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THE SERVICE PROVIDER CONTINUUM

ALTERNATE METHODS OF PROVIDING MUNICIPAL SERVICES

The primary function of a local government is to provide services required and/or requested by its local residents. There are a number of different mechanisms available to local officials to provide these services and this report outlines eight alternate methods for consideration. These alternate mechanisms are presented as a "continuum" starting with the provision of services by local employees and concluding with the full consolidation of the two or more municipalities. The variation among the alternates is the amount of involvement of other jurisdictions in the provision of the services - an evolution from a basic "one municipality only" structure to a multi-organizational aggregation, or to a merger of operations or entire municipalities for one united operation.

The delivery of services required by local residents and taxpayers can be accomplished through a wide variety of mechanisms – there is not one answer for all circumstances. In any one situation the type of service, level of operation, complexity of the service operation, the geography of the service area, and the specific needs and capabilities of those receiving the service all play an important part in determining a realistic and fiscally responsible service delivery mechanism.

The first step in selecting how a specific service should be provided is to establish the methodology to be used to determine the success of the service delivery: Is it to be the quality or the quantity of services delivered, or the cost effectiveness of the services delivered, or some combination of these or similar goals? Any analysis should address not only the current needs of the municipality but also those needs / costs / restraints that can be reasonably expected in the next 5 years.

The continuum of service provider alternatives is as follows:

A. One unit of local government acting independently of others

This can be by use of local employees, or the local government contracting for this service through a private sector or non profit agency.

B. One unit of government with "informal sharing or cooperation understandings" or informal working relationships with neighboring local governments (be they municipalities, school districts, county agencies or similar public organizations). Here specialized knowledge, equipment and even personnel are lent to another jurisdiction on an as needed basis with or without an expectation of "returning the favor". (Normally expendable supplies are either paid for or replaced by the using agency.)

This can also be a simple sale of service by one municipality to another on an "as needed / as available basis".

C. A Shared Service Agreement between two or more governmental jurisdictions wherein one agency provides a service under a specific contract with another agency(ies).

This alternate is a basic contract between a provider of a service and the receiver of the service for a designated fee without any involvement of the receiver of the service in the operation / management of the service being provided (similar to a private sector organization providing the service).

D. An Enhanced Shared Service Agreement between two or more local jurisdictions wherein the receiver of the services has a say in the provision of the services on an ongoing and formal basis and/or each of the participating jurisdictions provides one or more shared services required by the other participants creating mutual dependencies among the participants.

E. The establishment of a formal third party entity to provide the service through a "Joint Meeting" agency or some similar entity dedicated to a particular services or set of services.

F. The transfer of the service(s) to a higher authority agency such as a county or a state agency.

G. The creation of a regional agency involving a number of municipalities to handle the service(s)

H. The consolidation of the two or more municipalities creating one new organization as the service provider

Each of these levels of service provision has advantages and disadvantages depending upon the specifics of their operation and the municipalities involved. In the following sections each of the alternatives is outlined in greater detail and some of the advantages / disadvantages of each are discussed.

A - SINGLE AGENCY OPERATION – this is the most common service provider form: one municipality providing services directly to local citizens either by its own employees or through a contract with a private sector service provider or a non profit entity. This contract is totally controlled by the municipality. In essence this is the "traditional governmental operation" model common throughout the country.

The advantages:

1. Local control over the quality, quantity and costs
2. Capability to change any of the provisions or mechanisms at the will of the local officials

The disadvantages:

1. The cost structure may not be cost effective given the economies of scale, technologies involved, complexity of the service etc.
2. The service provision may not be at a quality / quantity level sought by or required by the local residents / taxpayers.

B - SINGLE AGENCY OPERATION WITH INFORMAL WORKING RELATIONSHIPS WITH OTHER NEARBY JURISDICTIONS – this is a very common occurrence among local governments relying on the informal network of local managers / supervisors and their goodwill toward each other.

The advantages:

1. The sharing of equipment or knowledge is very cost effective

The disadvantages:

1. This process relies on interpersonal relationships that can change due to any number of reasons
2. The sharing is limited in scope since the sharing of manpower or even some equipment can have legal implications and liabilities that are often overlooked until a problem occurs.
3. The availability of needed equipment / expertise / manpower is restricted by the needs of the provider municipality.

A variation of this alternate is the simple purchase of services on an "as needed - as available" basis by a municipality. Under this alternate municipality A only needs to purchase a service on a periodic basis. Municipality B has the capability at various times to provide assistance to municipality A (examples are sign making or pipe cleaning). The two municipalities may enter into an agreement, often a basic shared service contract, or could do this on an informal basis. The service is only provided and any funds are only exchanged when the timing is suitable for both jurisdictions.

The advantages of this arrangement are that the cost is often very reasonable since the service is provided at the discretion of the provider municipality.

The disadvantages are the limited availability of the service and the need to coordinate the two municipal operations so as to take full advantage of the service when it can be provided.

C - SHARED SERVICE – this is a common mechanism wherein one municipality contracts with another to provide for a specific service or services. There is a “provider and receiver relationship” (a "giver" and a "taker") wherein a specific service is provided by municipality B pursuant to funding being provided by municipality A. In the basic shared service agreement the provider of the service controls the operation of the service (frequently the existing operation of the provider is expanded to incorporate the service required by the receiver). The receiver of the service may be able to specify the level of service in the contract with the provider (especially if a lower or less frequent level of services is supplied than the provider currently performs for its

own residents) but the ability of the receiver to have additional input is limited since the service is normally an extension of the existing operation of the provider.

The Advantages:

1. It is easy to get into a shared service contract and conversely it is easy to get out of it. This lack of long term constraint is often a selling point to the receiver of the service since they feel they have maintained their options on providing this service. (Conversely the short term nature of the contract may be a detriment to the service provider if the contract requires expanding their current operation or manpower / equipment).
2. If the provider supplies a high quality level of service, the receiver benefits and normally receives services very comparable to those offered in the provider's own community.

The Disadvantages:

1. Since the termination or non renewal process is often so easy (especially in short term contracts), there is a reluctance to resolve disputes via "compromise" or the reconciliation of competing interests. However, in reality, once a service is contracted for and the receiver of the service has downsized its operations in anticipation of receiving this service, the capability of the receiver to reinstitute the service is difficult and their only real option is often to seek an alternate provider - a bidding war between public agencies.
2. Since the receiver of the service has little formal input into the provider's operation or quality / quantity of operation, very often the receiver looks at the provider as a simple "contractor" and consequently does not identify with the services being provided. The provider looks at the receiver only as a financial contributor to its operation.
3. Normally there is no formal mechanism in place to encourage or require the two jurisdictions to meet and confer. This lack of formal communication can result in misunderstandings / disputes arising which can lead to the premature cancellation of an effective and efficient operation.
4. There is a fixed term, often 3 years or less, which is not conducive to either participant "investing in" the relationship or identifying with the operation.
5. Any dispute resolution procedure is legalistic in nature (i.e. very focused on the specific dispute) which is often not conducive to resolving problems and relationships as it is to specific dispute resolution. In essence the process often results in the termination of the agreement through ill will or non renewal.

D - ENHANCED SHARED SERVICES – this alternate can be one of two evolutions of the standard shared service agreement:

1. The primary example of an "enhanced shared service agreement" is a shared service agreement which also incorporates a joint management team approach governing the services being provided, and has a longer term. In this concept a committee of all parties in the service arrangement is formally established with a fixed minimum meeting schedule. The function of this committee can vary significantly from a "meet and confer" advisory panel to a panel with an active role in the management of the service operation: to monitor the quality and quantity of

services provided and/or to respond to any concerns either party has. Normally the service provider retains the final say over the operation since the provider is the one employing the workforce, etc., and must be concerned over the impact of any change on its own residents; however the formal authority of the management committee is unique to the specifics of the services in question and the relationships of the parties to the contract. In addition the enhanced contract can provide for changes in the cost structure relating to changes agreed to by the management or advisory committee. In exchange for this formal review and participation, the receiver normally enters into a longer term contract and/or one with automatic renewal clauses with opt out clauses with these opt out clauses having specific time constraints and due notice provisions.

A joint municipal court with a multiparty management committee would be an example of this model.

2. The second example of an "enhanced shared service agreement" is a combination of standard shared service agreements wherein each of the participating municipalities provides one or more services to the other participating municipalities. In this context the totality of the shared service concept is enhanced since each municipality is both a provider as well as a receiver of the shared services, and can exercise some control over one or more services. In these relationships each of the participants retains some position of power in the overall relationships among the service providers. An example of this would be two municipalities wherein municipality A provides police and municipal court services to municipality B and at the same time, municipality B provides Public Works services to municipality A. Since each has control over one key service, there is a tendency that both still feel in control of their own destiny and being in a position of responding in kind should the other municipality start to take actions in their provided services that are perceived as threatening to the other municipality.

The Advantages for either of these alternates:

1. There is greater communication and acceptance or bonding between the provider and receiver of the services resulting in a greater acceptance of the end product and cost structure.
2. There is a mechanism in place to allow the service to evolve to meet changing needs and expectations.
3. There is a mechanism to encourage each party to assume responsibility for any difficulties that are encountered.
4. Rather than wholesale mergers of many functions, the enhanced shared service contract can be limited in scope making it easier to create a financing mechanism that may be specific to the services being provided
5. The use of a longer term contract encourages municipalities to reconcile differences and seek compromises rather than incurring the expense and difficulties of breaking the contract and re-creating the service provider mechanism in their own organization.

The Disadvantages for either of these alternates:

1. It is difficult to get the provider of the services to accept or extend involvement to the receiver of the services, a sharing of power between the two organizations. There is the fear that the

sharing of these responsibilities can result in a “loss of control” or even an inability to resolve issues that impact differently on the parties to the agreement.

2. As to the co-sponsoring of services, it is difficult to find a service that each of the participants can perform with effectiveness and efficiency, especially if the two municipalities are different in their resource capability and capacities. This model has a higher rate of success when the participating municipalities are similar in make up and scope but wish to take advantage of the economies of scale that the combination of resources in a functional area can achieve.

E - CREATION OF SERVICE CONTRACTOR - In this alternative the participating municipalities create a new organization to provide selected services to all of the participating municipalities (normally neighboring municipalities). The legal mechanism used is called a “Joint Meeting” (NJS A 40A:65-14 et. seq.) referencing the fact that the municipalities join together creating in essence a separate authority to provide designated services with each of the participating municipalities being a part of the management and ownership structure of the created third party agency. The enabling statute is very broad in the services that can be performed and even allows the created authority to contract back with any one of the participating municipalities to perform some of the designated services. It is possible to have several “management sub committees” within the new structure for different service functions provided (e.g. one for public safety services and another for public works services) with each of these subcommittees reporting to the central management committee. By using these subcommittees it is possible to involve more of the officials of the participating municipalities thereby increasing the “ownership” psychology of the member municipalities while retaining the central management required for efficient operation.

The advantages:

1. This model achieves the desired economies of scale and advantages of organizational size and expertise and yet it retains direct involvement of all participants in the service delivery process. Depending upon the details of the contract creating the new authority, each of the participating municipalities can retain certain policy setting authority leaving the implementation details to the new entity.
2. This model keeps all sides actively involved in the management of the services thereby maintaining the “ownership” philosophy that often characterizes local government.

The disadvantages:

1. The created authority is legally a separate entity with its own management board (made up of members from the participating municipalities) which can develop its own constituency and policies as well as an independent operating process.
2. The overhead structure of the created authority may result in increased administrative and other costs that offset potential savings.
3. The authority creates its own budgets which are then given to the participating municipalities to fund. Although members of each of the participating municipalities were involved in the budget process, other elected officials not directly involved may take exception to the financial

requirements. In addition, although the creating municipalities retain the ability to curtail the authority by changing the authorizing contract and the ultimate authority to terminate the contract, the legal processes are cumbersome so that such action should only be taken after due consideration.

4. The concept of creating a third entity rather than merging existing agencies may not seem to be reasonable to many people. In effect, another layer of government is created.

F. TRANSFER OF FUNCTIONS - In this alternate a municipality transfers functions to another level of government. For example, the municipality transfers social service, health, or emergency communications functions to an established county agency. In many counties there are agencies which can be the service provider; in addition, in a number of other counties the counties are creating mechanisms to provide centralized services requested by municipalities under the premise that the centralized operation can have economies of scale that can be beneficial to the local taxpayers. Some counties have been very active in providing local services for many decades (normally the counties undergoing development in the past several decades) whereas in the more historically developed counties the movement to centralized services has been slower.

The advantages:

1. The county or other governmental unit often has an ongoing program that can accept the added service work load from the municipality. This transfer can be implemented fairly easily and the cost implications are often very favorable to both parties.

The disadvantages:

1. The individual municipality may feel the loss of local control since the municipality becomes one of many participating municipalities and as such often has limited say in the provision of the transferred services.
2. Often local officials are concerned with county officials taking credit for "doing a favor" for a municipality often with political overtones.
3. The municipal officials often don't "identify" with the services or the County provider which can undermine long term commitments.
4. Municipalities with a greater emphasis on quality services might see a regional service in which many municipalities participate as degrading the special qualities of their municipality.

A subcategory of this alternate is THE ASSUMPTION OF A SERVICE BY A COUNTY OR STATE AGENCY – in this alternate a “higher authority” such as a County or State agency assumes responsibility for a function automatically removing the function from municipal operation (for example certain environmental and health regulations) normally required by State law or regulation. In some specific circumstances, again as set forth in the statute or regulation authorizing the transfer, the transfer is “voluntary” (e.g. the transfer of the social service functions to the County in the 1990’s for all except large municipalities and those municipalities which specifically opted out of the assumption). There are often blurred lines of responsibility

here as evidenced by the growing state role in municipal court operations, construction code enforcement and other functional areas. In other cases, the state revised regulations to reserve unto themselves certain decision making authority with the local municipalities serving as the agents of the state with little control over the final decisions (such as the transfer of certain environmental authority and requirements to the NJDEP or DEP created agencies).

G. CREATION OF A NEW REGIONAL AUTHORITY – This alternative is similar to the Joint Meeting concept outlined above but involves a number of participating municipalities within a larger geographic area and normally only one function. In addition, although a single municipality normally has participation in the Board or management committee of the regional authority, it is not unusual for this agency to be fairly independent of the participating municipalities since the regional agencies often involve multiple partners and have very specific functional areas (a primary example is regional health service commissions or sewage treatment facilities).

The advantages:

1. For any service that has area wide involvement, this is a viable mechanism to provide needed services. A primary example of this is involving all municipalities in a specific drainage area that contribute sewage to a regional treatment plant to be involved in the financing of the plant through a regional authority. Likewise health services are often provided on a regional basis since the specialized services provided and level of required expertise can best be accomplished when a large population base (and financial resource base) is available.

The disadvantages:

1. Municipalities may feel their role is limited or they have "lost control" over the services provided or the financial cost for these services.

H. THE CONSOLIDATION OF TWO OR MORE MUNICIPALITIES– in this final alternative two or more municipalities go through a self analysis process to determine the preferred method of handling each of the services currently being provided as well as new services required by the local residents, and then create a new merged government to provide these services in the matter determined by the local residents. The recent statutes governing these mergers provide significant flexibility to municipalities in this "re-creation" process as well as the ability to retain some of their unique features that exist in the predecessor municipalities.

The advantages:

1. This process is through a deliberate and detailed analysis of the existing conditions and alternates available for each of the existing services. This allows the development of a more rational government process and service delivery than that which may have governed the predecessor municipalities whose boundaries were established in different times which had different needs and financial realities.
2. The larger created government should be more cost effective given the larger resource base and the realignment of activities through the study process.

The disadvantages:

1. The examination, evaluation, and decision processes to create the new merged government are very time consuming and complex.
2. The anxiety of and reluctance to change, especially amongst affected local officials, employees and vested interest groups is very strong in some municipalities.
3. Mergers require approval by the voters of each municipality in a local referendum. The voters of the municipalities being merged might perceive inequities in the costs and benefits of the consolidated government to either or all of the participating municipalities.

In summary, there are a number of alternatives available to municipalities when searching for a more efficient and effective way to provide services to their residents and taxpayers. There is no method that works in all situations; each solution should be specifically designed to the services being provided and the inter-municipal as well as intra-municipal opportunities that may exist at any given point in time. The key guidance to be used in determining the proper course of action should be what is best for the long term cost / benefit ratio that addresses both the current needs of the municipality and those needs that can reasonably be expected in the next 5 years.