

# The Maine View

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## How Local Government Can Thrive with Spending Limits

by Geoffrey F. Segal

Local and state government can benefit greatly from spending limits that put into place reasonable allowances on the growth of government. Opponents of those growth allowances argue that governments will be crippled and services cut to the point where Mainers quality of life will diminish. They paint a scary picture indeed; one in which hospitals, schools and libraries will close, where 911 emergency services will shut down, and police and fire departments will be left without the tools and resources needed to function. While fear mongering may be a brilliant communications and public relations strategy, it is not an accurate depiction of the situation. It presupposes that there are only two options: higher taxes and spending, or fewer services.

There is a third option: finding efficiencies in government budgets in order to protect, or even enhance, public services without the need of consistently higher revenues. How are such results achieved? The importation and utilization of proven public policy management tools from around the country. Doing so will ensure vital public services are provided efficiently and effectively, protecting Mainers high quality of life.

Put simply, the sky will *not* fall.

### Policy Tool 1 – Identify and Use Shared Services

As a tool, shared services is exactly what it sounds like. It requires looking for common function areas to share the expense of providing those services across a larger group. There are many benefits to shared services, perhaps the most important (especially in this context) is saving money and achieving economies of scale. However, equally important to include are retaining local control, standardizing processes, and flattening unexpected peaks and troughs.

A recent study of local government shared services in Wisconsin found many long-running case examples across a range of services, from police and fire to wastewater treatment and economic development.[1] For example, in Taylor County, Wisconsin, 15 towns and two villages combined with the county government to share recycling services. Under a joint agreement, each municipality is responsible for its own solid waste contract with the county and must provide a collection site and attendants during operating hours. The county provides a recycling trailer at each site and administers the state operating grant, the budget, and accounting.[2]

Communities across the country rely on shared services in the form of mutual aid agreements for the provision of public safety, the operation of water and wastewater services, as well as solid waste collection and disposal. Indeed, there are few barriers or limits to the type of services that can thrive under a shared service model. However, those services that have transaction based processes or require significant capital are best suited for a shared service model.

Table 1  
Examples of Local Government Functions Amenable to Shared Services

- 911 Communications
- Water and Wastewater Services
- Accounting
- Library services
- Jail operations
- Revenue Collection and Administration
- Procurement
- Human Resources (e.g., insurance, payroll)
- Benefits Administration

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Perhaps most importantly, there are significant shared services opportunities in Maine’s schools as well. In fact, school districts can achieve the financial benefits of consolidation without the political headaches. Through the use of shared services arrangements, Maine’s schools can consolidate administrative and support functions. By spreading, among multiple school districts, the costs for administrative and support services, shared services can help school districts put more money into the classroom without additional revenues, all while still retaining local control of the most important aspects of education, such as class size.

The likeliest opportunities for schools to share services will come from back-office and operations sharing. Though, excellent prospects also exist in the instructional area. (see Table 2) [3] Shared services can yield very real operational efficiencies around facilities, transportation, food service, real estate management, procurement, human resources, information technology, and security.

The following are examples of the types of shared services opportunities that exist in Maine’s public schools.[4] There are a few examples of Maine public schools already pursuing these relationships, however, the vast majority are not.

**Table 2: School Functions Amenable to Shared Services**

Capability	Fit for Shared Service	Savings Potential (Comparative)
<i>Direct (Services to Students)</i>		
Transportation	●	●
Food Service and Nutrition	●	●
Instructional	●	●
Safety and Security	●	●
Health Services	●	●
<i>Indirect (Services to Staff or Infrastructure)</i>		
Purchasing	●	●
Finance and Payroll	●	●
Facilities & Real Estate	●	●
Human Resources	●	●
Technology Services	●	●
Administration	●	●

● Low → High

**Direct Services to Students**

*Transportation*

San Angelo Independent School District and the City of San Angelo, Texas have a shared vehicle maintenance facility. They also share fuelling and washing systems on reciprocal basis.

The Bowie County Transportation Cooperative provides regular education transportation services to school districts in the county, resulting in a cost per mile that is significantly below the state average.

*Instructional Services*

In the greater Lawrence area of Massachusetts, ten school districts banded together to provide special education services. The ten school agreement will save taxpayers approximately \$13 million over the next two decades.

Two rural school districts in Minnesota joined together to provide instruction. One district instructs grades K-3 and 7-9 while the other teaches grades 4-6 and 10-12. Some teachers travel between schools and all activities are paired. Despite joint school board meetings, the school districts remain separate governmental units

In Pennsylvania, Cornwall-Lebanon School District and Northern Lebanon School District in Pennsylvania have combined in-service programs (teacher training). Costs have been halved with an arrangement that allows for the discussion and sharing of information between two districts and the in-service consultant.

*Food Service*

Two Pennsylvania districts share a food service director. After the first year of operation, the arrangement netted a combined profit of \$100,000, compared to a previous year combined loss of \$20,000.

**Indirect Services to Students**

*Purchasing*

Many opportunities exist in this area from simple supplies to more complex transactions dealing with energy and insurance. Shared service agreements can enhance purchasing power and the ability to buy more products at a lower price.

West Texas, Region 17 regional service center, located in Lubbock, established an insurance co-op, which allows about 20 rural districts to purchase optional health services plans, such as dental insurance, at a much lower rate with better coverage than they could on their own. Fourteen school districts pool their money for school violence and substance abuse programs.

**Policy Tool 2 – Introduce Competition into Public Services**

Government reform experts David Osborne and Peter Hutchinson said in their recent book, *The Price of Government*, “the fastest way to save money and increase value is to force public

institutions to compete.” Steven Goldsmith, the heralded former Mayor of Indianapolis, described this process as “the Yellow Pages Test.” If a service provided by government is also listed in the yellow pages of the phonebook as being provided by at least two private sector firms, the service is a strong candidate for competition.

As a rule of thumb, competition can typically lower costs 15 to 30 percent while maintaining or improving service levels—and that is key to the challenges Maine faces. Indeed, a vast array of studies by the federal government, academic researchers and others, have found that outsourcing on a competitive basis historically has resulted in cost savings in the range of 5 to 50

ing golf courses and print shops, to parking garages and prison services, were introduced to competition, saving \$275 million. In fact, for one nursing home the city saved \$27 million, a 54 percent reduction, after a public-private competition resulted in a management contract.

Indianapolis is often considered the leader in competition and privatization. As mayor, Stephen Goldsmith, solicited competitive bids on dozens of services. Public employees managed to keep some services but, at huge savings to city taxpayers. Indianapolis saves \$15 million annually by privatizing trash collection. The city's sewer plant saved an additional \$68 million, a 44 percent reduction.

Table 3  
Sample Commercial Activities

- Maintenance of Public Buildings
- Highway Maintenance
- Legal Services
- Fleet Maintenance
- Nursing Homes
- Jail Operations
- Emergency Medical Service
- Hospital Management
- Libraries
- Parks and Recreation
- Information Technology
- Solid Waste Collection and Disposal
- Golf Course Operations
- Water and Wastewater

percent, depending on the scope and type of service.[5]

The goal of lawmakers should not be to reduce service delivery; instead, the goal should be to increase the value to taxpayers by providing more and better services for less money. Competition is a powerful tool for policy makers to find the most effective and efficient means of delivering services to taxpayers. It is about shining light on how governments operate. It is about changing antiquated business practices and not doing things the way they've always been done.

There are few services, outside of pure public safety functions, provided by municipal, county governments, and school districts provide where competition cannot be introduced. Specific examples include:

Former Philadelphia Mayor and current Governor of Pennsylvania Ed Rendell, a Democrat, used competitive sourcing to deliver value to taxpayers. Ultimately, 49 city services includ-

In addition, several opportunities exist within our public schools. Support functions which include transportation, food services, and maintenance are all fantastic opportunities for savings. Transportation services have been one of the services contracted most often in the past five years. According to a survey conducted by American School & University magazine, over 25 percent of school districts expect to increase their use of contract services and outsourcing in the next few years. Over 31 percent of K-12 schools are most likely to outsource transportation.[6] Food service and maintenance are also excellent candidates for competition.

Further, the previous ASU survey listed the top five reasons for outsourcing: to save money (90.1%), improve operations (89.0%), improve quality (70.3%), save management time (67.3%), and to provide greater accountability (59.3%). Thus, competition and contracting out should not be seen as a threat to quality or an increased risk, rather school districts around the country seek these arrangements to mitigate risk and improve quality.

### **Policy Tool 3 – Fully Utilize the Value of Public Assets (enhanced use leasing, concessions, divestiture)**

An often overlooked policy management tool is extracting value from assets. Increasingly, governments are tapping their portfolios of real property assets as a part of the solution for enhanced revenues, reduced expenditures on maintenance, and an increasing tax base.

Unneeded or unused land should be divested. First, divesting an unneeded property does not impact the delivery of a service. When a property does not directly support programmatic goals, this deadwood can be eliminated without undermining service quality. *Open space, preserve and park and recreational parcels are not included.*

Second, asset divestiture typically results in a lump-sum payment of cash. With asset sales, a cash payment is made to the

government, just like a family selling a house. These revenues can be used to pay for needed capital upgrades or to pay debt.

Third, divesting real estate increases the tax base. Government-owned lands do not pay property taxes nor do they typically produce sales and income taxes. Moreover, in constrained real estate markets with limited developable land, government-owned property represents a desperately needed source of capital for private economic activity.

Finally, systematically reviewing the local government's assets portfolio and divesting the government of those assets which are not deemed to be most efficiently owned by the government will result in lower maintenance and operations costs, and, hence free money for other priorities.

If divestiture does not suit local governments, they have another option. Lease concessions are rapidly becoming popular for local governments. Under a concession, the asset is not transferred to the private entity as it is in an outright divestiture. Long term concessions can be for parcels of land, where the private sector develops and operates new facilities or existing infrastructure.

#### **Policy Tool 4 – Tying Budget Appropriations to Performance**

In short, this is nothing more than measuring for outcomes and budgeting based on achieving goals. Unfortunately, goal based budgeting is not inherent in government. Every function or activity has a special interest. It takes courage to stand up to those interests and stop funding programs that cannot demonstrate progress towards a goal or those that fail to produce measurable results.

Why is this the case?

Traditionally, government budgets focus on the incremental increase to the budget. The argument is that in order to maintain service levels agencies need to spend what they did last year and increase spending to account for inflation and or population increases. This moves the discussion to the margins of spending, i.e. the annual spending increase requests from agencies, and away from the base budget. As a consequence, the other 90 to 95 percent of spending is left out of the debate and programs are seldom analyzed for their relative merits. It is generally assumed that the activities should continue to receive funding.

Good government, however, requires that all “investments” by government be routinely assessed for their actual effectiveness. Only those activities that provide the greatest benefit should be funded at a level relative to the goals and priorities set by the people.

By developing a mechanism to identify poor performing programs and misdirected resources, it becomes easier for government officials to identify resources for core priority programs. Budgeting in this manner also shifts the focus on what the state is able to “purchase” and continue to do.

#### **Conclusion**

Local Maine government should live like families do—with limited resources and within its means. Just like Maine’s families do not have a blank check, governments should not have one either. Citizens must demand that governments demonstrate effectiveness and efficiency in their operations. By no means are these four policy tools the only tools available to local policymakers. However, their value cannot be denied. They present an alternative course where local governments will not only succeed, but thrive under spending limits.

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