

How to Make Municipalities More Efficient



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Editor's note: In light of the challenge the Governor's Budget has made to New Jersey's smaller municipalities, the following authors weigh in on the merits of consolidation.

Many cities and towns in the U.S. that are considered well run have less than ten thousand, six thousand or even one thousand residents. Are New Jersey's municipal governments as well run as their many small counterparts across the country, sharing services and adopting efficiencies when possible? Or are they so small as to be inherently inefficient, and therefore must be consolidated in order to control property taxes and state aid?

These questions have long been on the agenda in New Jersey. Dialogue over the last decade or two has been characterized by the rhetoric of: "Doing More With Less," "Coping with Decreasing or Stagnant Resources," and "Achieving Efficiency and Effectiveness with Limited Resources." Most recently the claim of "Small, Inefficient Municipalities" has characterized the Governor's policy initiatives to penalize cities and towns that do not consolidate or share services, assuming that they are inherently inefficient.

There are at least three strategies for achieving municipal efficiencies: consolidation, shared services, and management capacity building. As matters of public policy, New Jersey is dancing around the first, has attempted the second, and has not systematically addressed the third.

Is Municipal Consolidation a Viable Cost-saving Strategy? The Governor has proposed financial penalties as motivators for consolidation of the smallest municipalities. The assumption is that consolidation will help reduce costs, and therefore property taxes. But will it?

That "economy of scale" argument implicitly holds that bigger is better, that a larger municipality will more efficiently serve the public by pooling resources, enhancing administrative capabilities, introducing operational efficiencies and combining back-office services.

Specific data, however, may or may not support that argument. The costs of consolidation may exceed projected savings for the first few years. And the per capita cost of municipal services may actually be lower in smaller jurisdictions.

Smaller municipalities may make more extensive use of volunteers—a volunteer fire service is the most obvious—but may also "broad band" the few paid positions

they have to the extent that one official does a multitude of tasks that would be parceled out to several employees in larger municipalities.

Smaller municipalities may also have higher levels of civic engagement, an intangible but valuable characteristic that is often less evident in larger entities. What dollar value can be attributed to volunteerism, participation, or a sense of belonging? In terms of quality of life, citizens may value small, more intimate communities, volunteerism in their administration, and citizen engagement over economies of scale.

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The most important counter argument to consolidation is a subject that has not yet been addressed in Trenton—property values. Officials who argue that every municipality deserves to have a mayor, a police chief, and a fire chief, each with their own perquisites, are arguing not necessarily for personal power or status, but also for community identity. Consolidation would certainly threaten or obliterate the identity of many towns, and by extension their school districts. Property owners have made very conscious decisions to live in communities with particular attributes of character, and are often willing to extend themselves financially to do so. Although no one knows the extent to which consolidation would upset property values, there would certainly be winners and losers. Some municipalities would resist diluting their "property pool," and almost all would resist losing their historical identities. Until we can fully and objectively assess this "800 pound Gorilla," consolidation initiatives should be set aside pending a thorough study lest New

Jersey accidentally cause homeowners to seek small town options in other states. And the last thing we need is to accidentally stumble into a threat to property valuation that might precipitously lower the tax base in some communities.

Could Shared Services Deliver Major Cost Savings? Probably, but we cannot be certain. Random experiments with shared services are widespread in New Jersey, are often favorably viewed by participants, but are poorly documented as to direct cost savings and possible hidden costs.

New Jersey's municipalities have experimented with a wide range of shared services or inter-local agreements, often in response to incentives provided by the Department of Community Affairs (DCA).

Overall, studies supported by DCA have consistently found that:

- Officials view such agreements positively, claiming that they reduce costs, increase savings and quality of service, and reduce duplication.
- There is a lack of good information about the financial or service-delivery benefits of sharing services.
- Obstacles to more inter-local agreements include organizational gridlock, particularly the desire to protect specific employees, and multiple, conflicting personnel policies and pay schedules.
- Informal, trusting contacts by municipal administrators are key to more shared service projects.

Municipalities in New Jersey are ready to implement shared services, but require more financial incentives and best practice models from New Jersey and beyond. The incentives are in place to some extent and may be expanded if shared service savings can be documented. Those models are part of a capacity-building strategy that the state has essentially ignored.

Can Capacity Building Lead to Municipal Efficiencies? New Jersey's best options for controlling municipal costs may well be to simply build the problem-solving, cost-cutting capacities of its 566 local units. This is not as dramatic as consolidation. Nor is it the "quick fix" that shared services appears to promise. But it is the time-tested strate-



gy of the most efficient public agencies and private businesses: dozens of small and simultaneous innovations that amount to a few percentage points a year and are cumulative over time.

The largest payoff may come from investing in a search for best practices—for the models, exemplary programs and good ideas that can break the logjam of traditional patterns of municipal decision making. Putting those examples in front of elected and appointed officials, as well as citizens and the media, could quickly foster a vigorous dialogue about many more options in the budget and planning processes.

Searching the Internet is a good start. But Google-type searches with millions of "hits" can quickly become frustrating. More sophisticated and useful searches for best practices could utilize one or more of the following options, and such expenditures should be considered necessary investments rather than discretionary costs:

First, require each municipality and local library to form an "Innovation Partnership." Trained librarians could search for models in one designated service area a month, culling ideas not only from ICMA, but from awards programs, professional organizations and service-specific networks.

1. The State could develop a centralized databank of such models, publishing that information monthly for all stakeholders.
2. DCA could convene quarterly conferences to present case studies of the most promising models for New Jersey.
3. Municipal officials could be encouraged to travel to conferences where good ideas are on the agenda (even out of state!), to subscribe to publications that highlight those ideas, to participate in online seminars ("webinars") that highlight specific possibilities, etc.

For example, a search for models of shared services and other municipal efficiencies would turn up some intriguing possibilities around the country, such as:

1. A statewide Shared Municipal Services Incentive Program
2. A County-wide Shared Services Summit
3. A County Efficiency Report
4. A Town's Operational and Efficiency Review
5. A City-Town Shared Services Consolidation Meeting
6. A Municipal Performance Measurement Program
7. A Canadian Municipal Efficiency Program

Searching worldwide, for example, the Southland, New Zealand Shared Services Initiative stands out. In 2001, four local councils decided to explore shared services. A combined investment of \$60,000 netted savings of \$1.3 million in the first two years. Innovations included joint purchase of software operating systems, creation of a rural fire authority, a combined economic tourism organization, adoption of a protocol on

shared planning policy, and the establishment of a regional landfill and joint waste management system.

A second and parallel efficiency strategy is performance measurement. A performance measurement data collection system could collect, display and report key indicators of government performance to all stakeholders. Tracking progress over time would encourage:

- Benchmarking against a municipality's own accomplishments.
- Benchmarking against comparable municipalities in the state.
- Benchmarking against national data.

That comparative data would certainly drive the dialogue on efficiency and effectiveness.

Legislation passed last March mandates such a system, but only if it is triggered by DCA, which has not done so. Yet a relatively modest statewide investment in performance measurement on the order of hundred of thousands of dollars could likely return millions of dollars in municipal efficiencies.

Third, the state might proactively initiate technology-oriented projects that would avoid excessive municipal

expenditures for cutting-edge systems such as non-emergency 311 call in capacities. Several dozen cities across the country are now implementing such systems, diverting calls from overburdened 911 dispatchers and responders, and tracking the results of requests for services. Before New Jersey's municipalities pursue hundreds of parallel 311 projects, we should establish a statewide system that would certainly deliver economies of scale.

Fourth, New Jersey should become the national leader in Special Improvement/Business Improvement Districts, known as SIDs or BIDs. Those emerging organizations, with separate tax and revenue streams, enhance the provision of basic municipal services and open up external funding possibilities. Relatively modest investments in SIDs and BIDs could:

- Tap separate tax/revenue streams.
- Supplement provision of basic services.
- Open up external funding possibilities.

Next, Best Steps

Municipalities will resist consolidations. Both short-term and long-term savings are questionable. Our energies are better spent on more promising alternatives.

Shared services offer some of those promising possibilities, but only if there is much more financial support, models are continuously showcased to all stakeholders, technical assistance is available, and up front investments do not bump up against municipal CAPs.

Capacity building is a promising set of municipal performance strategies that offer long-term, compounded savings: innovation partnerships that search for best practices, performance measurement systems, statewide technology-based projects, and widespread establishment of SIDs or BIDs.

New Jersey has the capacity to become the national leader in efficient, effective municipal governance. Does it have the imagination to make the necessary investments? ▲

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