



APPROACHES TO CONSOLIDATING LOCAL GOVERNMENT SERVICES

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Introduction

The weakness of Michigan's economy, which has translated into fiscal and operational pressures on local governments, has created a renewed interest in consolidation of governments and governmental services. Consolidating governmental units and/or functions and services¹ can reduce the cost of government by capitalizing on economies of scale.

Short of full governmental consolidation, consolidation of governmental functions and services through intergovernmental collaboration allows local government officials to avoid duplication, benefit from economies of scale and economies of skill, and increase the level of services above that which is possible if the services are provided independently. Intergovernmental collaboration can take the form of governmental units contracting with other units to provide services, two or more governmental units working together to jointly provide services, or the formal creation of special authorities with indepen-

dent powers to tax, bond, spend money, acquire property, and in some cases, condemn property.

In 2005, the Citizens Research Council of Michigan catalogued the service delivery methods of local governments. Analysis of survey data indicates that patterns exist among the governmental units that collaborate for the provision of services and among the types of functions/services provided collaboratively. Whether those patterns exist by design or by chance, they show that local governments cooperate heavily for the provision of some services and with the state and county governments for the provision of others. The *Catalog* identifies the services that are provided in each municipality and the methods used to provide those services (independent, collaboratively with neighboring municipalities, working with the state or county, via a private provider, etc.). It does not attempt to identify motives for employing each service delivery method or savings that result from the delivery methods chosen.

The Size of the Government and the Attributes of Services

Initial analysis of the survey results showed that local governments collaborate with each other most frequently in fire protection, either through direct cooperative arrangements or through the creation of special fire districts. Local governments also cooperate frequently in the provision of libraries, water and sewer services, and transit services. Other services and func-

tions, such as police protection, janitorial services, and code enforcement, had relatively few reported instances of collaborative provision.

Given the disparity in rates of cooperation from service to service, CRC set out to understand why local governments cooperate in the provision of some services more than of others and why they cooperate with their peers for the provision of some services, but with the state or county governments for other services. To do so, CRC focused on the size of the local governments, the services provided by those governments, and the methods used to provide those services.

¹ Here, and throughout this paper, the term "function" refers to activities performed to make governments work (support-type activities that generally occur out of the public eye). The term "service" refers to activities performed to provide public goods.



As governments grow in size and decisions are made to provide broader arrays of services, policy makers have to decide upon the best methods for delivering those services. Cost, of course, will play an important role in those decisions. Some functions and services require greater portions of municipal budgets than others. When direct service provision demands too much of a government's available resources, policy makers must consider the relative costs and benefits of using inter-governmental collaboration or private contractors.

Economic Attributes of Government Services

Capital Intensive Services require major expenditures for land, buildings, vehicles, or equipment. The cost of providing capital intensive services is not directly related to the size of the population or geographic area served. Once a local government has invested in the land, buildings, vehicles, or equipment to provide capital intensive services, that government often is capable of serving populations and geographic areas broader than that single government. In economic terms, this is known as **economies of scale**. With the capital items in place, the marginal cost to the local government of providing services to additional people or areas is relatively small.

Technically Intensive Functions and Services require persons with college degrees or professional certification for their provision. While most governmental functions and services require at least a basic level of training, some ser-

vices require persons with specialized academic training or that have been recognized in their fields through a professional certification program. As with capital intensive services, once local governments have invested in the employment of people with specialized technical expertise, they may have assets capable of serving populations and geographic areas broader than their individual local government. In economic terms, this is known as **economies of skill**. With the professional staff member is employed, the marginal cost to the governmental unit of providing services to additional people or areas is relatively small.

Contrasted with capital intensive and technically intensive services are **Labor Intensive Services**. The economies of labor intensive services are different from those of capital or technically intensive services. The marginal cost of serving additional residents or areas is strongly proportional to the amount of staff needed.

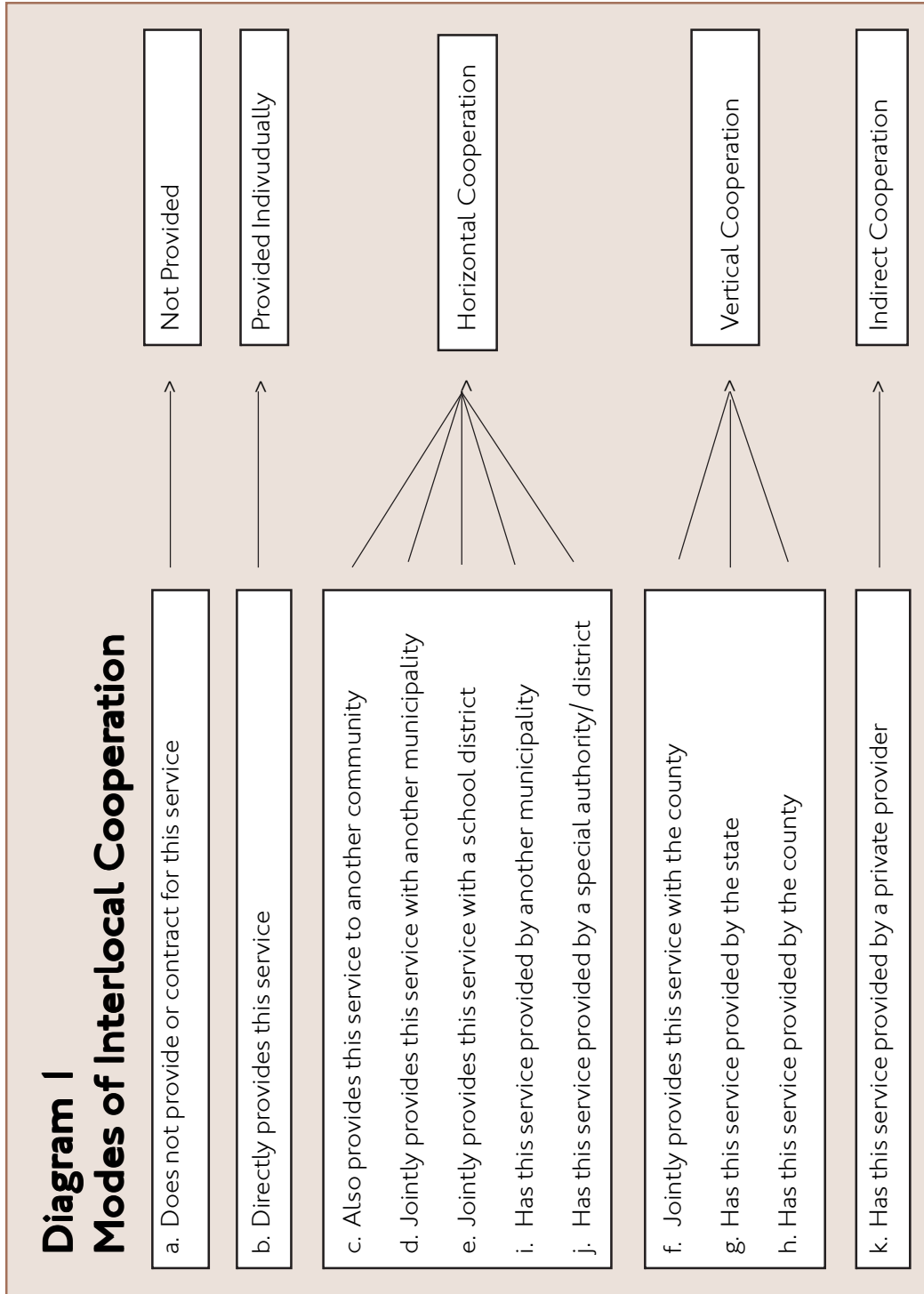
Forms of Collaboration

Many of Michigan's laws that authorize intergovernmental collaboration allow two or more local governments – cities, villages, townships, counties, school districts, special authorities, and special districts – to collaborate with each other to jointly provide any services that each is authorized to provide individually. These forms of relationships are referred to as **horizontal collaboration**. Although one partner in a collaboration of this type may bring more to the partnership than the other(s), horizontal collaboration

exists when two or more units at equal levels of local government agree to work together. (For purposes of this analysis, cities, villages, and townships are considered equal levels of local governments.)

Other laws allow local governments to collaborate with the state or county governments. Such collaboration may take the form of municipalities sharing the cost of functions performed by their counties; municipalities contracting with their counties or the state to have functions performed; or the county governments simply assuming responsibility for the performance of specific functions, thus relieving the municipalities of any function performance duties. These forms of relationships are referred to as **vertical collaboration**. Unlike horizontal collaboration in which two or more units at the same level of government work together for the provision of services, vertical collaboration exists when local governments have functions performed by different levels of government.

In addition to intergovernmental collaboration, local governments often rely on the private sector to provide services or perform functions. When two or more governments are using the same private provider for governmental services or functions, their relationships are referred to as **indirect collaboration**. The *Catalog of Local Government Services* shows that many of the same services are provided by local governments contracting with other local governments (in horizontal and/or



vertical collaboration) and through indirect collaboration.

In the *Catalog of Local Government Services* survey responders indi-

cated whether the service in their jurisdictions is provided: (1) individually; (2) via horizontal relationships; (3) via vertical relation-

ships; (4) via indirect relationships; or (5) not at all (See **Diagram 1**).

Patterns Found in Survey Data

It is evident from the survey results that municipalities have found it advantageous to cooperate in the provision of some functions and services more than others. The size of the governmental unit and the fiscal capacity (as measured by per capita property wealth) within each municipality play roles in determining which local governments engage in joint service provision. It also is clear that the economic attributes of the functions and services are key factors in understanding which functions and services are the best candidates for joint service provision. These findings suggest an approach for strategically selecting functions and services for which joint service provision may result in savings as well as the governmental units (or private providers) that will be best suited to collaborating for each function and service.

Self Provision. Most functions/services are performed independently by individual governmental units. The services with the highest percentages of local govern-

ments opting for individual provision are those that are core to the operation of local governments and tend to be labor intensive, such as purchasing, tax collection, accounting, elections, payroll, and record keeping, as well as zoning, planning, and building code enforcement/inspection/permits.

Horizontal Collaboration is used most often for the provision of capital intensive services, such as water treatment, libraries, sanitary sewer treatment, fire fighting, and mass transit. These are services that are geographically sensitive – communities must be adjacent to one another and the capital intensive land, buildings, or vehicles must be centrally located to benefit all participating units.

Vertical collaboration is reported most frequently on specialized police patrol, criminal justice/courts, crime lab, roads, animal control, environmental, and building regulation services. Some of these services, especially criminal justice/courts and road maintenance, re-

flect legislative or constitutional provisions that require high degrees of county involvement and thus, institutionalize vertical collaboration.² Other services, such as crime lab, emergency planning and environmental services, require relatively high levels of technical expertise or training.

Indirect Collaboration. Private providers are heavily relied upon for utility provision, Internet access, solid waste collection, engineering and surveying, and legal services. The services provided through indirect collaboration either require significant capital investment – utilities, Internet access, and solid waste collection – or technical expertise – engineering, surveying, legal services, and information technology. Private providers also fill roles in labor intensive services, such as janitorial or security services. The costs can be greater for local governments because they do not have alternative work during down periods, but private firms can move staff across jurisdictions to meet demand.

Learning from Current Practices to Create More Intergovernmental Collaboration

The *Catalog of Local Government Services* does not contain explicit cost data that would facilitate determination of whether present horizontal, vertical, and indirect

collaborative service arrangements enhance economic efficiency, but the fact that a great many Michigan local governments have chosen similar patterns of

collaboration for like services and functions indicates that these forms of collaboration make sense to decision makers. By learning from and building upon the expe-

² The advent of the Great Depression in the 1930s left many townships unable to fund road maintenance. The role of county road commissions was expanded to include care of township roads. Only one township has since returned to the role of caring for its own roads. Adoption of the 1963 Michigan Constitution mandated certain changes in the structure of the state judiciary. Specifically, Article VI, Section 26, required that the offices of circuit court commissioner and justice of the peace be abolished and a court or courts of limited jurisdiction be created by the legislature. Public Act 154 of 1968 carried out that mandate and vested control of court districts with the legislature. These services were excluded from the analysis.

riences of local governments across the state, and by working to promote similar forms of cooperation in other localities, state and local policy makers stand the greatest chances of success in promoting viable cooperation.

Local Governments

The following lays out an approach for local government officials to identify functions and services for which intergovernmental collaboration could lead to efficiencies and savings. It is suggested based on the current patterns employed by local governments throughout the state.

Assess the Economic Attributes of Current and Planned Services.

Local government officials considering intergovernmental collaboration for the provision of services should begin with an examination of the characteristics of each function and service provided. Each function and service should be classified as primarily capital intensive, labor intensive, or technically intensive.

The economic attributes of some services are clear. Legal counsel is inherently a technically intensive function owing to the advanced degree required to practice law. An airport is clearly a capital intensive service. Other services may have certain economic attributes on a macro level, but other attributes appear when specific aspects of that service provision are examined. For example, police protection tends to be a fairly labor intensive service, suggesting that there is little opportunity to capitalize on economies of scale to achieve savings. But specific

police functions such as detective work and crime scene investigation are technically intensive and detention facilities are capital intensive. While joint provision of police patrol protection might not create significant opportunities for savings, creation of joint crime scene units or detention facilities may produce savings. These opportunities can be identified only by examining each function performed by the governments.

Identify Potential Partners. The second step is to identify potential partners. Joint provision of capital intensive services is especially sensitive to geographic characteristics and analysis of existing relationships shows that fiscal capacity tends to play an important role. Because the governments will share land, buildings, vehicles, or equipment, it is ideal that the collaborating local governments share a border. The capital intensive facilities, vehicles, or equipment must be centrally located to mutually benefit the residents of all participating governments.

Analysis of existing horizontal collaboration indicates that it is most likely to occur when local governments of moderate fiscal capacity seek to partner with one another. Clearly, a lack of fiscal capacity is something that can be compensated for in an interlocal agreement, but leaders of a local government usually want assurances that their contribution to the cost of a joint service will be approximately proportional to the benefits their residents will receive.

Technically intensive functions are not geographically sensitive and can be provided to noncontiguous

areas. Efforts to collaborate should begin by investigating whether the state or county performs those functions and would be amenable to performing those functions on behalf of the local government through vertical collaboration.

A local government's fiscal capacity should not be the driving factor behind the decision of local government officials to engage in vertical cooperation. Michigan's least wealthy communities rely on vertical collaboration more than communities of greater fiscal capacity, but evidence of vertical collaboration is found across all levels of fiscal capacity.

Finally, local government officials should always be aware of the services that can be provided by private contractors. Private providers of governmental services can offer the economies of scale and economies of skill that local governments seek through intergovernmental collaboration without regard to neighboring units or some restrictions that apply to governmental employees.

Create Working Relationships.

The third step is the formulation of relationships with potential partners. Horizontal collaboration requires trust. It requires locally elected leaders to place responsibility for provision of functions or services in others over whom they have no direct control. Local governments engage in horizontal collaboration for services for long periods of time. Without confidence that the trust and investment will pay off in the long term, joint service provision is not likely to occur.

Proactive Role for Counties

Counties can help their cities, villages, and townships become more efficient service providers in two ways: 1) assist local governments to create relationships with surrounding local governments and 2) provide more opportunities for partnering in vertical collaboration.

Facilitate Relationships. Counties can play a vital role in facilitating networking among city, village, township, and school district officials by hosting forums or summits for those officials. Several counties have already initiated intergovernmental forums or summits to facilitate communication between and among levels of government. A study of best practices among those counties would identify models for others to emulate in initiating these forums.

Evaluate Technically intensive Services. Opportunities exist for counties to expand vertical collaboration to their constituent cities, villages, and townships because many of the functions performed by local governments also are performed by county governments. Each provides human resource and payroll functions; fiscal functions that deal with property assessment, accounting, purchasing, and banking operations; and information technology functions, geographic information system (GIS) mapping, and website maintenance. Both the county governments and the cities and townships are involved in the conduct of elections. Vertical collaboration does not re-

quire the counties to begin to perform functions they do not presently perform, but it requires a willingness to extend the expertise they have with these functions to local governments for mutual benefit.

State Actions to Promote Government Collaboration

State government can help local governments operate more efficiently and it can create incentive programs that financially reward actions that create more collaboration.

Technical Assistance and Best Practices. The state can help local governments become more efficient through a role of information sharing, including technical assistance for the process of creating collaborative agreements, creation of a clearinghouse of best practices, and enactment of incentive programs to make intergovernmental collaboration more attractive to local government officials and their citizens.

In 2006, Michigan's Task Force on Local Government Services and Fiscal Stability recommended that Michigan model a local government commission after Indiana's, which has a strong relationship between the universities and the local government associations. It was envisioned that such a commission would help local government officials by collecting reports on intergovernmental collaboration progress, sharing information through want ads and guides, disseminating best prac-

tices, facilitating discussions on collaboration, and communicating the needs of local government to state policy makers.

Opportunities for Vertical Collaboration. Like the counties, the state government should reflect on its own activities to consider opportunities for vertical collaboration to help local governments operate more efficiently. Recent consideration of actions to close state crime labs illustrate the ways in which local governments can operate more efficiently by partnering with the state. Those crime labs allow local government police departments to process evidence to identify criminals and prosecute cases through the criminal justice system. Without the state crime labs, local governments would have to construct, outfit, and operate their own labs at the municipal or county level. That option would be more expensive and duplicative.

State Incentives for Intergovernmental Collaboration. The state also can play a role promoting intergovernmental collaboration by creating positive incentives for collaboration while minimizing any side effects. One potential side effect of state incentives is that they could change the behavior of those governmental units that have already taken progressive steps to reduce service delivery costs. Incentives for collaboration should be built around the understanding that intergovernmental collaboration has been used by Michigan's local governments for many years.

It is recommended that state policy makers consider two types of incentive programs: one to promote horizontal collaboration for the provision of capital intensive services; a second to create incentives for local governments and counties to engage in vertical collaboration for the provision of technically intensive services.

Incentives for Horizontal Collaboration

Several types of programs could create incentives for horizontal collaboration. Each could be designed to capitalize on the strengths of capital intensive services that are best suited for this form of collaboration.

Assist in the Acquisition of Capital Items. Given the frequent use of horizontal collaboration for the provision of capital intensive services, state policy makers can promote collaboration by reducing the cost of capital items for those local governments that collaborate in the provision of those services. One method for accomplishing this would be for the state to create a loan fund or sinking fund to reduce the cost of borrowing for local governments that collaborate in acquiring, purchasing, or constructing capital intensive items.

Grants to Help with Start-Up Costs. A grant program building off of the Centers for Regional

Excellence could assist local governments through the difficult transition of consolidating existing services. Grants could be offered to governments proposing to consolidate service delivery. Policy makers awarding grants should target specific local government services based on the opportunities for savings through horizontal collaboration in capital intensive services. Grant funds should not be tied to implementation, since some planning processes may conclude that collaboration is not likely to achieve substantial cost savings or enhanced services.

Change State Revenue Sharing from Unrestricted to Restricted.

It would be possible to transform at least a portion of the statutory unrestricted state revenue sharing program into a restricted state revenue sharing program to fund specific capital intensive services. Funding could be increased for those entities providing the targeted program through collaborative arrangements.

Amend Existing Restricted Revenue Sharing Programs. State funds currently distributed to local governments through existing restricted state revenue sharing programs also could be used to create incentives for cooperation. The state currently uses formulas to distribute funding for libraries, highways, courts, and mental

health services. These formulas could be amended to reward positive behavior that has the net result of making state dollars go further. It would not be necessary for the state to add new funding to these programs to create incentives for collaboration, but to alter the formulas for distributing the funds currently available.

Incentives for Vertical Collaboration

A second set of incentives could be created to facilitate vertical collaboration.

Incentives for Municipalities to Contract with Counties. Some states offer incentives for vertical collaboration. In particular, New York's Shared Municipal Services Incentive program recently added priority funding for applicants developing countywide shared services plans involving half or more of a county's municipalities and school districts. Michigan could replicate New York's Countywide Shared Service Plans program to make funds available to counties if services are provided through vertical collaboration to a specified proportion of their cities, villages, and townships. Counties would have the latitude to initiate provision of functions or services for their local governments that they feel especially well suited to provide or that their local governments are uniformly interested in shedding.

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Conclusion

The functions and services provided by local government have different cost attributes that play a significant role in whether local government officials choose to provide those functions or services individually or in some form of cooperative arrangement. Analysis of current service delivery methods suggests that capital intensive services are most appropriate for horizontal cooperation, where two or more local governments collaborate to provide services common among them. Their capital intensive nature creates economies of scale in which the marginal cost of providing services

to additional residents is minimal and the benefit provided great.

It is common in the current structure of service delivery to find technically intensive services provided through vertical cooperation in which cities, villages or townships contract with their county government or the state to perform functions for which advanced expertise is needed. The technically intensive nature of these services creates economies of skill in which the cost of performing the function for additional governmental units is below what it would cost for each individual unit to hire persons with

the skills necessary perform those functions.

Beyond the direction this approach gives local government officials as they investigate inter-governmental collaboration as a tool for achieving efficiencies, this approach should shape and define the role that counties and the state play in working with local governments. It should put those governments in a position of providing services to local governments and creating incentives to maximize the efficiencies to be gained through economies of scale and economies of skill.

This paper summarizes CRC Report 354, Approaches to Consolidating Local Government Services. The full report can be accessed at: www.crcmich.org/PUBLICAT/2000s/2008/rpt354.html.