

SECTOR IN-DEPTH

11 December 2019

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Local government - New Jersey

Shared services agreements save local governments money and resources

New Jersey local governments will continue to curb expense growth and save money via shared services agreements in an environment of rising costs and a declining appetite for raising taxes. A shared services agreement is when a local government contracts out or shares responsibility of a service with another municipality or pool of municipalities. The benefits of the agreements are cost savings, for both the sending and receiving entity, and improved service quality, if executed properly. Shared services are attractive because they help control operating costs, which is valuable given the revenue-raising and cost-cutting constraints on local governments. New Jersey is ripe for the agreements to increase because it has a massive number of local governments (565 municipalities and 21 counties), many of them small, which stand to benefit from economies of scale for services such as police, corrections and healthcare.

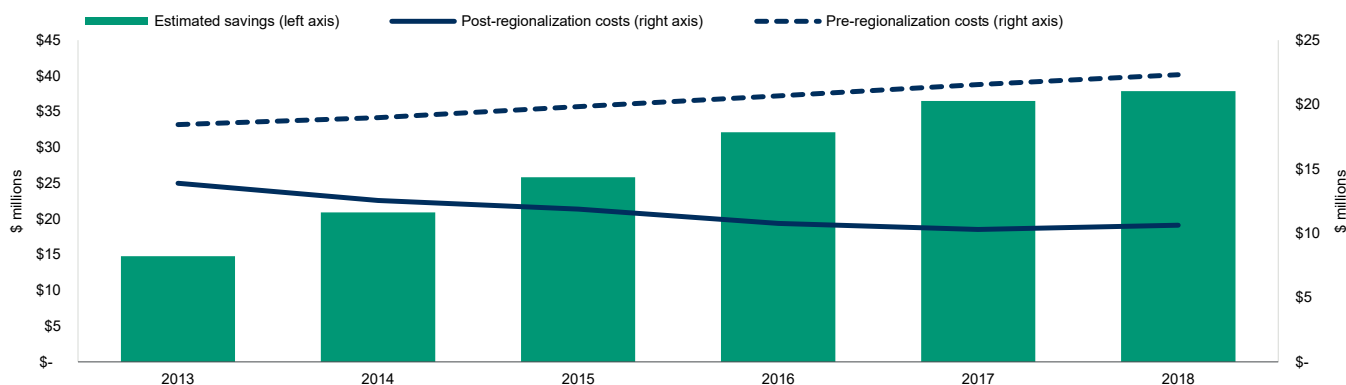
- » **Shared services agreements are an effective tool for local governments to control spending and save money while maintaining service levels.** The agreements, which have received support from the state through financial and other incentives, take place at multiple levels of local government, including county-municipality and municipality-municipality. Some expansive agreements include multiple local governments forming a group. [Gloucester County](#) (Aa2 positive), for example, joined with neighboring counties to provide correctional services and has saved increasing amounts year over year, reaching the equivalent of 8.3% of fiscal 2018 current fund revenue.
- » **Shared services agreements are beneficial even without significant cost savings if a municipality receives better services.** A local government benefits from paying another municipality that has invested in upgrading a service or has a particular expertise in a function, if the contract leads to a higher-quality service. Small local governments stand to particularly benefit from operational efficiencies from these agreements. In [Passaic County](#) (Aa1 stable), for example, municipalities are working with the county on health service operations. The county also works with a neighboring county to bolster other services such consumer protections.

Shared service agreements are an effective way for local governments to control spending and save money while still maintaining service levels

New Jersey local governments will continue to use shared services agreements to cut costs and save money. Shared service agreements take different forms including contracting out (paying an entity to provide a service) or sharing responsibilities for a service, both of which have the potential save money for the parties involved. In at least one sense, these agreements are attractive because the state is encouraging them by providing grants (such as the Local Efficiency Achievement Program), expertise and guidance services to municipalities. Municipal services across all aspects of government can use these agreements. Popular services encompassed by shared services agreements in the state include jail and correctional operations, health services, community colleges, procurement and public works. While county-county agreements involve large local governments, New Jersey is also primed for a continued increase in municipal-county agreements and municipality-municipality because the state has so many small entities among its 565 municipalities and vast number of special purpose entities. Shared services are also attractive because they help control operating costs. This is valuable given the revenue-raising and cost-cutting constraints on local governments.

Shared services agreements for correctional facilities provide a particular financial benefit because of the heavy costs related to the facilities. Operations require around-the-clock personnel who receive relatively high salaries, overtime pay and costly benefits. The need for capital investment is also ongoing. Gloucester County, for example, beginning in 2013, "regionalized" its correctional facilities with neighboring counties for male, female and juvenile inmates. Since the beginning of the regionalization, Gloucester's estimated savings have grown annually with the county estimating savings of just over \$21 million in fiscal 2018, or 8.3% of fiscal 2018 current fund revenues (see Exhibit). Gloucester has used the savings for other purposes, particularly expanding community college offerings.

Gloucester County's agreement to "regionalize" correctional facilities provides savings that free up funds for other purposes



Sources: Moody's Investors Service and Gloucester County, New Jersey estimates

[Buena Borough](#) (A2), with less than 5,000 residents in Atlantic County, is an example of a small municipality benefiting from a shared services agreement, having contracted with Franklin Township for its police force in 2018. Similar to corrections services, a police force requires 24-hour staffing, capital investments and costly benefit and pension expenditures – a challenge for a municipality with limited resources. In fiscal 2017 (the last year Buena operated its police services), police expenditures cost the borough approximately \$1.3 million, or 30.6% of current fund revenues (net of fund balance appropriated and taxes collected on behalf the county and school district). In fiscal 2018, it began a five-year agreement where Franklin Township, with approximately 66,000 residents, operates its police services. The yearly payments to Franklin Township increase 5% annually, reaching \$912,000 in the final year of the contract, up from \$750,000 in year one. The borough estimates savings during fiscal 2018 at \$397,000 or 10% of fiscal 2018 revenues. The borough will continue to see savings as the pension expense, which is on a two-year delay, is no longer part of its expenditures in 2020. The borough has also shed financial and operational risks related to staffing, capital spending and escalating pension benefits resulting from union contracts. For Franklin Township, which is located in Gloucester, the costs of policing Buena are fairly low and the township is using the revenue to help with personnel and capital expenditures.

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Shared service agreements are beneficial even without significant cost savings if a municipality receives better services

Even if a local government fails to save a material amount of money via a shared services agreement, the municipality benefits if the agreement leads to improved service quality. Many government services require significant resources for operations, capital investment and compliance, including emergency dispatch, health and human services and snow removal. Some municipalities improve service quality if the responsibility is transferred to, or shared with, another local government that has invested in upgrading its operations or has a particular expertise in a function. The agreements stand to benefit both the party that pays for a service and the one providing it.

Having invested significantly in correctional facilities, [Essex County](#) (Aaa stable) is receiving fees from [Hudson](#) (Aa2 stable), [Union](#) (Aaa stable) and Gloucester counties to house prisoners on their behalf. That helps the three "sending" counties with operational efficiencies, if not significant cost savings. The three "sending" counties are also able to avoid significant corrections-related investments. Essex has spent at least \$94 million on operations for correctional facilities in 2019. While the agreements with the three counties have generated approximately \$1.4 million for Essex so far this year (or just 1.4% of its 2019 correctional facility spending), the agreements stand to help Essex reduce costs. A certain portion of expenses are fixed no matter the number of inmates and those costs are potentially spread among a larger number of prisoners. Also, a larger number of inmates allows for better pricing power by the facility because of economies scale.

Passaic County serves as another example of a county using shared services agreements to benefit from operational efficiencies. The county is active in entering into shared services agreements with local governments located within the county in addition to neighboring [Bergen County](#) (Aaa stable). First, with municipalities in Passaic County, the county has agreements to provide certain health services given how much more efficient it is for the county to provide the services than the individual local governments, particularly in light of investments the county has made for its own needs. The county has provided health services to four local governments without hiring additional staff (aside from an additional service provided to one local government, the cost of which is built into that particular contract). Like Essex County with correctional facilities, Passaic benefits from the economies of scale in providing health services for a greater number of residents.

In addition to working with its local governments, Passaic County contracts with Bergen County to provide consumer protection services on its behalf. Bergen's consumer protection department has made significant investments in that functionality by hiring former police officers to fully investigate inquiries. Instead of investing similar levels of resources into their own department, Passaic and Bergen now work together in this capacity for an overall better service delivery and a gain in operational efficiencies.

Shared services agreements are an example of strong governance

Shared services agreements that save money, increase the quality of service or yield operational efficiencies are examples of strong governance. The agreements are also a way for local governments to improve policy credibility and budgetary management. In New Jersey, where boosting revenue by increasing taxes is becoming more and more unpalatable, shared service agreements are a governance tool to help balance budgets while providing similar if not better service levels to taxpayers.

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REPORT NUMBER 1180935