

State Options for Promoting Cost-Efficient Local Government: Regional Consolidation

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The views expressed in this presentation are those of the speaker and do not necessarily represent positions of the Federal Reserve Bank of Boston or the Federal Reserve System.

Local governments face ongoing budgetary strains.

- The housing crisis and Great Recession have hit local governments hard.
 - Falling property values have eroded the property tax base.
 - States have reduced local aid.
- More austerity lies ahead.
 - Federal government will cut grants to states and localities.
 - Health care and pension obligations will squeeze into discretionary spending.
- Localities are likely to need structural spending reforms, not just temporary measures.

Local government structure contributes to localities' budgetary strains.

- “Our local service delivery method is not financially sustainable.” [interview with Massachusetts government official]
- “We are frugal within towns, but our overall system is not frugal.” [interview with Maine economic development expert]
- “Coordination across political boundaries creates economies of scale and improves the fiscal health of cities.” [National expert on city finances]
- “Efficiencies, consolidations, and realignments [of local governments and education systems] will free up scarce resources to meet our state’s pressing priorities.” [Connecticut Institute for the 21st Century]

To what degree could regional consolidation alleviate budgetary strains?

- Some moves toward greater regionalization are making headway, but they are not yet broadly visible.
- Questions my research addresses:
 - What is the potential scope of regionalization?
 - How large are the savings likely to be?
 - What are the implications for service quality?
 - What actions by state governments would help get us from where we are now to where we should be?
- My research does not recommend an optimal level of regionalization, as this depends on specific local concerns in addition to cost savings.

What is “regionalization” or “regional consolidation”?

- Study does not address cross-state collaboration.
- Study does not address mergers of local governments.
- Focus is on mechanisms that maintain localities as distinct units but consolidate service provision across jurisdictions.
 - Intermunicipal (or “interlocal”) partnerships allow multiple localities to provide specified public services jointly.
 - Centralization of services (“shared services”) entails transfer of responsibility for municipal services to a state or regional authority.

Key conclusions

- A strong case exists for regionalizing selected services, based on both cost and quality considerations.
- Regional consolidation does not offer immediate, major relief from budgetary strains, but should be part of a longer-term strategy.
- States could encourage further regional consolidation by adopting stronger and more targeted regulations and fiscal incentives.

Outline of today's presentation

- Overview of nationwide findings on economies of scale and regional consolidation of local public services
- The potential for regional consolidation in Connecticut
 - Patterns of local government spending
 - Evidence on local government fragmentation
- Case studies
 - Emergency call handling & dispatch
 - Local public health
- Summary of findings and common themes

Economies of scale for local public services: main insights from experiences and research

- Not all local public services can be provided more cost-effectively on a larger scale.
- Capital-, technology-, and expertise-intensive services often exhibit economies of scale.
- Other considerations in considering regional consolidation:
 - Service quality
 - Risk-sharing
 - Externalities
 - Equity

Evidence differs across services, but some findings are clear and well-documented.

- “Governments have been centralizing emergency dispatch services with considerable success.”
- “Public health is ... inherently more of a state or federal service than it is a municipal service”... “The existing use of centralized, regionalized, or contracted services is testimony to the fact that many municipalities have looked for a larger and more cost-effective solution.”
- “Expert tasks in finance, administration, purchasing, and IT systems development are strong candidates for regional provision.”

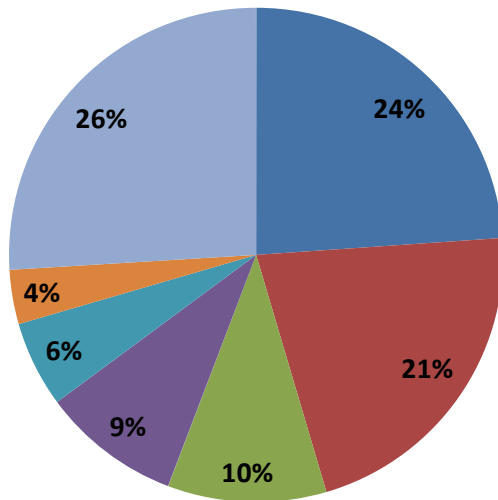
Source: Holzer and Fry, *Shared Services and Municipal Consolidation: A Critical Analysis* (2011). Also covered in report of Massachusetts Regionalization Advisory Commission (2010).

What share of city and town budgets goes to services that should be regionalized?

- Roughly 20 percent of local government spending goes to services that are characterized by demonstrated economies of scale (national estimate by Holzer and Fry 2011).
 - Connecticut local government data (2007 Census of Governments)
 - Total direct general expenditure = \$13.7 billion*
x 20 percent = \$2.7 billion
- * of which 59% spent on education and 41% spent on non-education

Local governments perform a wide range of services

Connecticut Local Direct General Expenditure (Minus Education Spending) by Function (Percent of Total)



- Environment & Housing
- Government Administration
- Interest on General Debt
- General Expenditure, NEC
- Public Safety
- Transportation
- Social Services & Income Maintenance

Connecticut Local Direct General Expenditure (Minus Education Spending): Largest Subcategories (Millions)

Police Protection	\$701.5
Housing & Community Development	\$520.9
Fire Protection	\$485.3
Roads & Highways	\$478.0
Sewerage	\$384.9

How many local governments does Connecticut have?

Number of Local Governments in New England and Nationwide				
	Total Governments	General Purpose	Special Purpose	
			School Districts	Special Districts
Connecticut	649	179	17	453
Maine	850	504	98	248
Massachusetts	861	356	82	423
New Hampshire	545	244	164	137
Rhode Island	134	39	4	91
Vermont	733	296	293	144
New England	3,772	1,618	658	1,496
United States	89,476	39,044	13,051	37,381

Source: Author's calculations based on 2007 Census of Governments

Comparison of local government fragmentation: Connecticut vs. other states

Fragmentation of Local Governments in New England and Nationwide		
	Number of Local Governments	
	Per Million Residents	Per 1,000 Square Miles
Connecticut	181.6	134.0
Maine	639.9	27.5
Massachusetts	131.5	109.8
New Hampshire	414.0	60.8
Rhode Island	127.3	128.2
Vermont	1,171.4	79.2
New England	261.1	60.1
United States	289.8	25.3

Source: Author's calculations based on 2007 Census of Governments and 2010 Decennial Census

Case study #1: Emergency call handling and dispatch

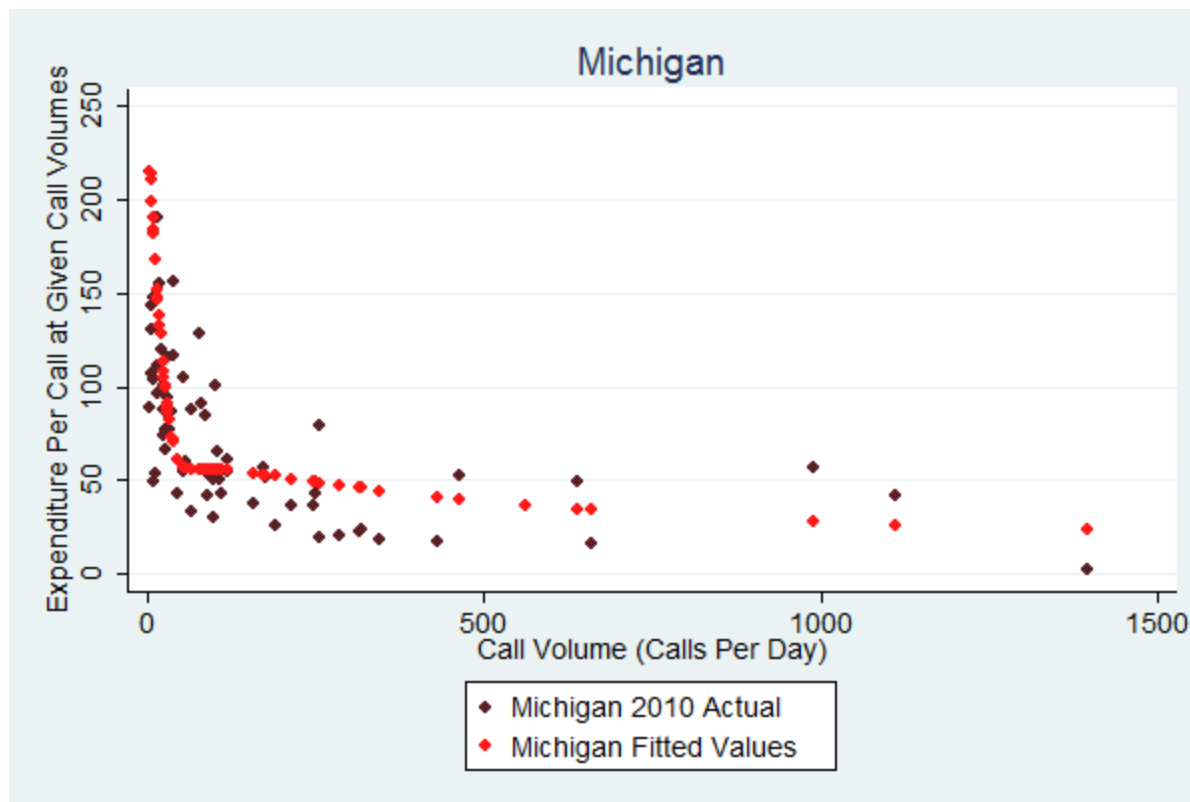
Fragmentation of New England's Public Safety Answering Point (PSAP) System					
		Per 100K Population		Per 1,000 Square Miles	
	Total PSAPs	Number	Rank (1=Most Fragmented)	Number	Rank (1=Most Fragmented)
Connecticut	111	3.1	19	22.9	4
Maine	26	2.0	32	0.8	39
Massachusetts	268	4.1	12	34.2	2
New Hampshire	4	0.3	50	0.4	46
Rhode Island*	72	6.8	3	68.9	1
Vermont	8	1.3	41	0.9	38
New England	489	3.4		7.8	
United States	6,863	2.2		1.9	

Source: Author's calculations based on FCC Master Registry as of December 2011 and 2010 Decennial Census

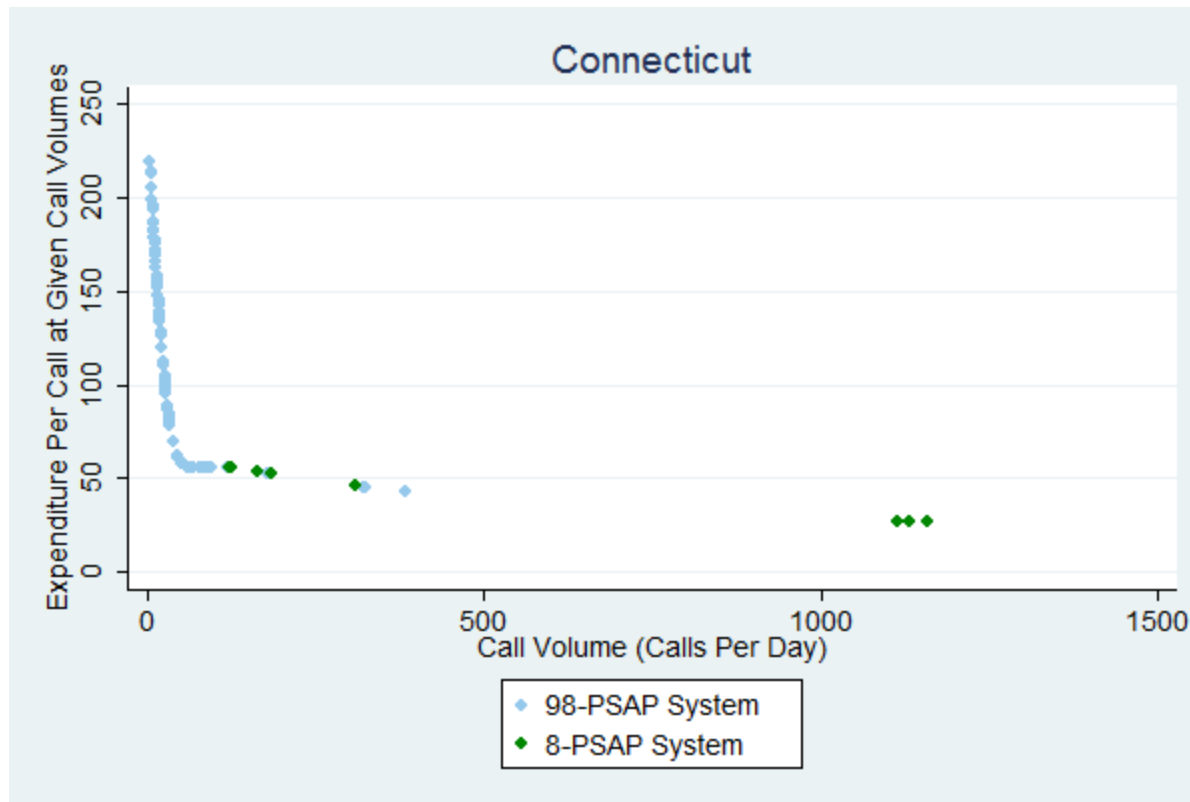
*State of Rhode Island reports having far fewer PSAPs than indicated in FCC Master Registry

Methodology for estimating cost savings from consolidating PSAPs

- Use administrative data from Michigan, Maryland, and Pennsylvania to estimate PSAP cost curves.



Consolidating Connecticut PSAPs would reduce expenditure per call.



Source: Author's calculations based on data from 2011 Annual Report to the State Legislature produced by the Michigan State 9-1-1 Committee and the Connecticut Office of Statewide Emergency Telecommunications E-911 Total Call Volume Reports

Note: Consolidation scenario excludes State Police PSAPs

Consolidating to 8 regional call centers in Connecticut would reduce operating costs by more than one-half.

Estimated Connecticut Public Safety Answering Point (PSAP) Costs

Based on data from:	Michigan	Maryland	Pennsylvania
Current Structure (Millions)	\$117.0	\$101.0	\$117.6
Consolidated Structure (Millions)	\$50.3	\$37.4	\$52.5
Total Savings (Percent)	57.0	63.0	55.4

Source: Author's calculations based on data from Michigan State 9-1-1 Committee 2011 Annual Report to the State Legislature, Maryland Emergency Numbers Systems Board 2010 Annual Report, Pennsylvania Emergency Management Agency Bureau of 9-1-1 2010 Annual Report, and the Connecticut Office of Statewide Emergency Telecommunications E-911 Total Call Volume Reports

Other states have already undertaken large-scale PSAP consolidation.

Public Safety Answering Point (PSAP) Consolidation Since 2001				
States with a High Share of PSAPs Closed				
State	Number of Closed PSAPs	Number of Current PSAPs	Percent Closed	National Rank Based on Percent Closed
Maine	41	26	61.2	1
North Carolina	165	140	54.1	2
South Dakota	52	45	53.6	3
Washington	28	71	28.3	4
Vermont	3	8	27.3	5
Michigan	67	179	27.2	6
Hawaii	2	6	25.0	7
Nebraska	25	83	23.1	8
Missouri	50	176	22.1	9
Tennessee	38	165	18.7	10

Source: FCC PSAP Master Registry as of December 13, 2011

Getting from here to there: state-level incentives and funding for PSAP consolidation

- Legislative mandate specifying target number of PSAPs (Maine).
- State-imposed technological or staffing requirements for PSAPs (North Carolina, South Dakota)
- Reduced state operational funding for non-consolidated PSAPs (North Carolina, Washington, New Mexico; Connecticut uses 40,000 population threshold).
- State funding for investments in consolidated facilities (North Carolina; Essex County, Massachusetts).

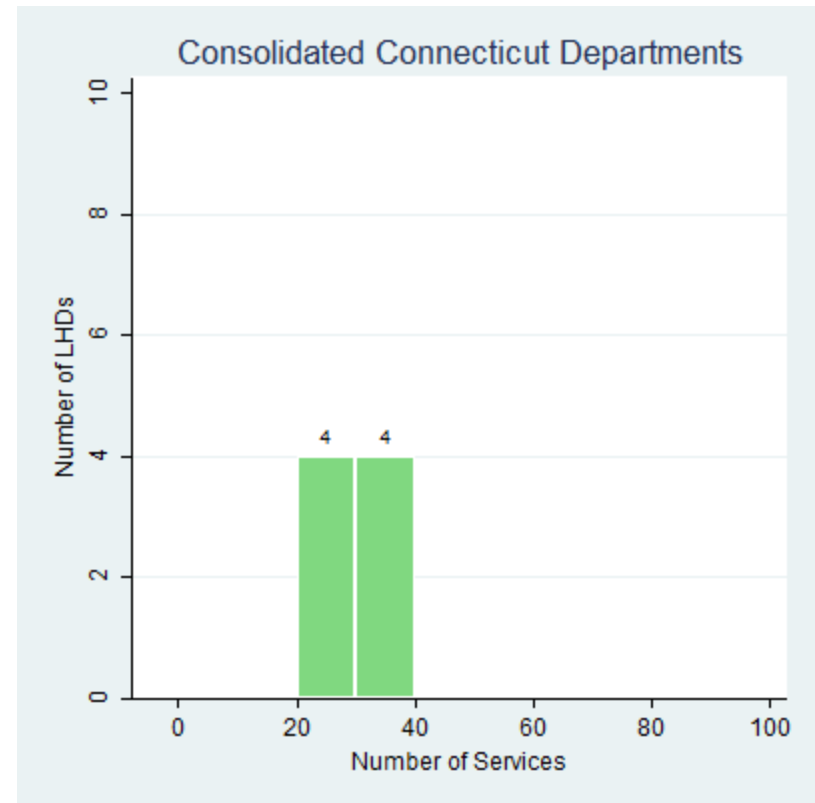
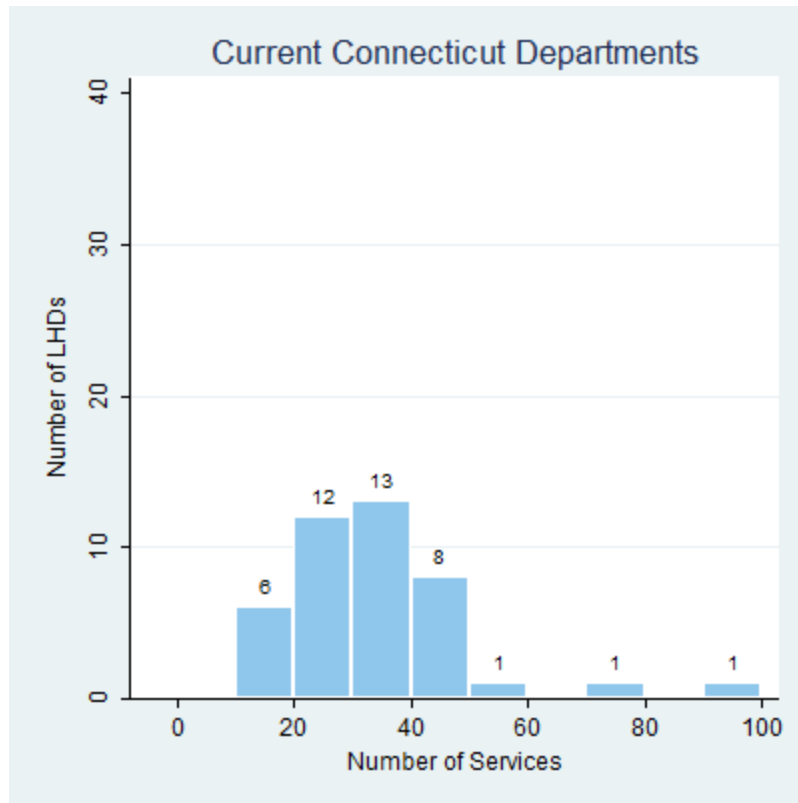
Case study #2: methodology for estimating cost savings from consolidating Local Health Departments

- Step 1: Using national data, estimate the relationship between Local Health Department size and cost per capita (controlling for differences in service levels)
- Step 2: Calculate a “rounded” service level for each county in Connecticut
- Step 3: Estimate total health department expenditures under a county-level, “rounded” service model
- Step 4: Compare estimated total costs under the current and consolidated structures in Connecticut

Consolidating Connecticut local public health departments could reduce costs by 13 percent.

Estimated Local Health Department (LHD) Costs in Connecticut	
Current Structure (Millions)	\$61.4
Consolidated Structure with “Rounded Services” (Millions)	\$36.0
Total Savings (Percent)	41.3
From Service Reductions in High-Service Cities and Towns (Percent)	28.1
From Economies of Scale (Percent)	13.2
Source: Author's calculations based on data from National Association of County and City Health Officials (NACCHO) 2010 survey of public health departments	

Consolidating local public health departments could also reduce service disparities.



Source: Author's calculations based on data from National Association of County and City Health Officials (NACCHO) 2010 survey of public health departments

Approaches to achieving consolidation of local health departments

- State controls local health services (Florida, Rhode Island).
- State provides partial funding on a sliding scale, depending on extent of regionalization (Utah, Connecticut).
- Define accreditation standards and tie state funding to accreditation (Connecticut moving in this direction).

Summary and conclusions

- Connecticut is a good target for regional consolidation because it has fragmented local public service provision.
- Consolidation efforts should target local services whose costs can be reduced substantially without sacrificing quality.
- Achieving substantial savings would require consolidating multiple services across multiple cities and towns.
- For some services, consolidation could be used to raise quality without increasing costs.
- States should consider incentives and stronger regulations to promote substantial consolidation of local public services.

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