which can move them further from local control. The creation of an independent management structure and production organization can fit some collaborative scenarios, in which there is concern about even greater loss of local control in a contracted shared service. Note that many states are trying to reduce their amount of special districts because of cost, redundancy, mismanagement, and loss of local control.

Outside of New Jersey, there are other variations in the creation of a separate entity to deliver a service. It is worth examining them because they illuminate other issues of local control and service monitoring. We have found these forms mostly in other countries, where there is a longer tradition of trying to determine the optimal organization of local government service delivery.

The members of a **Joint Board** are elected from the partnering municipalities. A joint board is similar to a special district in that it produces one or a few related services. The participating municipalities retain the responsibilities for provision by determining the amount and quality of service they desire for their citizens based on the amount they are willing to pay for the service. The election of representatives from the constituent municipalities is intended to increase local control and public scrutiny over the operational execution of service delivery compared to the other forms of special districts.

A **Virtual Government**, which turns the production of all services over to an administrative service center, is an unusual concept in New Jersey. The collaborative aspect of this form is the administrative service center, which is created by the partnering municipalities, who become virtual governments with a small administrative staff to monitor the service delivery and carry out the policies of the elected officials. The administrative service center has no board, since the virtual governments retain full responsibilities for provision. The virtual governments have no production capabilities, making it difficult to return to direct delivery of services, and, thus, reducing the leverage of any of the individual virtual governments if the agreement is not working.

The **Agency Model** differs from a virtual government in that an existing, more central level of government, such as a state or county, produces all services for the municipality. Although the municipality retains responsibility for provision because it determines the quantity and quality of the service delivered to its citizens, in many implementations the larger government controls the overall cost of all services for the municipality, usually based on a formula. The municipality's decision about provision must be offset by an opposing choice on another service, so the total cost of the services does not change.

Centralization is less common in New Jersey than in other states where there is a tradition of county provision and production of various services, such as tax billing and collection, fire fighting, and police protection. Using the county as the service production organization does not create administrative duplication, because the administrative capacities already exist. **Regionalization**, when multiple services are included, takes advantage of economies of scale, when they exist, while spreading the administrative cost of another entity over multiple services.

Many alternative service delivery mechanisms rely on efficiencies gained through increased size of the producing organization. This desire to achieve economies of scale is often in conflict with a perception of loss of control of service delivery. Some municipalities have formed **Regional Policy Groups** (called a Council of Governments in some states and now in a few instances in New Jersey) in order to monitor service quality and provide a mechanism to have some control over production. Although the implementations differ, a key factor is representation of all constituent municipalities. A regional policy group is usually advisory, is concerned with

multiple services (unlike a management committee formed for one service), and often seeks and promotes new areas of collaboration.

Some alternative service delivery mechanisms do not require collaboration with another government, but may improve efficiency and cut the costs of service delivery. These forms, which involve not-for-profit or for-profit organizations, deserve attention for some services. They include **Contracting** (privatization, rather than shared services), **Franchising** (the municipality defines the parameters of provision, but does not fund or produce the service), and **Co-production** (volunteer organizations or homeowner associations may be responsible for aspects of service delivery). Many municipalities are concerned that there is less control over these relationships than those with another government. Well-specified agreements and **Joint Contracting** can help. In joint contracting, the municipality continues to produce some of the service, perhaps in specific geographical areas, so that it always has the beginnings of a capacity to take back service delivery responsibilities.

Where Do We Go From Here?

There is no formula as to how best to align a service delivery mechanism with the characteristics of a particular service. The problem is complex and given the relatively recent emergence of studies in this area neither scholars nor practitioners understand it well enough. Studies as to consolidation or shared service proposals must be rigorous and comprehensive as to all of the necessary factors; they must be undertaken without preconceived assumptions about cost-saving conclusions.

In addition to continuing specific evaluations in individual towns or small clusters of towns, we should be seeking ways to develop better information about collaborations and building expertise in forming these collaborations. The Division of Local Government Services (DLGS), which represents the best expertise New Jersey has in one organization, is woefully understaffed. The Local Unit Alignment, Reorganization, and Consolidation Commission has had a lean staff from its inception and has struggled with its desire to become a clearinghouse for information on efficient service delivery. The New Jersey COUNT grants, which are under the auspices of DLGS, have been used to create a network of county shared services offices and to provide support to regional and other groups that appear to have demonstrated some successful collaborations that could be transferred to other areas. Although these organizations appear poised to deliver more information about implementing service delivery improvements, while encouraging collaborations in their own areas, their continued funding is at risk. Alternatively, managers and consultants who have studied and implemented collaborations may be able to provide guidance.

We need to organize some of the knowledge that has been gained, so we have better tools that make future studies more efficient. For example, the development of service templates that could result in Community Service Profiles might provide a base for feasibility studies. When completed from the template, the profile would detail how and in what quantity a town delivers its services and provide some basic indicators of workload or output to evaluate the effort expended.

We also need better information about what creates efficiency based on an analysis of what exists in this state and beyond. Most of the New Jersey collaboration efforts have focused on a study of a specific pair or cluster of municipalities or a study of a region or county. All of these are useful going forward, but they do not tap the vast amount of information from existing service delivery mechanisms. We have a rich history of budgetary and expenditure data in each town and special district, and we know the characteristics of the towns as reflected in the Legislative District Data Book prepared annually by Rutgers University. Although resources to do this analysis are scarce, any resources that are invested in looking at what is currently most efficient will reduce resources spent on inappropriate projects and misdirected initiatives, while optimizing productive efforts. Harder to do, but also productive in the long run, would be an evaluation of mechanisms, such as centralization of service delivery at the county level, as they exist in some other states or countries, using the expertise of those responsible for creating and maintaining these organizations.

Another type of information that is not now readily available, but could be developed, is the success of collaborations that have been implemented. More rigor in documenting cost and quality of service both before and after the collaboration would provide an enhanced knowledge base. Only a few instances exist in which participants have committed to capturing this information; such data helps provide an objective perspective as to whether a shared service was indeed effective.

Templates for service studies, community service profiles, statistical analysis of the characteristics of efficient organizations and service delivery structures, a knowledge base of effective strategies and the service characteristics with which they align well, and standardized information about the success of efforts as they unfold – all of these would help us learn how to move forward and make each individual step less costly and more productive. New Jersey needs to put together the resources to provide these tools in one location and to market their existence to those who want to cut the cost of local government while retaining service quality for its citizens.