

CONSOLIDATION & SHARED SERVICES

Remarks before the joint legislative committee, Tuesday, August 9, 2006

To the honorable chairs, senators, members of the assembly, ladies and gentlemen: Good morning and thank you for the opportunity to address you today.

PROFESSIONAL HISTORY

Over the course of my 32 years serving four local governments in Connecticut and New Jersey, I have had the opportunity – indeed, the professional responsibility – to deal with issues of consolidation and shared services. I have also been involved in performance measurement at the local-government level.

I hope my experiences and observations will be useful as you consider how consolidation and shared services fit into the puzzle of tax reform.

BENCHMARKING & PERFORMANCE MEASUREMENT

For the past couple of years, I have been working with a group of nine New Jersey municipalities¹ in an effort to measure municipal performance and to establish benchmarks for improvement.

The project gathers and analyzes data in order to promote better decisions about costs, resources, methods, and effectiveness. The municipal managers and administrators in the group – and their governing bodies – believe that measuring performance is a basic function of well-run municipalities.

However, only a minuscule fraction of local governments – either in New Jersey or at the national level – take concrete steps to measure their own performance and compare it with others.

I'll return to performance measurement and benchmarking after a few words on my experience with consolidation and shared services.

CONSOLIDATION: LOOKING OUTSIDE NEW JERSEY

There is so little useful history of consolidation in New Jersey that one needs to look elsewhere for meaningful examples.

¹ Aberdeen & Wall (Monmouth), East Brunswick (Middlesex), Maplewood and Millburn (Essex), Rahway, Scotch Plains & Summit (Union), and Sparta (Sussex)

Norwich CT

My own government career began in Norwich CT, a consolidated city and town of 29 sq mi and 40,000 residents. Settled in 1659, Norwich's zenith came during the heyday of the giant mills, which even today line its three rivers. The community still has not fully recovered from the abrupt closing of those mills fifty years ago. Had the city and town not consolidated, however, the old core city would probably have become unlivable as the surrounding town prospered.

New Zealand experience

To get a more recent view of consolidation, we can look across the oceans. In 1988, New Zealand's 4 million residents were served by 678 units of local government. A year later, they had 86 local governments, a reduction of 87%. Consolidation reduced the number of local-government employees by 20%, from 44,200 to approximately 35,000.²

Clearly, New Zealand is not New Jersey. In a parliamentary nation with British traditions, local government exists by the grace of parliament. In 1988, the central government dissolved all local governments and told a commission to work it all out. This is coercion in its ultimate form.

So I mention New Zealand's experience to make this point: significant consolidation among New Jersey municipalities would probably require more coercion than anyone in this room is likely to endorse.

The Federal Highway Administration coerces states to adopt various standards by threatening to withhold aid. If New Jersey wants its aid, it must comply.

I doubt that positive incentives — additional grant funds — will be enough to foster consolidation, unless those grants are huge. If the two Princetons — with joint schools, joint library, joint planning, joint health services, joint recreation, invisible borders, and the same name — if they can't work it out, how can the rest of us?

SHARED SERVICES

Turning to shared services, my own experience has run the gamut: public safety, public works, health and social services, recreation, technology, code administration, library, and the court. Some have worked very well, but few have yielded massive savings.

I count myself an advocate of shared services, but I have seen as many failures as successes, especially when the big-buck services are included. And with municipal budgets in the tens of millions of dollars, you've got to address the big-buck issues if you want to make a dent.

HIGH EFFORT — LOW RETURN

Overcoming the obstacles and challenges to shared services is a high effort endeavor, sometimes with low return on investment.

In the early 90s, Summit's mayor and I met monthly with officials from nearby municipalities, to discuss and plan for shared services. Six meetings and six months later, we

² <http://www.localgovtnz.co.nz/lg-sector/role/>

established some shared services and Summit saved about \$9000. Six months of work to save three one-hundredths of one percent of the city budget (0.03%).

Until there are incentives to deal with the big-buck items like police and schools – and perhaps disincentives not to consolidate them – shared services are likely to yield few major budget reductions. How many towns have discussed, let alone implemented, shared services that yield half-million or million dollar savings?

SANDCASTLES

Even with the high effort to create shared services, they fall apart pretty easily. Some remind me of sandcastles: lots of work undone in a moment.

I have watched shared services fall apart for a variety of reasons:

- One collapsed when a town decided that it was not saving enough money. The town preferred to spend more money on its own rather than to feel that its partner was saving too much.
- I once held a couple of very informal, very preliminary talks with a neighboring town's mayor, who wanted to explore joint fire services. When the mayor's elected colleagues found out about the conversations, they ran him out of town on a political rail.

OBSTACLES & CHALLENGES

This is not just a New Jersey issue. A nationwide study identified ten significant obstacles to shared services.³ In New Jersey, I would add two more, both imposed by the state.

State-imposed

- Civil service: I was recently involved with a shared services study for two municipalities. Although the study forecast a combined savings of \$200,000, the consolidation is not proceeding.

The resulting organization would be under Civil Service jurisdiction and the non-Civil Service partner does not want to get involved with the bureaucracy.

³ **Internal**

- Mistrust or poor relationships between potential partners
- Financial disparities between jurisdictions
- Desire for control of local services
- Perceived loss of accountability
- Lack of leadership

External

- Negative staff attitude
- Bureaucracy
- Limited time, energy, and resources
- Administrative operability
- Lack of management support

Collins, Scott. "Interlocal Service-Sharing Agreements" ICMA IQ Reports, v 38, #3, 2006, p4

- Funding formulas: School issues are not my area of expertise. However, it does seem that existing regional districts are breaking up faster than new ones are being formed. Assessment-based funding formulas often seem to trigger disestablishment.

Happily, municipalities seem to have a good deal more flexibility in establishing funding formulas and management systems. Please maintain and expand that flexibility as you develop new approaches.

A HYPOTHETICAL EXAMPLE

Returning to the joint performance-measurement study in the nine towns, we can construct an illustration of the limited effect of even massive shared services.

The average 2004 budget in the nine towns was almost \$30 million. Let's imagine that we can use shared services to reduce the budget by 10%: \$3 million.

The \$3 million saving reduces the average local-purpose levy from \$17 million to \$14 million – 21%: a huge amount.

But, with county and school taxes included, the total tax levy is reduced by less than 4% (from \$79.3 million to \$76.3 million).

So, in this wildly optimistic example, the local government has found a way to cut its budget by 10%, but the net savings to the taxpayer is about equal to a typical annual increase in school and county taxes.

And why do I call this "wildly optimistic"? Because, among the nine towns in the study, \$3 million represents, on average:

- 55% of the police budget, or
- 2X the library budget, or
- 3X the roads maintenance budget, or
- Almost 4X the garbage collection budget

NEGATIVITY

If I am sounding pessimistic, negative, or defeatist, I actually hope to sound practical. When analyzing solutions, I like to do the math. And the math suggests that meaningful savings – savings of 5% or 10% of the municipal budget – are not likely to come from shared services.

Even sharing most towns' most expensive service – police – does not yield meaningful tax relief. The math is just not promising. For instance, among the nine towns in the study group, 23% of the police force is brass: sergeants and up.

Now let's suppose two police departments consolidate and that they are able to eliminate half the resulting brass (a questionable supposition). Two departments with \$5.5 million budgets combine into one department with a \$9.3 million budget.

This most difficult of all mergers – the police department – reduces the workforce by 15 sergeants, lieutenants, captains, and deputies, and one chief. It saves \$1.7 million. If savings are shared equally between the two towns, each town's total tax levy shrinks by (drumroll) one percent.

I don't want to end on a negative note, so please let me offer some thoughts on how to foster consolidation and shared services.

PRESCRIPTIVES

- Take away the disincentives that are within your power, such as submission to Civil Service rules. Let the entities decide.
- Give local government the greatest possible flexibility to establish management structures for joint operations, including corporations, trusts, partnerships, etc. Give them maximum flexibility to structure cost sharing. At the same time, require comprehensive audits.
- Permit different levels of taxation in different parts of a consolidated municipality. Norwich CT, for instance, had different tax rates for the old “city” and “town” portions of the consolidated municipality. This would eliminate one argument against consolidating towns with different debt levels or different service levels.
- The state should take full management and financial responsibility for a number of current county functions. In this mix, I include the prosecutor, the sheriff, the court, the jail, the surrogate, the county clerk, the county superintendent.

Supporting these offices and functions with the state’s broad tax base would eliminate some of the gross inequities we now see, where taxpayers in more affluent counties pay much, much less for county services than those in less fortunate counties.⁴ It might also foster consolidation of these services

- Even if you end up rejecting them, think seriously about coercive measures. It is important to consider whether the property-tax issue is big enough and important enough and ugly enough for the state to force municipalities to take action. Personally, I don’t think coercion is the way to go, but it is worth a serious discussion

CONCLUSION

And with that, I conclude. I want to thank you again for the opportunity to share some thoughts. I hope you find them useful, and I will be happy to try to answer any questions you may have.

⁴ 2000 census median income: Morris \$77,340; Essex \$44,944

DCA 2004 annual report: equalized county tax rate Madison \$0.233; Maplewood \$0.582