

Local Government Service Consolidation: *Advantages, Disadvantages & Techniques*

Genessee County Planning Forum

Plante & Moran, PLLC
Williams & Works, Inc
November 5, 2010

Agenda



- Introduction and Overview
- What are the costs?
- What are the benefits?
- Where to start?
- Q & A

Introductions



- Jay Kilpatrick, AICP, PCP
 - Principal-in-Charge of Planning, Williams & Works
 - Over 35 years experience in local government
 - Focus on planning, zoning, economic development, community development and management.
 - Concentration on services to small- to mid-sized cities, villages, township and counties in West Michigan

Introductions



■ Craig Frankland

- Senior Consultant, Government Consulting Practice, Plante & Moran, PLLC
- Focus on shared services arrangements, operations analysis, business process redesign, and cost allocation reviews
- Concentration on shared services projects for government clients in Southeast Michigan
- Background as Industrial Engineer with a goal of improving the efficiency of all systems, including government agencies

Background

- Service Consolidation is Not a New Concept
 - In rural regions, communities have combined finances to purchase large equipment, e.g., fire/rescue equipment and services
 - In urban areas, some services are provided to multiple communities, e.g., libraries, school districts, water/sewer



Background



Why Consider it?

- Reduce cost
- Improve service
- Equitable sharing
 - Costs
 - Benefits
- Gain a regional perspective
- Achieve greater flexibility
- Advance a regional identity
- Improve competitive position
- Manage “larger-than-local” issues
 - Traffic
 - Land Use & Zoning
 - Utilities
- Improved capacity and expertise

Background

Why Not Consider it?



- Reduced autonomy
- Old “grudges”
- Lack of trust
- Labor agreements
- Complex legal issues
- Some benefits are not easily balanced
- Lack of sophistication
- Can create “another layer”

Background



It is happening...

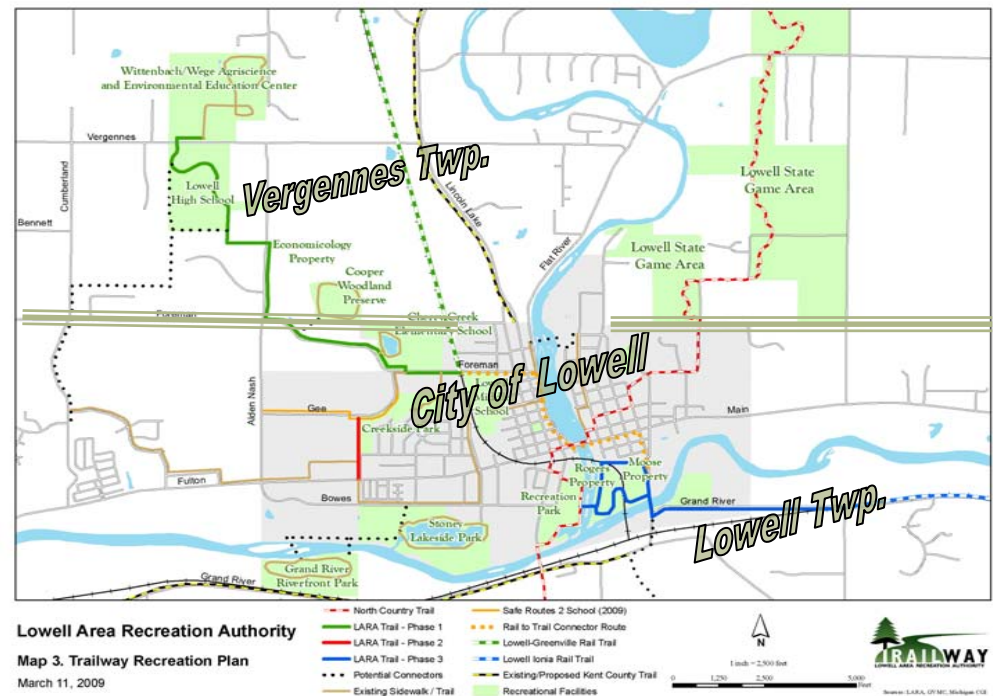
- Joint purchasing
- Combined Fire and EMS services and mutual aid
- Utility systems
- Parks and Recreation
- Mass Transit
- Regional 9-1-1
- Geographic Info. Systems
- Computer server sharing
- Library services
- Economic Development
- Regional solid waste
- Shared training facilities
- Traffic signal maintenance
- Street light maintenance
- Joint planning
- Shared zoning and building inspection
- Shared assessor services

Parks and Recreation Example



Lowell Area Recreation Authority

- City of Lowell
 - Lowell Twp.
 - Vergennes Twp.
- All 3 provide some park & recreation facilities
- Reluctant to merge completely

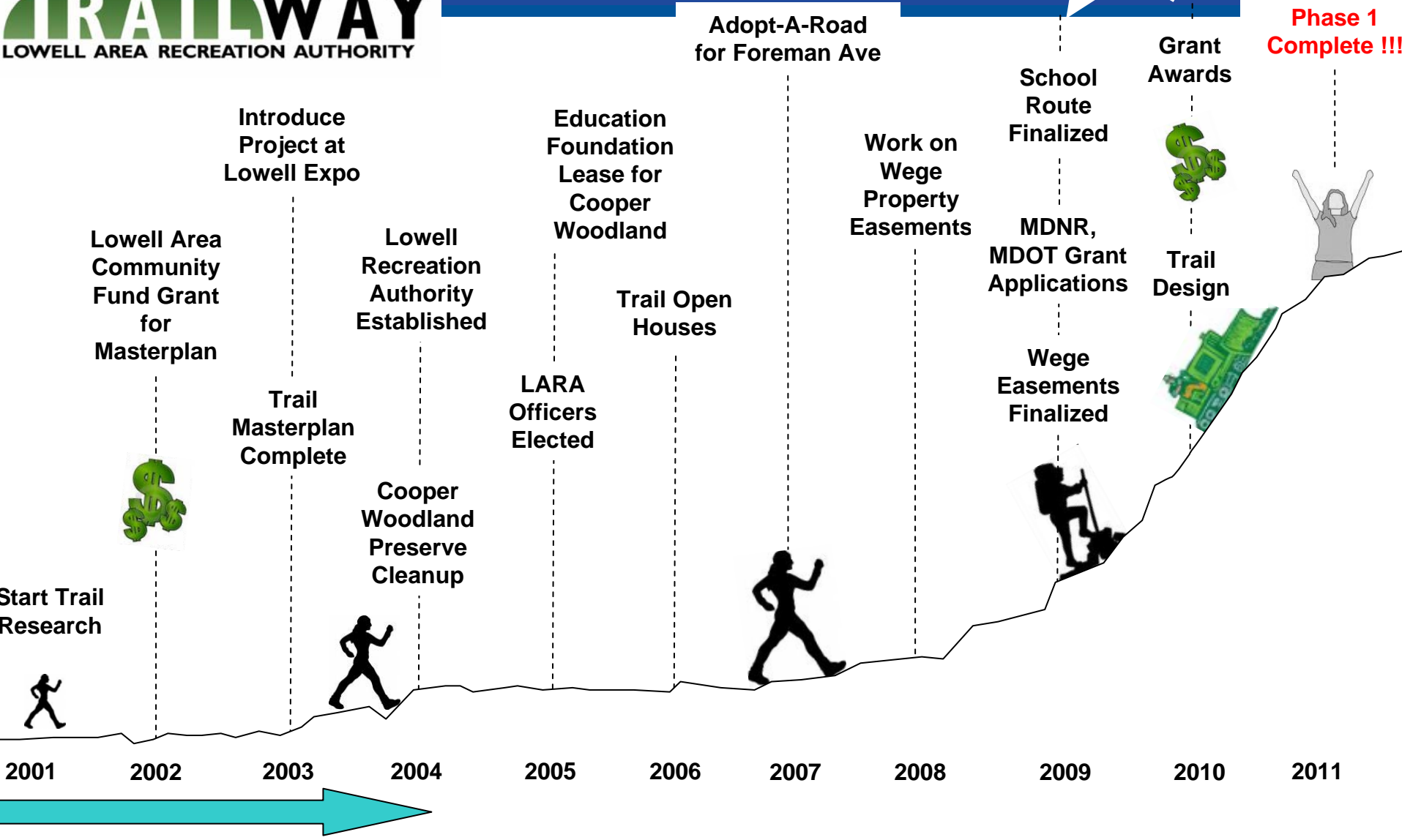


Parks and Recreation

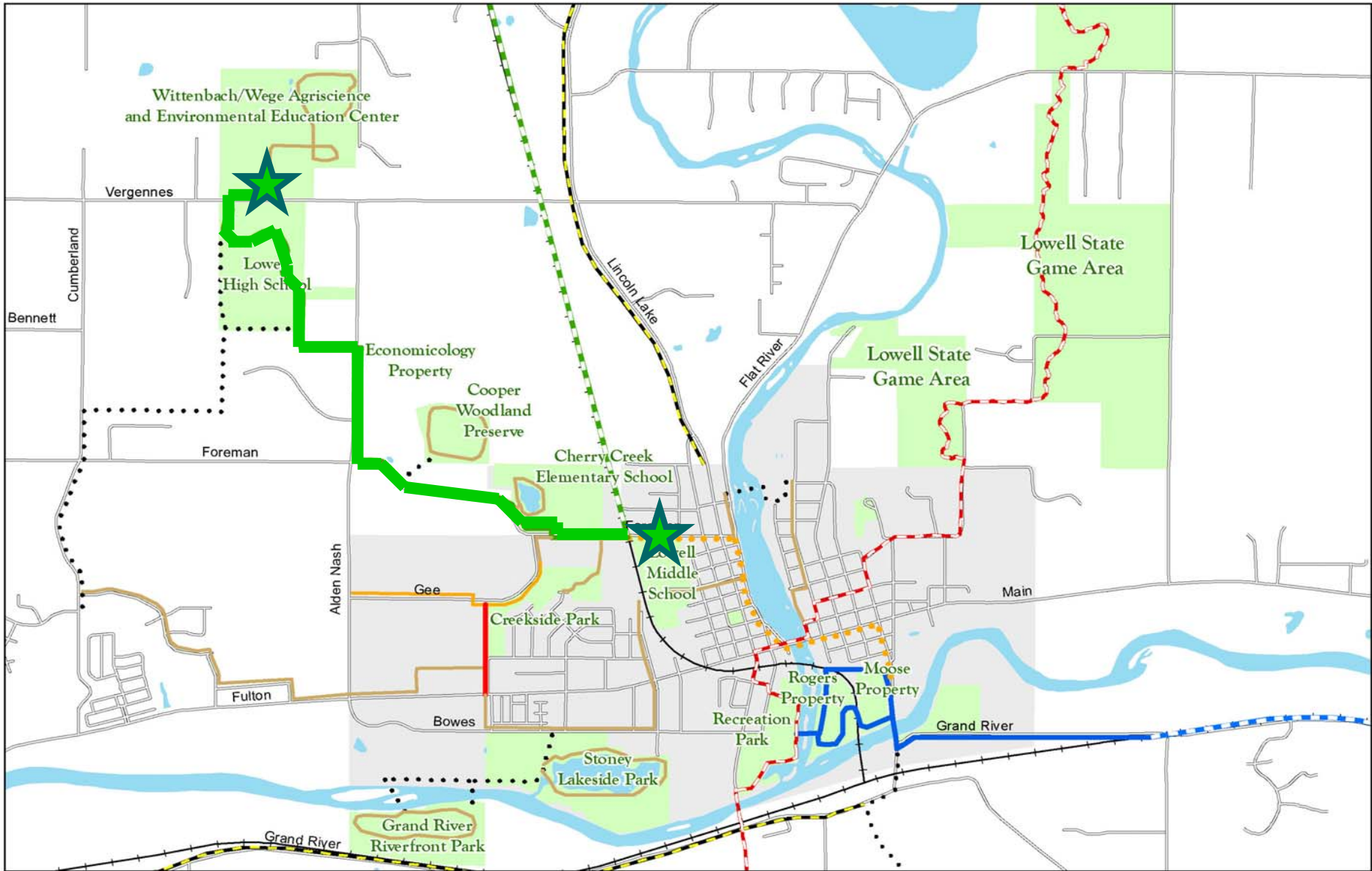


- Recognition that trails were regional service
- Formed under Urban Cooperation Act (Act 7 of 1967)
- Created a regional Recreation Plan and successfully won MDNR grant





Phase 1 Complete !!!

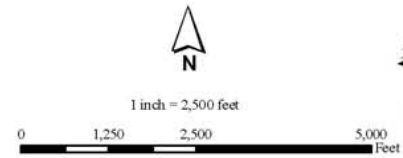


Lowell Area Recreation Authority

Map 3. Trailway Recreation Plan

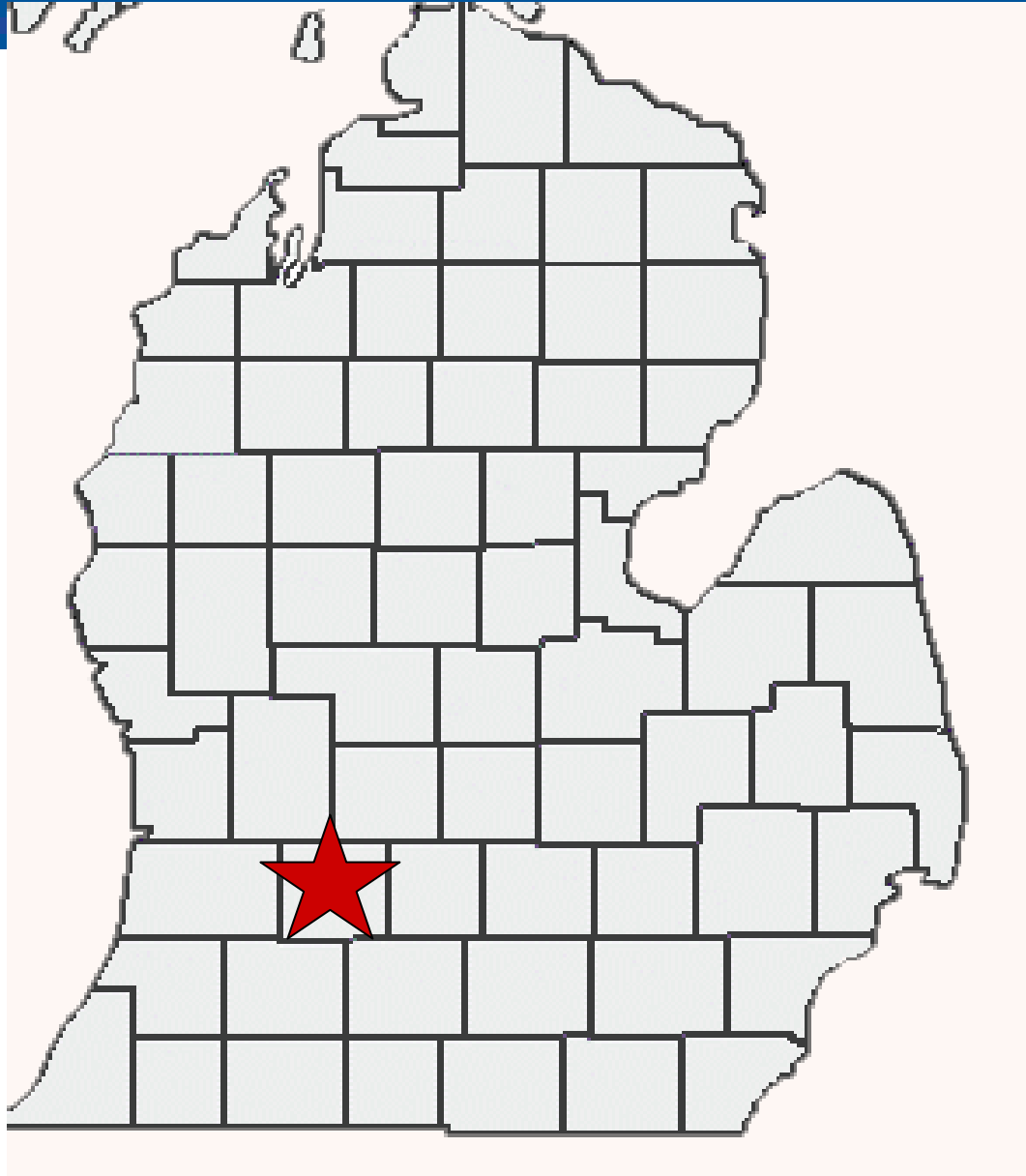
March 11, 2009

- - - North Country Trail
- LARA Trail - Phase 1
- LARA Trail - Phase 2
- LARA Trail - Phase 3
- Potential Connectors
- Existing Sidewalk / Trail
- - - Safe Routes 2 School (2009)
- Rail to Trail Connector Route
- - - Lowell-Greenville Rail Trail
- - - Lowell Ionia Rail Trail
- - - Existing/Proposed Kent County Trail
- Recreational Facilities

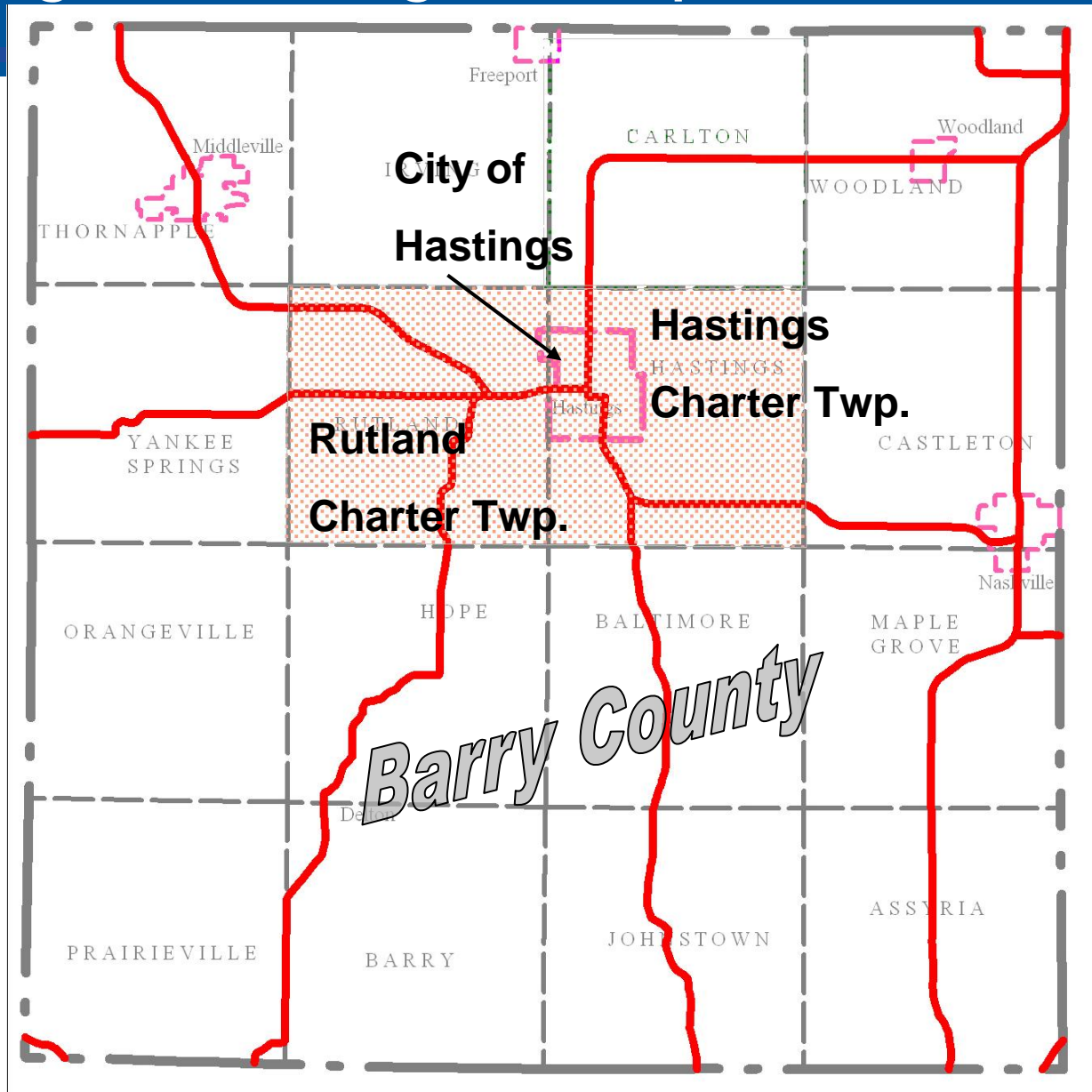


Sources: LARA, GVMC, Michigan CGI

Planning & Zoning



Planning & Zoning Example



Planning & Zoning

- Hastings Area Joint Plan
 - City of Hastings
 - Hastings Township
 - Rutland Township
 - Barry County
- Regional growth pressure
- City desires to protect commercial core
- Townships want to retain rural character but enable growth

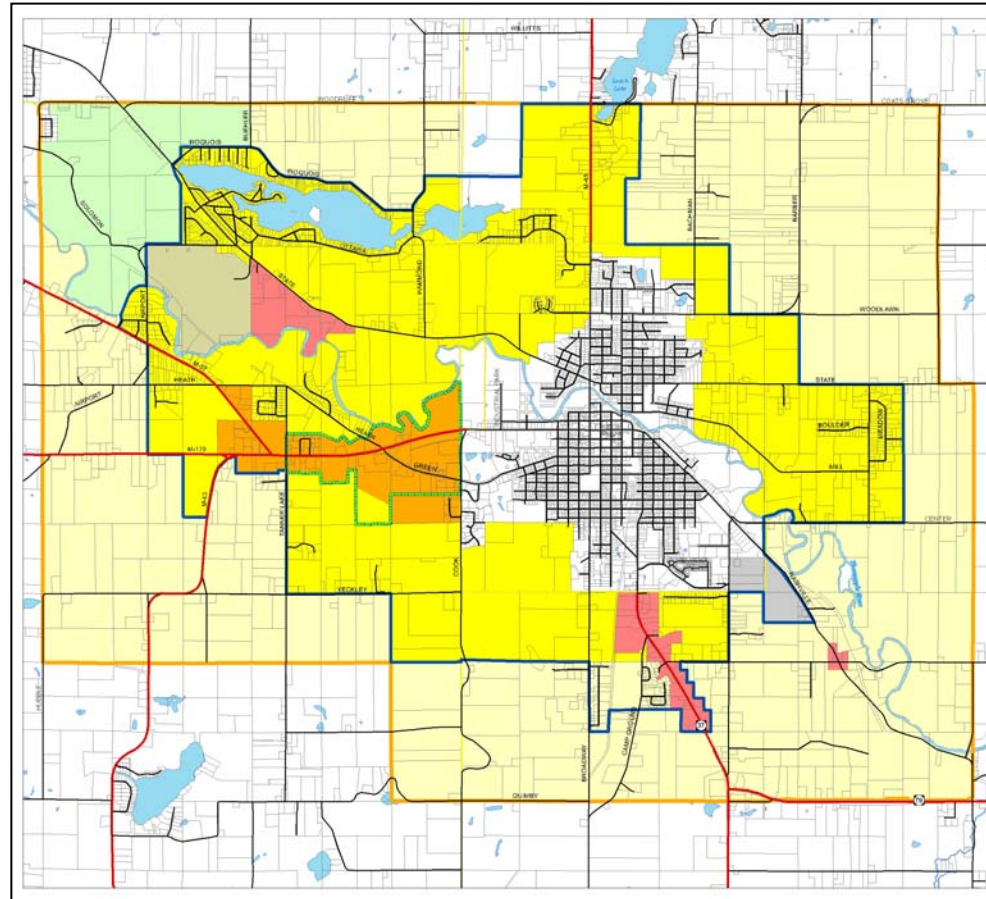


MIXED USE DEVELOPMENT CONCEPT

Planning & Zoning - Joint Master Plan

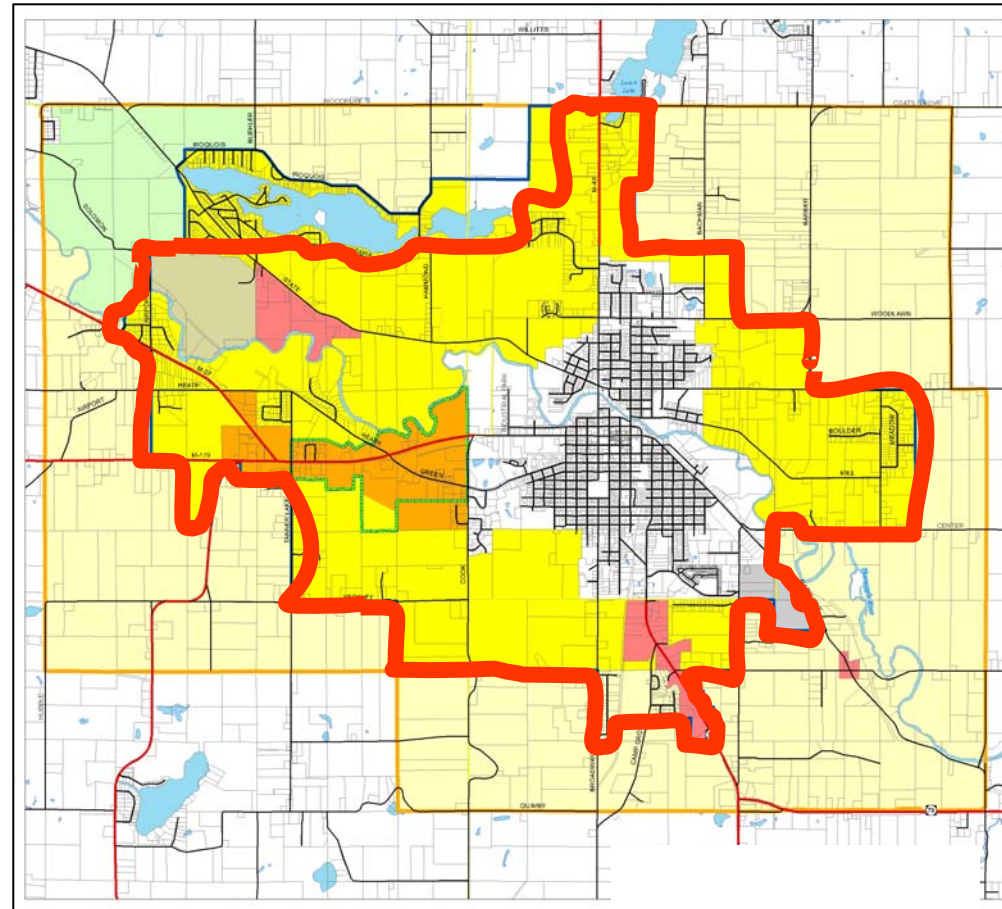


- 13 Member Joint Planning Alliance
- Created April, 2007
- Created a common vision for managing growth in the Hastings community
- Consistent with all 3 Master Plans
- Established an urban services boundary around Hastings



Planning & Zoning

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Planning & Zoning - Joint Zoning Overlay

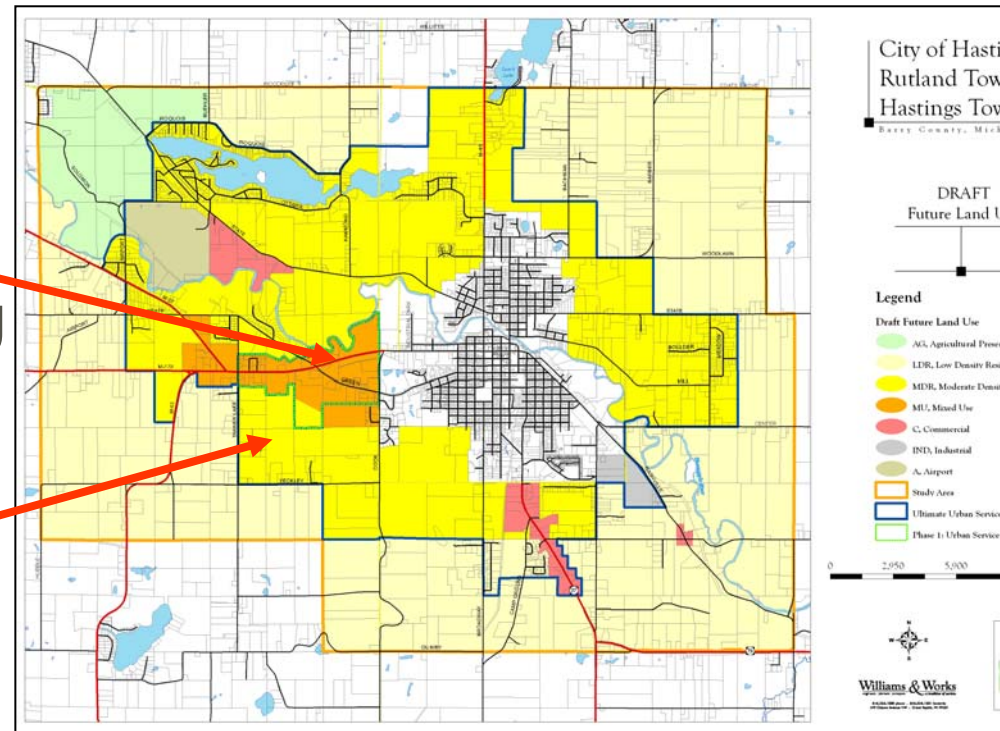
- Need to protect local autonomy
- Balance with commitment to Joint Plan
- Avoid inefficient “leap frog” patterns that undermine the core
- Keep decisions local
- Coordinate utility extensions with zoning



MIXED USE DEVELOPMENT CONCEPT

Planning & Zoning - Joint Zoning Overlay

- Common zoning districts in all jurisdictions
- Tier 1 Inside Growth Boundary and Receiving Urban Services
- Tier 2 Inside Growth Boundary but not yet Receiving Urban Services
- Creates special land use conditions to assure ultimate acceptance of urban services (more than utilities alone)
- Joint Planning Alliance advisory review



Planning & Zoning - Utility Agreement



- Limited services agreement in place to allow service to 2 lake areas
- Still negotiating urban services agreement
- Won a \$200k brownfield grant from EPA, partly on basis of inter-jurisdictional cooperation
- Developing a website on the community
- Conducting training on planning and zoning
- Re-visiting 425 agreement as most efficient approach
- Jointly retained counsel to move to implementation

Financial Considerations



Financial Considerations



- In almost every instance, there is a financial benefit to consolidation!
 - However, many potentially successful consolidations are never implemented
 - Municipalities have multiple challenges to overcome to move from a theoretical financial benefit to an operational reality
- Overcoming these “unexpected” challenges are necessary to move forward with consolidation

Financial Considerations cont...



- Sharing of the costs or savings
 - Difficulties reaching agreement on how to share costs (and or savings) of the agreement
- Compensating communities for prior investment in services
 - How to adequately compensate another community for equipment and facilities?
 - Should a community be compensated for the investment?
- Paying for administrative services
 - Compensating for payroll, IT, HR, etc...

Three Financial Questions for any Consolidation Project



■ Solve the three major financial questions

1. How much does it cost to operate today?
2. Would we save any money working together?
3. How do we share the savings?

How much does it cost today?



- True Operating Costs are often unknown
- Standard fund accounting is not conducive to determining the total operating cost of an entity
 - Department Budget \neq Total Operating Cost
 - Expenses are classified differently by community
 - Expenses charged to a specific department in one community may be done through the general fund in another, e.g. Retiree Health Care expenses
 - Equipment depreciation and capital overlay charges are handled differently by each community
 - Administrative support services, such as Human Resources, IT, Payroll, and other expenses are often overlooked when looking at total costs

Example Police Analysis

Cost per Deputy - 2004 actual



	2004 Projected Cost Per PSU
Personnel Costs	
Deputy Salary	48,100
Deputy Overtime	5,850
Deputy Holiday	3,300
Deputy Fringe Benefits	22,850
Administrative Support	6,030
Supervisors	16,250
Detective Bureau	9,210
Pool of Six Fill In Deputies	4,330
Six Special Assignment Deputies	5,150
Support Services	8,640
Prevention Services	1,800
Supplies	
General Supplies	1,150
Uniforms	1,710
Other Services & Charges	3,620
Internal Service Charges	
Fleet	14,240
Indirect Costs (Cost Allocation Plan - CAP)	11,900
Capital Outlay	-
Central Dispatch	16,400
Average Cost per Deputy	180,530
Less: County Contribution for Dept Oversight Costs (Admin Support)	6,030
Less: County Contribution for Special Assignment Deputies	5,150
Average Cost per Deputy - Net Fixed Costs	169,350
Less: E911 Surcharge Revenue	8,990
Less: Other Revenue	4,920
Average Cost per Deputy Net Fixed Costs and Other Revenues	155,440

Would we save any money?



- Level of Service
- Operating Model
 - Personnel
 - Supplies/Materials
 - Equipment
 - Real Estate
- Revenue Streams
- Other

Fire Authority Example

Operations Model



	<u>Current 5 Community</u>	<u>Transitional 6 Station Model</u>	<u>ISO/ NFPA "Ideal" Model</u>
• Population served	138,300	138,300	175,300
• Square miles of coverage	28.4	28.4	36
• Number of stations	6	6	9
• Available Pumper Apparatus	10	5	9
• Available Rescue Units	9	7	18
• Available Ladder Units	4	2	4
• Net Annual Cost	\$15.1 mm	\$14.0 mm	\$12.2 mm
• Cost per person (Net)	\$109	\$101	\$88

Fire Authority Example

Cost Model – 5 Year Cost Comparison (\$000,000)



	<u>Current Model</u>	<u>Transition Plan</u>	<u>Long Term Ideal</u>
City A	\$20.2	\$18.5	\$16.2
City B	\$21.3	\$19.5	\$17.0
City C	\$7.9	\$6.8	\$5.9
City D	\$19.4	\$17.1	\$14.8
City E	<u>\$18.7</u>	<u>\$15.0</u>	<u>\$12.8</u>
Total	\$87.5	\$76.9	\$66.7
Cost per person	\$633	\$556	\$482

How do we share the costs and savings?



- The division of costs or savings determines how much each unit must pay for service
 - Example
 - Unit A current cost = \$5 M, Unit B current cost = \$3M
 - Proposed solution cost = \$7M
 - Total net savings = \$1M
 - How do you divide this \$1M in savings?

Sharing the Costs and Savings



■ Strategies

- Flat Rate or SEV based charge to each unit
 - Easy to put into place
 - Some units subsidize other units
- Cost based on use
 - More efficient system than flat rate
 - Difficult to establish use
- Cost weighted formula
 - Way to allocate costs in a way that accounts for differing factors between communities
 - Based on factors such as population, SEV, usage

Cost Weighted Formula



Unit	Popl'n	SEV	Usage	Sum Wts
Weights	(0.30)	(0.30)	(0.40)	(1.00)
Unit A	0.535 (0.161)	0.570 (0.171)	0.418 (0.167)	0.499
Unit B	0.260 (0.078)	0.237 (0.071)	0.314 (0.127)	0.276
Unit C	0.205 (0.062)	0.193 (0.058)	0.268 (0.107)	.227
	1.000	1.000	1.000	1.000

Note: Sum of Weights provides the cost share for each unit and is obtained by multiplying each factor weight times the percent share for the factor for each unit

Getting Started



- You've decided that consolidation of services may make sense.
- What do you do next?

Legal Considerations



Legal Authority Required

Find a Statute....

Topic

Act

Recreational Authority

Act 321 of 2000

Public Transportation Authority

Act 196 of 1986

Community Swimming Pool Authority

Act 425 of 1994

Downtown Development Authority

Act 197 of 1975

Community Airports

Act 206 of 1957

Airport Authority

Act 73 of 1970

Hospital Authority

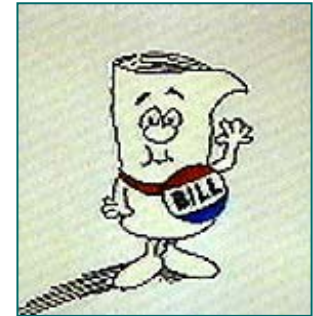
Act 47 of 1945

Hospital Finance Authority

Act 38 of 1969

Joint Public Improvements

Act 81 of 1925



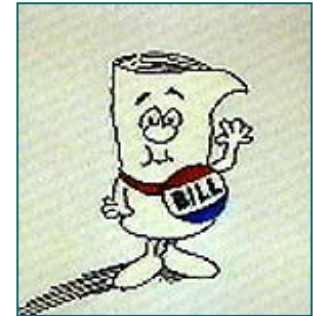
Legal Authority Required

Find a Statute....

Topic

Act

Joint Water Supply	Act 130 of 1945
Joint Sewers and Sewage Disposal	Act 129 of 1943
Joint Garbage and Rubbish Disposal	Act 179 of 1947
Joint Water and Sewage Disp. System	Act 82 of 1955
Joint Water and Sewage Disp. System	Act 76 of 1965
Joint Public Buildings	Act 150 of 1923
Joint Municipal Planning	Act 226 of 2003
Joint Cemetery Authority	Act 215 of 1937
Library Consolidation	Act 165 of 1927



Legal Authority Required

Find a Statute....

Topic

Act

Parks and Recreation

Act 157 of 1905

Municipal Historical Commission

Act 213 of 1957

Police and Fire

Act 33 of 1951

Inter-County Committees

Act 217 of 1957

Inter-Municipality Committees

Act 200 of 1957

Regional Planning Commissions

Act 281 of 1945

Metropolitan Council

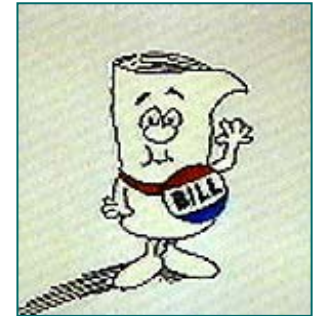
Act 292 of 1989

Metropolitan District

Act 312 of 1929

Assessing Services

Act 37 of 1967



Legal Authority Required

Find a Statute....

Topic

Act

Assessment and Collection of Taxes

Act 160 of 1972

Conditional Transfer of Property

Act 425 of 1984

Mutual Police Assistance

Act 236 of 1967

Emergency Services to Municipalities

Act 57 of 1988

District Library Establishment

Act 24 of 1989

Recreation and Playgrounds

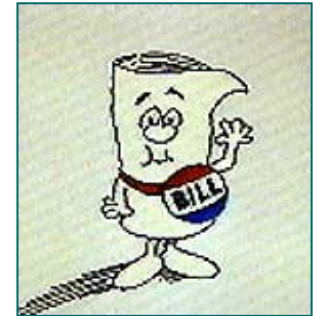
Act 156 of 1917

Building Authorities

Act 31 of 1948

Township Water Supply

Act 107 of 1941



Legal Authority Required

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Topic

Act

Urban Cooperation

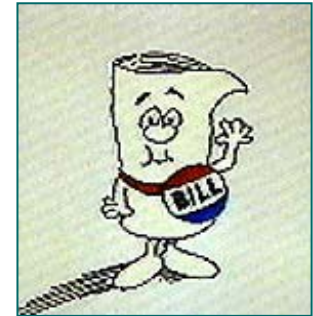
Act 7 of 1967

Intergovernmental Transfers of
Functions and Responsibilities

Act 8 of 1967

Intergovernmental Contracts
Between Municipal Corporations

Act 35 of 1951



38 Michigan statutes dealing with service cooperation and consolidation

Getting Started...



- Develop ideas and objectives with key officials
 - Internally first
 - Look for partners in similar circumstances
- Begin conversation with objectives
 - Don't over-commit or get locked-in
 - Avoid ultimatums or taking positions
- Develop and strengthen the relationship
 - Key officials from all sides
 - Begin discussions on the material issues



Getting Started...



- Identify likely stakeholders (pro and con) and determine when and how to bring them in
- Consider engaging a facilitator to continue momentum
 - Someone to champion the process
 - Regarded as fair and impartial
- Bring in the experts
 - Legal
 - Financial
- Confirm or adjust your assumptions



Develop the Term Sheet



- More than a hand shake – less than complete agreement.
 - Make it easily understood
 - Deal with major points of agreement first
 - Becomes the framework for further analysis and/or an agreement
- Endorsement by elected officials on all sides
- Lawyers and Accountants to take their lead from the Term Sheet

Governance Items



- Determine the method of consolidation
- Develop legal contract for the agreement
- Identify members of the governing body



Financial Items



- Finalize detailed cost / savings estimates
- Quantify the value of your assets
- Calculate current employee legacy costs
- Develop a final budget for the consolidated entity



Operational / Personnel Items



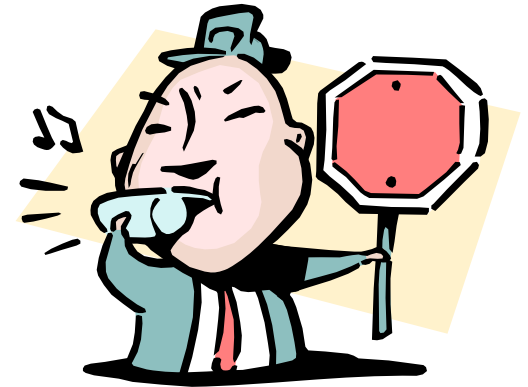
- Standardize policies and procedures
- Reorganize staff roles and responsibilities
- Make personnel / staffing decisions
- Create service level expectations



Warnings!!



- Open Meetings Act
 - Sub-Quorum Issues
 - No decisions
 - No deliberations
- Freedom of Information Act (FOIA)
 - Public Records
 - Drafts
 - Notes
 - Emails
- Remember: Consult your attorney.



Lessons Learned



- Cost and Revenue sharing model has to be developed and agreed to in advance
 - These models can be very creative in order to create a Win-Win scenario
 - Fairness, equity, and transparency are crucial to the long-term stability of the project
 - The cost and revenue allocations determine what your community ends up paying for the shared service, and will in turn, identify what your community ends up saving as compared to your present costs

Lessons Learned, cont.



- Governance structure needs to be created in a manner that is equitable to all parties
 - Avoid giving one participant the lion's share of control
 - Equal voice and vote vs. formula based on population
 - Governing body should be made up of qualified individuals
- Legislative / Executive body support is critical
 - Inform and gain approval before the project begins
 - Obtain formal support from the body after the financial details have been calculated
 - Political roadblocks need to be addressed from the beginning of the consolidation discussions

Lessons Learned, cont.



- Avoid “all or nothing” stands
 - These stands limit the flexibility of the collaboration agreement
 - Many small collaboration initiatives can add up to big savings
- Expect some level of public and employee resistance
 - Change is not always welcome
 - Detractors are always louder than those in agreement
 - There would be more resistance if services were cut or discontinued
 - Respond positively and re-emphasize the merits of collaboration!

Lessons Learned, cont.



- At some point, you need to stop studying and start doing!
 - Take small first steps together
 - You may need an “engagement period” before full “marriage” of services
- Get professionals involved at the beginning of the process to *make it happen!*

Q & A

