

CONSOLIDATION AND SHARED SERVICES

A PROVEN METHOD TO SAVE TAX DOLLARS

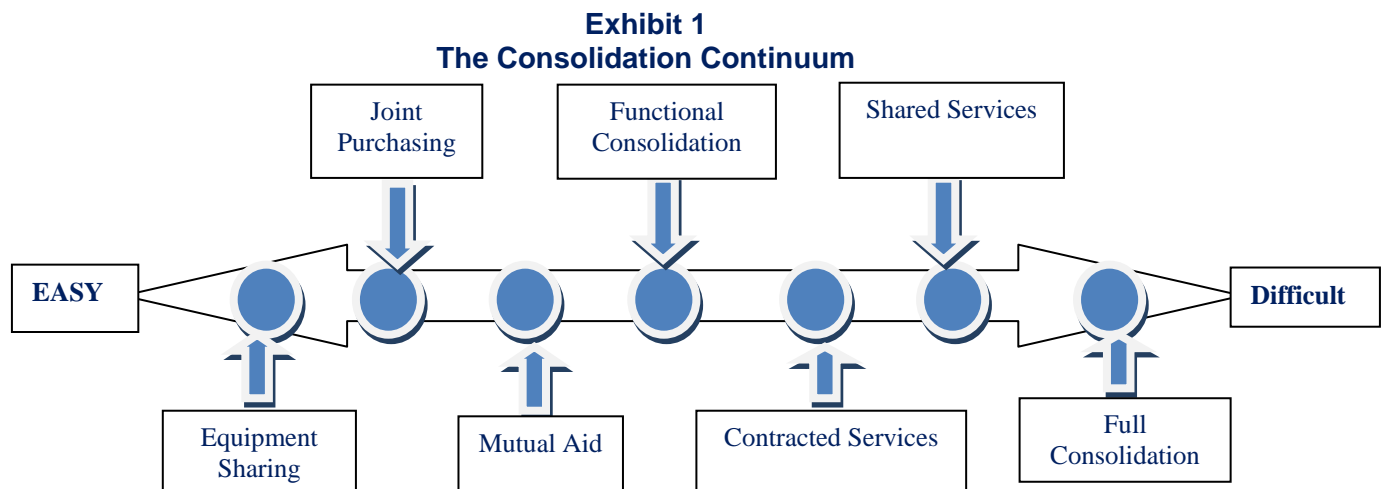
By Ed Henschel
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When a Midwestern mayor recently had a heart attack, he was grateful for the quick response of the paramedics. After his recovery and return to work he admitted that at the time, the name on the side of the ambulance was irrelevant. What was important was the speed of their response and the treatment he received that resulted in his full recovery. His heart attack occurred during discussions of the merger of fire and EMS services with neighboring communities.

The current fiscal environment facing local governments is forcing them to transform the way they do business. These pressures include:

- Less funding at the state and federal levels, leading to a severe “trickle down” process.
- Constrained local revenue sources because of the economic slow-down, tax caps, and public opposition to property and sales tax increases.
- Increasing operation costs (e.g. health benefits, energy costs, pension benefit costs) that are growing faster than the community tax bases that support them.
- Increasing demands for service levels to respond to changing demographics and community needs.

Accordingly, municipal leaders must be proactive in balancing the ever-changing need to maintain services while limiting tax rate increases. Failure to do so will inevitably result in elected and appointed officials facing the wrath of constituents at council meetings, on the street and at the polling booth. For years, municipalities nationwide have looked to consolidation or shared service arrangements in an ongoing effort to reduce or stabilize costs and maintain a high level of service in the face of ever-shrinking revenues. Consolidated municipal operations and shared service arrangements are a time-tested alternative to service delivery that has proven to be cost-effective.



Will Consolidated Services Work For Everyone?

Consolidation and shared services discussions between two or more units of government begin when there is a sense that there is a mutual opportunity to improve services and /or reduce costs to taxpayers. Quite often the catalyst for these discussions is a poorly handled response to an incident, such as a fire that had delayed response time, or a natural disaster that caused injury, or death that potentially could have been avoided.

Consolidation and shared services are most successful when the following factors are present:

- Communities have a prior history of working together. Sometimes just a “handshake” agreement to share equipment between municipalities at the department level exists. Others have more formal agreements.
- Elected and appointed officials know their peers in neighboring communities and have already developed a good relationship with them. This is often the result of periodic meetings between neighboring officials that have built trust over time.
- There is a perceived mutual benefit to sharing services (the benefit has to be reasonably equal for all parties).
- Cost savings outweigh a perceived loss of control by the participating parties. Again, if there is a previous working relationship between the municipalities, the control issue becomes less difficult.
- Existing services are either comparable in the communities or there is recognition that jointly, service to resident could be improved by working together,

Challenges Municipalities Need To Overcome.

Once the above factors have been considered, the municipalities need to assess each other's commitment to reduce overall spending and discuss the many barriers to overcome during the consolidation and shared service process. If each barrier is not carefully considered prior to the start of the process, failure will result. The barriers to consider include:

Loss of Control: Internally there is usually a perceived loss of control by both department heads and elected officials. This is reflected in an inclination toward turf protection before the facts can be developed and analyzed. If I cannot tell the building inspector what to do in a consolidated inspections department, how will I know if the work is getting done? The response is two fold. First, there must be recognition that the outcomes of a consolidated organization are the same as those of separate municipal departments. Second, consolidation may mean utilizing new and different processes and working through a new entity (a new committee or commission).

Fear: Particularly in the public safety arena, there is a fear of loss of community identity, mishandled calls, or poor call response times. Department heads want control of all aspects of operation. They also want their department's name on the side of the vehicles. However, as the mayor with the heart attack stated during his crisis, he could care less! The bigger public issue is the notion that a larger department will not “know my community” and may not send the right responders to the right location. This challenge has been largely overcome with new technology such as cell phone call location identification equipment, GIS systems, and state-of –the –art tracking and communication equipment.

Reduced Costs: Unless there is a demonstrated reduction in cost, most consolidations will not occur (however, there are several examples where improved service offset increased costs). One-time start up costs can increase current operating costs in the short run, but may

save tax dollars over the long term. The cost savings will need to be substantial in order for the effort to be worthwhile. Therefore, a long range financial forecast of five to seven years is necessary to demonstrate the fiscal impacts of a consolidation over the long term.

Personal Impacts: The first time any consolidation is mentioned, employees want to know how they will be impacted personally –Will they continue to have a job? How will their pay be impacted? What benefits will they have? Who will they report to? Differing salary and benefit plans often need to be merged, this can be especially challenging if union contracts are involved. If employees are represented by different unions, employees must determine which bargaining unit will represent them. Negotiating an initial bargaining contract can be difficult. The union (and even non-represented employees) will want the best of the best salary and benefits from the predecessor organizations.

Funding Options: Fair and equitable cost distribution between the participants is challenging. Various factors such as population, equalized value, and calls for service are often the basis for many cost distribution formulas. However, these factors often do not take into account differences in service needs, response times, or capital costs. Additionally, the new organization needs to decide if it will purchase or lease existing equipment and facilities. In either case fair market the values often need to be determined. In most cases, the organization will need the assistance of an independent third party to help calculate costs, and forge a workable and acceptable funding formula.

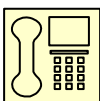
Governance Structure: A consolidated entity may require a new governance structure that will set policies for the organization and to which the organizations' management will report. Governance must be fair and workable for long term success. This means creating a methodology for the appointment of the governing board members (e.g. based on population, based on dollar contributions, etc.) Furthermore, some consolidated organizations will need technical advisory, finance, and personnel committees to assist with on-going operations and management.

Implementation: A well thought out implementation plan is a necessity to avoid errors and lapses in service. When the "switch" is thrown for the new organization to begin operations, all operating procedures, management structures, equipment, and facilities must be in place and ready to function. While there will always be start-up challenges, errors must be kept to an absolute minimum. The critics will be watching for the first opportunity to publicly discredit the new organization if errors occur.

Termination: A termination/withdrawal procedure must be clear. Most consolidations require investments in capital equipment that may require debt financing. Provisions are necessary to insure that if one entity decides they no longer want to be a member of the consolidation, there must be provisions to pay off incurred debt and redistribute assets. Lengthy notice provisions are necessary to deal with impacts on personnel and technical procedures. Termination and even expulsion procedures should be clear in the event they are needed.

Proven Successes

There are many examples of successful consolidations nationwide that demonstrate the benefits that can be achieved both financially and with improved service levels. Two such examples are a recent emergency dispatch consolidation and a health department consolidation.



County-wide Dispatch Consolidation

Recognizing that tax dollars could be saved and services improved, a county executive attempted to consolidate nine public safety answering points (PSAPs) serving 37 municipalities with a combined population of more than 370,000 resident. High turnover of dispatchers at one

of the PSAPS continually added to training costs. Avoiding prohibitively high costs for nine dispatch centers to replace obsolete equipment was also key factor in the county executive's initiative.

Current communications technology and GIS systems eliminated many of the historical fears that call locations could be identified. Furthermore, more sophisticated communication systems become more affordable through economies of scale. An analysis of service levels in this country wide emergency dispatch operation demonstrated that collectively a state-of-the-art communications and records management system could be provided that far exceeded what municipalities could afford on an individual basis. In this case, a completely new communications and emergency management center was built to house the new operation, an 800MHz radio system was developed, and an integrated police and fire records management system was provided.

A thorough financial analysis was conducted to determine the fiscal impact if consolidation were to occur. The cost analysis was projected over an eight-year timeframe, since this is the average life of emergency communication equipment. The analysis demonstrated an annual savings of over \$2.5 million per year and more than \$22 million over the first eight years of operations.

Even with the demonstrated improved facilities, equipment and systems along with substantial financial savings, not all nine PSAP's joined the consolidated dispatch center, demonstrating the political challenge that accompany consolidations. However, of the 37 municipalities in the county, 30 joined the consolidated central dispatch operation.

City/County Health Department Consolidation

A medium sized city and their surrounding county both operated full-service health departments. The city, faced with fiscal pressures, initiated an effort to establish a structured process to develop clear recommendations for merging the two health departments.

The formal process started in early 2005 and was very collaborative, with broad-based participation from city and county stakeholders. A 12-member merger study committee was tasked with project oversight and developing recommendations for consideration by the elected bodies. Additionally, several functional work groups of staff from both agencies were created to collect, inform, analyze, and discuss similarities and differences in service delivery approaches.

While the initial objective was to address the city's fiscal pressures, maintenance of quality services to residents was also critically important. An initial analysis of a comprehensive list of over 40 public health, nursing, environmental health, and health education programs showed that only nine program areas had substantive differences in service approach or delivery.

The merger study committee focused its efforts on evaluating the current approach to service delivery in these nine areas, carefully reviewed the various impacts of these options, and created an organizational plan to incorporate "best practice" approaches into the service delivery model for the merged health department. The city and county each passed resolutions in late 2005 to merge the health department effective January 1, 2006.

The immediate effect of the merger was a reduction of 1.8 full-time equivalent administrative staff, but there were also substantial fiscal savings as well. **Exhibit 2** shows that had the merger not occurred, the combined costs for providing comprehensive health services would have likely increased to nearly \$2.9 million in 2006 (assuming an average annual increase of 4 percent in expenditures). In reality however, excluding city transitional costs, actual 2006 expenditures for health services under the newly merged department represented an overall reduction of nearly \$194,000 compared to 2005.

In addition to the fiscal benefits, the merger maintained pre-consolidation staffing in the public environmental health areas, and enhanced service countywide due to the addition of a health educator/grant writer position; adoption of a more comprehensive community needs assessment process; and establishment of a satellite health office to provide direct service to residents.

Keys to Success

On average, only about 50 percent of consolidation and shared service efforts are successfully implemented. This indicates that moving forward with the consolidation and shared services process is not an easy endeavor to undertake. The following dynamics will increase the potential for success.

Knowledge of you partners: Personal relationships between participants at the administrative, elected and department head levels are very helpful.

Inclusion of all stakeholders: Participation of all stakeholders is necessary. This means an open process involving those that are opposed to the consolidation concept.

Public education: Public participation and outreach may be required to offset fear, skepticism and protectionism.

Tax savings: Cost savings over time is a must for a consolidation to occur. On-going savings of 10% - 25% are necessary.

Service levels: Service levels must be maintained or improved to have a successful consolidation.

Start small: If the organization has had little or no prior experience working with others, it should start with a smaller effort to prove to itself (and others) that it can work.

Is An Objective Third Party Analysis Needed?

Whenever two or more entities attempt to work together there is the potential for mistrust. This is especially the case when the parties are significantly different in size. An independent third party analysis is often beneficial in providing unbiased objective information and analysis that is credible to all parties. An independent third party will:

- Get agreement on service levels (especially where they differ).
- Develop and conduct a public education program.
- Objectively analyze long-term costs and potential savings.
- Develop effective and cost sensitive staffing plans, organizational structures, and operational procedures.
- Determine infrastructure, facility, and equipment needs.
- Evaluate key compensation and benefit issues between entities.
- Develop a fair system for the distribution of costs (funding formulas are many; finding the politically acceptable formula is often the key).
- Develop a meaningful implementation plan that is realistic and achievable (avoiding interruptions in service delivery).
- Create workable governance agreements and frameworks (including termination provisions).

Benefits Outweigh the Challenges

The consolidation and shared services process is time consuming and difficult on many fronts. It also requires the commitment and support of top administrative and elected leaders to be successful. The potential benefits of consolidations are many and often outweigh the challenges. These benefits include:

- Continuous annual savings, not just a one-time cost reduction.
- Lowered individual costs for state-of-the-art equipment through economies of scale.
- Reduced overhead, support and management expenses.
- Enhanced employee skill sets through improved training and better management systems (economies of skill).
- Enhanced opportunities for staff promotion and advancement, which lead to lower turnover rates.
- Improved and more efficient service levels and response times by eliminating artificial municipal or service area boundaries.
- Coordinated and streamlined responses to major crises and natural disaster.
- Enhance communication between localities, which creates a "snowball effect" for future cooperation on other areas.

Targets for consolidation and shared services will depend on the objectives sought and opportunities that present themselves (e.g. retirement of one community's department head or the need to purchase expensive equipment, etc.). In the final analysis, any area may be considered for consolidation. While consolidation and shared services are challenging and can be controversial; if done carefully and with thorough analysis, this tried and true method can result in significant savings with improved service.

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