

Supporting Public Service Efficiency

Creating Incentives for Local Government Collaboration in Wisconsin

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Foreword

This report on the development of incentives to encourage collaboration among local governments in Wisconsin is the result of collaboration between the Robert M. La Follette School of Public Affairs at the University of Wisconsin–Madison and the Wisconsin Department of Revenue (DOR). Our objective is to provide graduate students at La Follette the opportunity to improve their policy analysis skills while contributing to the capacity of the Department of Revenue to analyze and develop policies on issues of concern to the citizens of the state.

The La Follette School offers a 2-year graduate program leading to a Master’s Degree in Public Affairs. Students specialize in policy analysis or public management, or, in many cases, both. They spend the first year and a half of the program taking courses that provide them with the tools needed to analyze public policies. The authors of this report are all currently enrolled in Public Affairs 869, *Workshop in Program and Policy Analysis*. Although acquiring a set of policy analysis skills is important, there is no substitute for *doing* policy analysis as a means of *learning* policy analysis. Public Affairs 869 provides graduate students that opportunity.

The students enrolled in the class were assigned to one of four project teams. One team worked on this project, another carried out a project for the Legislative Council, and the other two teams completed projects for the Budget and Management Division of the city government in Milwaukee. Secretary of Revenue Michael Morgan chose the topic of this report—the development of incentives for local government collaboration.

As shared revenue allocations to municipal governments have declined, Wisconsin’s 1,850 municipalities are under increasing pressure to find ways to provide high quality public services at reduced costs. The existence of such a large number of independent municipal governments suggests that collaboration in service provision among municipal governments has the potential both for enhancing the quality of public services and for reducing costs. Nevertheless, developing collaborative arrangements is both politically and administratively difficult. In this report, the authors analyze the factors that discourage collaboration and then develop several policy proposals for encouraging municipalities to collaborate.

This report obviously does not provide the final word on the complex issues the authors address. The graduate student authors are, after all, relatively inexperienced policy analysts. Nevertheless, much has been accomplished. I trust that both the students and the Department of Revenue have learned a great deal about the problems and complexities involved in developing state incentives for municipal collaboration. We hope the report will help define the issues and provide a foundation for further analysis and decision making.

This report would not have been possible without the support and encouragement of Secretary Morgan and the advice and guidance of DOR senior staff members Jason Helgerson, Eng Braun, Dennis Collier, and Dan Huegel.

The report also benefited greatly from the active support of the staff of the La Follette School. Terry Shelton, the La Follette Outreach Director and Craig Allen, the Information

Systems Manager, provided the students with constructive criticism and advice on their practice oral presentations of the reports. Terry, along with Kari Reynolds, Elizabeth Hassemer, and Gregory Lynch contributed logistic support for the projects. Anita Makuluni edited the report and shouldered the task of producing the final bound report.

I hope that La Follette students, by becoming involved in the tough issues faced by state government, have not only learned a great deal about doing policy analysis but also gained an appreciation of the complexities and challenges facing both state and local governments in Wisconsin. I also hope this report will contribute to the work of the Department of Revenue and to ongoing public discussions of financing local government public services as cost-effectively as possible.

Andrew Reschovsky
May 5, 2004

Acknowledgments

We would like to thank all those who gave time and energy to help us complete this analysis. Those who contributed significant amounts of time and effort include Professor Andrew Reschovsky of the La Follette School of Public Affairs and Secretary Michael Morgan, Jason Helgerson, Eng Braun, Dan Huegel, and Dennis Collier from the State of Wisconsin Department of Revenue. Peer review and feedback helped us immensely, so thank you Clare Mamerow, Sara Mooren, Lisa Mueller, and Michelle Woolery. All others who gave of their time and efforts through interviews, meetings, and editing are also very much appreciated.

Executive Summary

Wisconsin has 1,850 independent towns, villages, and cities. These governments spend over \$4 billion annually to provide a wide array of public services, with funding coming from a combination of local property tax levies, state aid, and fees and charges. As a consequence of modest increases in state aid in recent years, municipal governments in Wisconsin have had to rely more heavily on property taxes to provide services. To avoid increases in their property tax levy, most municipal governments in the state are searching for ways to reduce costs and operate more efficiently.

The purpose of this report is to identify and evaluate several alternative policies designed to encourage collaboration among municipal governments. After examining prior recommendations, benefits, challenges, and goals of collaboration, we identified three possible policy alternatives.

Our first recommendation is a new state grant-in-aid program—the Wisconsin Incentives for Service Collaboration (WISC), which provides an incentive for collaboration by rewarding collaborative efforts that result in cost savings. Municipalities that submit a collaboration agreement demonstrating cost savings are eligible for a payment equal to 50 percent of the expected savings over 5 years, paid in installments over a 5-year period. This report describes how the WISC program would measure cost savings and how the Department of Revenue (DOR) would distribute payments. The WISC program would only reward collaboration that successfully produced real cost savings. Using the current collaboration of the North Shore Fire Department as an example, we demonstrate how this payment program would work. We suggest that \$10 million be used to reward municipal collaborations each year for 5 years, for a total expenditure of \$50 million.

Another incentive proposal is to provide support to communities through a Collaboration Support Office (CSO) administered by DOR staff. The proposed office would provide state outreach to local governments to bring together communities and help them identify opportunities for collaboration that have not yet been realized. This would entail the services of staff members such as an outreach director or outreach assistant, an economist or service analyst, and a staff attorney or mediator. Each would play a vital role in the success of future collaborations.

The third incentive program is aimed at easing implementation costs that might otherwise discourage collaboration among municipalities. The program could take three forms: prorated grants, flat grants, or a revolving loan fund.

We propose that the DOR implement the Wisconsin Incentives for Service Collaboration (WISC) payment, along with the Collaboration Support Office (CSO). We believe these programs offer strong fiscal and administrative support that will increase the number and quality of collaborations among municipalities. Finally, we recommend that the DOR further explore the feasibility and funding of a revolving loan program to provide implementation support to municipalities.

Supporting Public Service Efficiency

Creating Incentives for Local Government Collaboration in Wisconsin

Josh Dukelow, Eric Hudson, Andre Jacque, and Emanda Thomas

INTRODUCTION

Wisconsin has 1,850 independent towns, villages, and cities.¹ Municipal officials decide how to spend over \$4 billion annually to provide a wide array of public services, funded almost entirely through a combination of local property tax levies, state aid, and fees and charges. For most of the past decade, the total amount of state aid to municipalities has been frozen. As a consequence, municipal governments in Wisconsin have had to rely more heavily on property taxes to provide services. To avoid increases in their property tax levies, most are searching for ways to reduce costs and operate more efficiently.

Several recent government commissions have recommended that the costs of providing local government services could be reduced if governments would more actively cooperate with each other in the provision of services. Although there have been successful examples of collaboration among local governments in Wisconsin that have generated substantial cost savings, the vast majority of municipal governments in the state do not collaborate or cooperate with their neighboring jurisdictions in any significant way. The presence of so little collaborative activity in Wisconsin suggests that perhaps the only way to encourage municipal governments to seek out collaborative opportunities is for the state to provide local governments with financial incentives to undertake cost-saving collaborations. The purpose of this report is to identify and evaluate several alternative policies designed to encourage collaboration among municipal governments.

BACKGROUND

Wisconsin's municipalities have had little incentive over the past 30 years to reduce expenditures. The portion of the state's shared revenue equation available for aid has been based on total municipal expenditures so that aid from the state increased as total municipal expenditures increased. In a 2003 publication on Municipal and County Aid, the State of Wisconsin Department of Revenue (DOR) described this formula (DOR, 2003b). Although the aid formula is currently frozen, this paper shows the aidable revenues portion of municipal aid as a function of the municipalities' property tax levy and other factors, which creates a disincentive to reduce expenditures and gets rid of a primary motivation for municipal collaboration.

¹ Towns are typically governed by an elected board of town supervisors; villages have a village president who oversees the village board; and most cities have an elected mayor and city council that make all governing decisions.

The disincentive created by the state shared revenue system has partially contributed to a steady increase in municipal expenditures. According to county and municipal revenues expenditure (CMRE) data, total municipal expenditures increased from 1986–2001 (Appendix A, Figures A–2 and A–3). In 1986, the state paid a total of \$780 million in shared revenue payments to towns, villages and cities. Spending continued to rise until 1995. Since then, shared revenue payments have decreased almost continuously for towns and villages, whereas cities continued to see small increases in shared revenue payments until 2001 (Appendix A, Figure A–4). Although there have been decreases in shared revenue, the payments have remained high enough to call attention to the ways shared revenue creates an incentive for municipalities to increase expenditures.

To gain insight into the problem of increasing expenditures as a result of shared revenues, we identified spending trends among municipalities. We compared inflation rates (percent changes in the prices of goods and services) to percent changes in total annual expenditures from year to year during the period from 1987 to 2001 (Appendix A, Figures A–5 through A–8). On average, municipal expenditures across the state increased each year, and total expenditures have exceeded the rate of inflation 10 out of 15 of the years since 1987. On average, increases in expenditures from year to year have been roughly twice as large as the increases in the inflation rate over the same period from 1987 to 2001 (Appendix A, Figure A–5).

In 2001, cities showed the greatest increase in the ratio of spending to inflation rates (Appendix A, Figure A–6). Of the three municipal types, cities had the lowest average ratio at 1.83. In other words, for the period from 1987 to 2001, the average percent change (increase) in city expenditures was 1.83 times greater than the average rate of inflation. Towns and villages experienced even greater ratio increases. For villages, the average percent change in expenditures was 2.48 times greater than the inflation rate for each year (Appendix A, Figure A–7). For towns, the average expenditure increase was 2.25 times greater than the inflation rate (Appendix A, Figure A–8).

During the same period, per capita spending increased at a rate higher than inflation for a majority of the years (Appendix A, Figure A–1).² Because aggregate and per capita spending increased at a rate greater than inflation, price changes and population changes do not completely explain the increases in expenditures. This means that the increases in expenditures may have been in response to the incentives created by the shared revenue formula and not only a product of inflation and growth.

In 2001, the Kettl Commission produced a report entitled *Wisconsin Blue-Ribbon Commission on State–Local Partnerships for the 21st Century*. This report focused on helping Wisconsin’s government operate more effectively and made seven specific policy recommendations, including a proposal to reduce the duplication and overlap of government services (Kettl et al., 2001). The report noted that the politically and geographically defined

² Per capita spending was calculated based on 1990 and 2000 population estimates from the US Census Bureau and expenditure levels from the CMRE data. Because we were unable to use yearly population data, we calculated an average yearly increase in population of 47,190.6 and added that value to the base population estimate of 4,891,769 then continued to add the average increase to each consecutive year. For the years prior to 1990, we subtracted the average from the base year, and for each prior year.

boundaries of the cities, towns, and villages in Wisconsin often impede the best functional lines for basic service provision to their residents. In other words, municipalities often forgo increased productivity, service diversity, and cost savings by functioning strictly within their own borders rather than collaborating with neighboring municipalities.

In 2003, the Task Force on State and Local Government presented a report to Governor Jim Doyle (Sheehy, 2003). The report made six recommendations focused on regional efficiency and economic growth. One recommendation suggested the state use shared revenue to reward service sharing and delivery of public services through functional—not political—areas. Other recommendations suggested the need to reexamine the shared revenue formula and eliminate disincentives to collaboration.³ The task force also explained how existing state statutes can impede cooperation among municipalities. The recommendations of the task force reminded state leaders of the importance of efficiency improvements that can result when municipalities work together to provide basic services.

While these commissions were exploring the possibilities for improved service efficiency, the Legislature proposed an incentive of its own. As part of the 2001–2003 budget bill, the consolidation incentive payment (CIP) was added to the shared revenue formula for municipalities who chose to consolidate services. The CIP would have provided a maximum of \$45 million per year to support collaborative agreements between municipalities. In the successive budget cycle, however, before the proposed 2004 starting date, the payment was eliminated.

An analysis of the consolidation incentive payment by Ian Crichton, a graduate student at the La Follette School of Public Affairs, identified multiple weaknesses with the CIP pertaining to issues of equity, administrative feasibility, and local budgets (Crichton, 2002). First, it was reported that municipalities that collaborate would receive a one-time payment equal to 75 percent of cost savings, as long as net savings of all collaborations did not exceed \$60 million. However, if net savings surpassed this amount, payments would be prorated and the payment decreased. Crichton’s criticism was that this created a disincentive for larger municipalities to collaborate because they feared that their payment would be cut dramatically as a result of prorating. Crichton further states that the CIP formula only rewarded consolidations with large cost savings and did not reward consolidations that resulted in small savings but great improvements in service quality. In addition to the ambiguity in equity of payments, Crichton discusses the challenges of administrative feasibility for the CIP. Two identified challenges were (1) a lack of information regarding the types of collaborations that qualified for the payment and (2) no attempt to define how cost savings would be calculated. A recommendation by the Task Force on State and Local Government led to elimination of the CIP in 2003.

Other than the proposed CIP, there have been no fiscal incentives that promote collaboration. In effect, expenditures and shared revenue payments have remained high. Although prior commissions have proposed suggestions to increase consolidation, the state has yet to

³ *The Sheehy Task Force Report* found that disincentives exist and new policy should promote “(a) economies of scale; (b) elimination of overlapping services; and (c) elimination of the statutory timeline governing each step of the cooperative agreement process between jurisdictions.”

successfully implement a plan. The bottom line is a strong need to develop incentives for collaboration.

BENEFITS AND CHALLENGES OF COLLABORATION

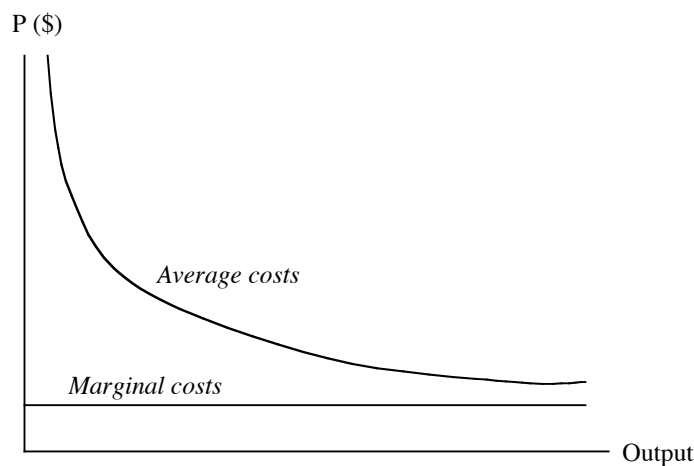
There are ways for a government to improve service quality and increase efficiency at the same time. Cooperative service agreements can reduce the cost of providing services. Yet if collaboration were simple to apply and worked everywhere, there would be no need for the state to develop incentives. Collaboration would happen organically. The challenges that stand before many collaborative agreements are just as serious as the economic theory that supports collaboration.

Collaboration and Economies of Scale

Many of the services local governments provide can be characterized by scale economies. Serving more people and distributing capital costs over a larger demand area can reduce the per capita cost of providing municipal services. By pooling resources and combining their efforts, seven northern suburbs of Milwaukee saved millions of dollars on fire protection services—an impressive example of effectively utilizing economies of scale.

As strictly defined in the literature of economics, economies of scale exist when average costs consistently decrease as output increases. The scenario depicted in Figure 1 assumes that the cost to serve one more person is constant (marginal costs). Fixed costs (not depicted) must be incurred before anyone can be served. As the output increases (i.e., more residents are served), average costs decrease drastically, approaching marginal cost. Economies of scale are limited, however. Average costs can fall only so far before another investment of capital equipment will be needed to serve the expanded demand base.

Figure 1: Structure of Scale Economies



The principle behind the decrease in average costs is simple: The capital equipment required to serve the very first person is also used to serve each additional person who receives the same service. When additional users are added, the costs of the equipment are distributed

over a larger demand base, thus lowering the per capita service costs. Rather than spend on redundant capital facilities, municipalities that collaborate can spread the fixed costs associated with services across more service recipients. Lowering the per capita cost of services reduces the pressure to increase tax levies in order to maintain service quality.

These principles provide a foundation for thinking about the municipal services characterized by scale economies. Fire protection is one example. In the case of the North Shore Department mentioned above, their fixed capital requirements include the department house, the mix of trucks (e.g., water and hose, ladder, transport), and the communication technologies, to name just a few. If these investments were used to serve a larger population, the per capita costs for the fixed capital would decrease. Likewise, for example, if municipalities combined their resources in providing public libraries, the quality and quantity of the holdings would increase. A high-quality public library could then be provided to a larger population at lower per capita costs. While benefits clearly exist, there are also many challenges to municipalities who want to collaborate.

Challenges to Collaboration

Municipal collaborations may lead to many economic rewards. Along with these benefits, however, are reasons collaboration not always achieving rewards. Analyses of other efforts toward collaboration have demonstrated challenges to meeting cost savings expectations, combining personnel and technical systems, and building support from public and elected officials.

Defining and reaching real cost savings can be a challenge for any municipal collaboration. Fire Chief Gerard Hammernik of Oak Creek stated that he believes consolidation could easily cost more to implement and continue than it would actually save. A recent analysis by a team of graduate students at the La Follette School of Public Affairs concluded that the consolidation of fire and EMS dispatching services for the City of Milwaukee and all suburban Milwaukee County municipalities would not generate any significant cost savings (Kozlowski, Mooren, and Woolery, 2004). The absence of cost savings is attributable to the fact that in most small suburban communities, police dispatchers already dispatch fire services as well. Thus, the consolidation of fire and EMS dispatching would have a negligible effect on the number of dispatchers employed by the suburban municipalities.

In addition to unrealized cost savings, three specific challenges face municipalities when combining personnel and technical systems. First, personnel from different agencies rely on different types of information technology. A consolidation of service may require implementation of new technology and training on new systems, which will cost money and time. Second, cultural challenges may create opposition from personnel. The need to protect turf and the fear of losing positions create an attitude of resistance to collaboration. Finally, when municipalities collaborate, labor contracts must be renegotiated to reach equity for similar positions. This could lead to layoffs or increased pay for some. If a group receives a pay increase then the cost-savings of collaboration will be decreased.

The public also creates challenges to collaboration. A fear of change often discourages public support of municipal collaboration. Efforts to build a consolidated government in Knox

County, Tennessee have been rejected by voters because they “just don’t want any changes” (Lyons and Scheb, 1998). While our list of challenges is not comprehensive, it does represent some key obstacles to successful collaboration. Any incentive program that can help municipalities overcome these obstacles will encourage collaboration more than one that ignores challenges.

GOALS FOR INCENTIVE PROGRAMS

There are four main goals for a new collaboration incentive: (1) produce cost savings, (2) protect the state or local funding relationship, (3) oversee the new effort with efficiency, and (4) make the program politically feasible. These goals and their criteria are discussed below.

Cost savings are one of the most important goals of any new incentive program. By finding ways to save money, local leaders can improve service quality without having to raise the local tax levy. To receive an incentive, municipalities must demonstrate that collaboration allows them to provide the same services at a lower total cost. The need to provide a well-designed incentive should prompt local officials to search for ways to improve service efficiency.

The state and local funding relationship is important to leaders in Wisconsin and dates back nearly 100 years. So municipalities take seriously any changes that threaten to alter the relationship. So any new incentives must maintain existing levels of state financial support for municipal governments.

When the state is allocating significant amounts of aid to local governments, they need to know it is being spent efficiently. A successful program should be straightforward in its implementation and execution and should plan for oversight by the state. Money awarded as incentives to collaboration must be spent on collaboration agreements. Once money is given to the local agencies, the state must develop a way to track its use so that steps can be taken to reclaim funds that are not being used appropriately.

Before any incentive program becomes law, the political environment must be considered. The new program cannot reduce funding to one group of municipalities in order to provide new funds to other places. Such shifting may be inevitable as state shared revenue is reallocated, but the effects of these shifts must be considered. Also, because municipal planners need to know how much aid they can expect over time, the payments must also be stable.

INCENTIVE PROGRAMS

There are numerous incentive mechanisms the state could use to encourage collaboration between municipalities. We have identified three possible methods. The first is a formulaic incentive that rewards collaborative efforts for projected savings. The second is a state-sponsored collaboration support team. The third defines support programs that aim to ease implementation costs. Each program has components that provide state support or rewards

for municipal collaboration. The three programs will be analyzed and final recommendations made based on what best meets the defined goals.⁴

Wisconsin Incentives for Service Collaboration (WISC) Payment

To encourage municipalities to explore opportunities for collaboration, we analyzed a formulaic distribution plan to reward collaboration among municipalities: the Wisconsin Incentives for Service Collaboration (WISC) payment. Cities, towns and villages that submit a collaboration agreement demonstrating cost savings would be eligible for a payment equal to 50 percent of the expected savings over 5 years. By offering an incentive payment for collaboration, the state would encourage municipalities to identify areas for collaboration.

The mechanics of the plan are simple. The payments would provide cooperating municipalities with a predictable additional revenue stream for 5 years. Two or more municipal governments that want to collaborate would submit a Service Cooperation Proposal detailing the specifics of their agreement to the DOR and projecting gross cost savings for the first 5 years of the collaboration. The WISC payment would equal 50 percent of the total projected savings. Payments would be front and end loaded, with 30 percent of the payment coming in the first year, 15 percent in year two, 10 percent in year three, 15 percent in year four, and a final payment in year five of the remaining 30 percent. The rationale for this payment structure is discussed later in this section.

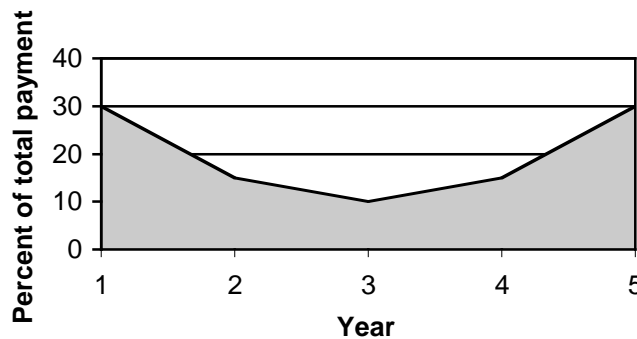
The award of incentive payments would be handled in two steps. The first requires DOR staff to review all proposals and insure that all applications meet the requirements of the program. Second, DOR staff would determine whether 50 percent of the projected savings for all approved proposals would exceed the annual funding amount. If the savings would not exceed the annual funding, then all proposals would be awarded the proper incentive payment. If the savings would exceed the annual funding amount, DOR staff would reduce the 50 percent award level to a new percentage that would result in total award amounts that match the available funds.

Two additional tools would help administer this program. First, to ensure that municipalities follow through with their agreements, they would be required to submit a form to DOR each year. This Annual Collaboration Certification (ACC) form would document their continued cooperation and the cost savings they have realized. The DOR would perform annual audits on 5 percent of the forms in order to encourage accuracy in reporting by municipalities. Second, the plan includes a sunset to encourage leaders to explore collaboration options sooner rather than later. The WISC Payment would only be offered for 5 years, so proposal submission would be required within that period. Stating up front that the program is limited in duration would encourage municipalities to make collaboration a priority now and would also allow some predictability of payments from the state's perspective. After the sunset, the state could examine the success of the WISC payment program and decide whether additional collaboration would occur if the program were continued.

⁴ A full summary of the incentives and the way each matches the defined goals can be found in Appendix B.

There are several reasons this program disburses payments in a “U-shaped” fashion (see Figure 2). The large up-front payment is meant to help defray the implementation costs of the agreement. While difficult to determine whether 30 percent of the total payment would be enough to cover the entire implementation, providing a large portion of the incentive at the beginning helps reduce the burden of implementation. The relatively smaller payments in the second, third, and fourth years are simply rewards for continuing the collaboration. If a recipient fails to file an ACC form or discontinues their collaboration agreement, the remaining portion of their payments will be withheld. The larger payments at the end provide an incentive to adhere to the agreement through the first 5 years. Because the payments can be discontinued and a large piece of the payment comes in the final year, the incentive to continue the collaboration effort is strengthened.

Figure 2: Distribution of WISC Payments



The real value of cost savings often motivates municipal collaborations; unfortunately these cost savings are not always realized (Leland and Thurmaier, 2000). The WISC program only rewards collaboration that successfully produces real cost savings as projected in the proposal. The annual reporting process helps track actual savings. If no cost savings occurs, incentive payments are withheld. Additionally, payments to municipalities would be reduced if the savings reported represented less than 10 percent of projected savings. This would encourage municipalities to project accurate savings estimates to avoid reductions in their payments.

Accurately defining cost savings will help prevent municipalities from manipulating expenditures to gain additional state aid. Although cost savings must represent a reduction in total expenditures, defining total expenditures for all types of collaborations is not possible within the scope of this analysis. We have therefore outlined principles that should be accounted for in the development of any definition of cost savings (see Appendix C). We believe the DOR should use these principles in evaluating cost savings on a per-project basis.

Application and fiscal cost

We have developed an example of the WISC formula payments as applied to the North Shore Fire Department collaboration agreement. According to our calculations, the North Shore

Collaborative Agreement resulted in a 5-year savings of approximately \$3.8 million.⁵ Under the WISC program, these communities would expect to receive approximately \$1.9 million in overall state aid increases over the 5 years following collaboration. State payments would total \$574,000 in the first and fifth years; \$287,000 in years two and four; and \$191,335 at the lowest point in the third year. The largest payments would be made to Glendale, which pays 22.3 percent of fire service costs under the collaboration agreement. Glendale would receive sequential annual payments of \$128,246; \$64,123; \$42,749; \$64,123; and \$128,246 over the first 5 years of the collaboration agreement. While this collaboration offered enough benefit on its own to encourage its adoption, the proposed WISC program could have provided additional incentive.

We also attempted to estimate a budgetary cost for the WISC program. Unfortunately, estimating the levels of participation in any program is difficult. Based on the predicted savings and incentive payment in the North Shore example and assuming a modest level of participation, we suggest a \$50 million budget to adequately support this program. This budget would provide \$10 million for new incentives each of the 5 years of the program.⁶ Due to the varied nature of collaboration agreements and the broad range of municipal expenditure, we cannot be certain about the effects of the program at this level of funding. We suggest \$50 million as a minimum and defer to DOR discretion.

Collaborative Support Office

This alternative incentive proposal would provide support to communities through a Collaboration Support Office (CSO) staffed by the DOR. The proposed office would serve as a permanent attempt at outreach by the state to local governments to help identify opportunities for collaboration, share best practices, and help municipalities reach agreements for the consolidation or collaborative expansion of services. This office would consist of one or more staff in each of the following positions:

Outreach director or assistant. This role would consist of a broad, continuous effort to make all units of local government aware of the services provided by CSO, along with targeted discussions with leaders in areas of the state where increased collaboration would most improve government efficiency. This could entail scheduling meetings with mayors, village presidents, town chairmen, and district commissioners as well as attendance at general and committee meetings for municipal and county government officials.

Economist or service analyst. This position would survey relative service costs across the state, identify areas where per capita costs are the highest, and prepare background

⁵ The calculation provides values based solely on the reported expenditures compared to an inflated baseline for the 5 years following collaboration. Based on these values, we have calculated the WISC payout that the North Shore Communities would have received if this incentive had been in place. Details of this calculation are shown in Appendix D.

⁶ The total budgetary funding would be \$50 million, and the annual budget would be \$10 million dollars for each of the 5 years. In any year of the program, a municipality that would be eligible for \$2 million in incentives would have that entire amount allocated from the \$10 million budget that year. Still, the municipality's first year of payment would only be 30 percent of the \$2 million, as the payment cycle dictates.

information (e.g., on service needs, levels of service, pre-existing assets, projected capital requirements, per capita costs) for local governments wanting to consolidate.

Staff attorney or mediator. This person would be involved in the actual negotiation of the consolidation agreement. The position would require experience in contract negotiation and mediation skills. To guard against overuse, this staff person would have limited availability, perhaps with a cap on the number of days they could be utilized. In addition to providing legal support in crafting contract language, this person should have knowledge of similar agreements to give all negotiating units a baseline in order to speed consensus.

Facilitating collaboration through a state-sponsored team of professionals would help local leaders find areas where cost savings exist through collaboration. Reducing the costs of finding collaborative opportunities would be a strong incentive to enact the agreements and realize potential savings.

Collaboration Implementation Supports

Just knowing that service collaboration would lead to cost savings is not always enough to motivate municipalities to cooperate. Providing services to a new, expanded area may require that new equipment be purchased. New communications technology, additional vehicles, or a larger facility may be needed to bring together existing departments. So even though long-term cost savings may be possible, the up-front costs of implementing the collaboration agreement may be enough to dissuade potential partners from cooperating.

To address this hurdle to collaboration, the state could make available monetary supports earmarked to offset the implementation costs that come with certain types of collaboration. Costs such as infrastructure improvements, capital projects related to the collaboration, and new equipment would be eligible for funding. Personnel costs related to collaboration (e.g., paying for employee severance or hiring additional workers) would not qualify for the supports. By funding the implementation phase of the collaboration agreements, the anticipated cost savings could be fully applied to tax relief or used to improve the level of service by the newly combined department. Simply removing the cost hurdles would encourage municipalities to search for ways to provide services cooperatively.

Not all grant programs are equal, and their design will dictate how effectively each leads to collaboration. We examined three different methods for distributing the designated pool of funds. The first method would accept grant proposals and prorate the awards. The second would divide the pool of funds evenly among all applicants. The third would implement a loan program to help defer implementation costs.

- *Prorating.* This plan would allow municipalities to apply for grant money using a standard application. Municipalities would be asked to describe their collaboration agreement, estimate the cost savings expected, and identify the implementation costs they would face as a result of the collaboration. Each municipality would have to justify the costs they predict and classify them in the acceptable cost categories named above. When the total amount of funding requested exceeded the available

pool of funds, the awards would be prorated in proportion to the amount requested by each applicant.

- *Flat grant.* This plan would award grant funds evenly to all applicants by dividing the total available funds by the number of applicants. The amount requested by each municipal collaboration proposal would not influence the amount of funding granted to the parties. Instead, the pool would be divided by the number of applications received in a given year. All applicants would receive the same amount regardless of expected savings or the scope of the collaboration they propose.
- *Revolving Loan.* The previously mentioned grants would be subject to municipal “gaming.” Municipalities could overestimate costs when collaborating, resulting in the purchase of unnecessary equipment at the expense of the state. A revolving loan program, similar to a recommendation from the “State of Wisconsin—Task Force on State and Local Governments” (Sheehy, 2003), would provide aid to the municipalities but would require that it be paid back to the state. The pool would have a set, capped amount of money available to help defer implementation. Municipalities would be required to pay back these loans in full within 5 years.

RECOMMENDATIONS

The purpose of this report is to identify and evaluate several alternative policies designed to encourage collaboration among municipal governments. Based on our evaluations of the alternative incentive programs and how well each met the defined goals, we propose the following action, along with continued exploration:

- *Implement the proposed Wisconsin Incentives for Service Collaboration (WISC) payment.* This program offers the best fiscal incentive for municipalities to participate in cost-saving collaborations. Based on the potential incentive payment that the North Shore Fire Department collaboration would have received (Appendix C) and our estimates of participation levels, we recommend a one-time allocation of \$50 million be designated to fund the program. This pot would be divided evenly throughout the 5 years of the program. The challenge of defining cost savings for each proposal still remains. While we have provided an operational foundation to guide this definition in Appendix D, we recommend that the DOR build this foundation into a concise definition of cost savings, without which this incentive would be more susceptible to manipulation by municipalities trying to gain additional aid. The 5-year availability of the WISC payment and the annual reporting requirements would help reduce manipulation by municipalities; before this plan is undertaken, however, a precise definition of cost savings must be developed.
- *Implement the Collaboration Support Office (CSO) to aid municipalities’ efforts at collaboration.* This office would administer and direct the WISC program from inside the Wisconsin Department of Revenue. Additionally, it would offer municipalities administrative support and consultation on collaboration efforts. Through continued experience with and support of collaborations, the CSO would be able to develop best practices in collaboration efforts that would help guide future collaborative efforts.

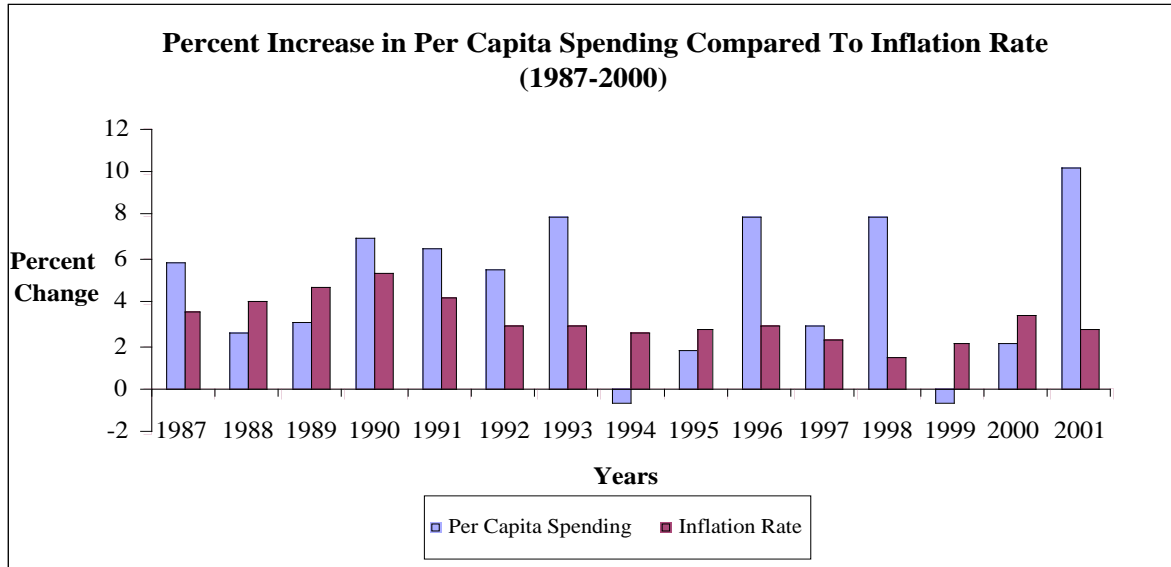
- *Explore the feasibility and funding of a revolving loan program.* The amount of available funding in this program would depend on estimated implementation costs that municipalities would ask to have funded. Such a program would effectively act as an incentive to engage in collaborative agreements by reducing the startup costs municipalities would face.

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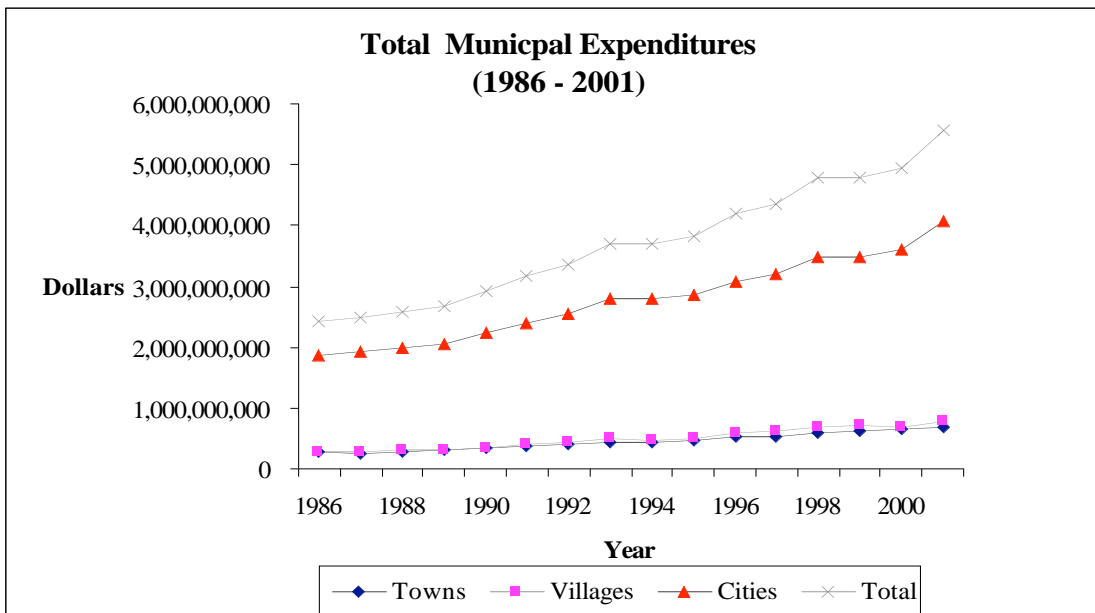
APPENDIX A
SHARED REVENUE AND EXPENDITURE FIGURES

Figure A-1



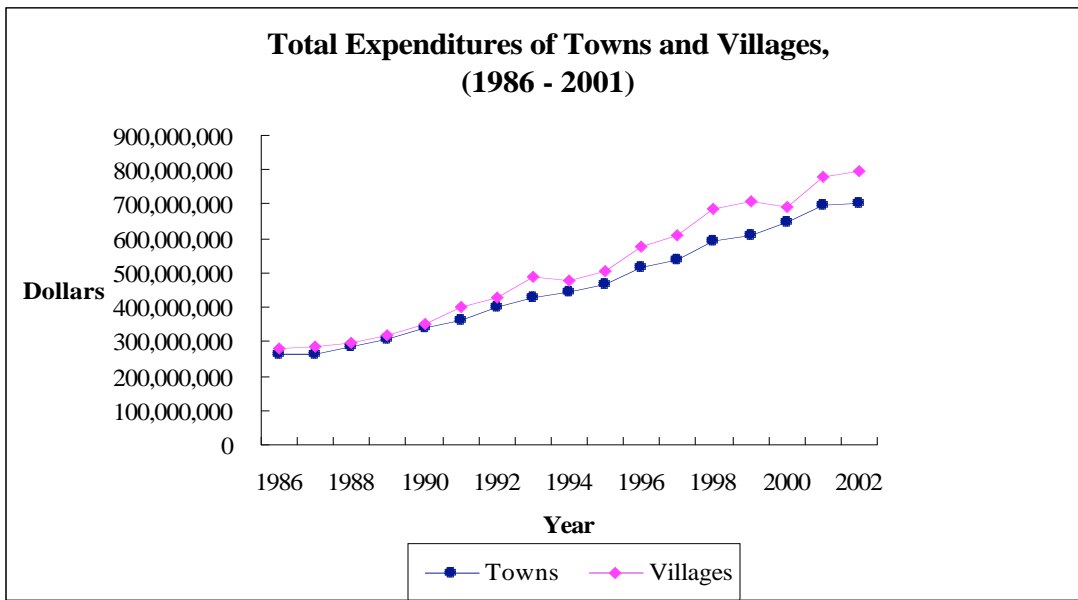
SOURCE: Spending data from Wisconsin Department of Revenue, *County and Municipal Revenues and Expenditures*; population data from U.S. Census Bureau, *State and County QuickFacts*; inflation data from U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Price Index, All Urban Consumers*, available at <http://data.bls.gov/cgi-bin/surveymost>.

Figure A-2



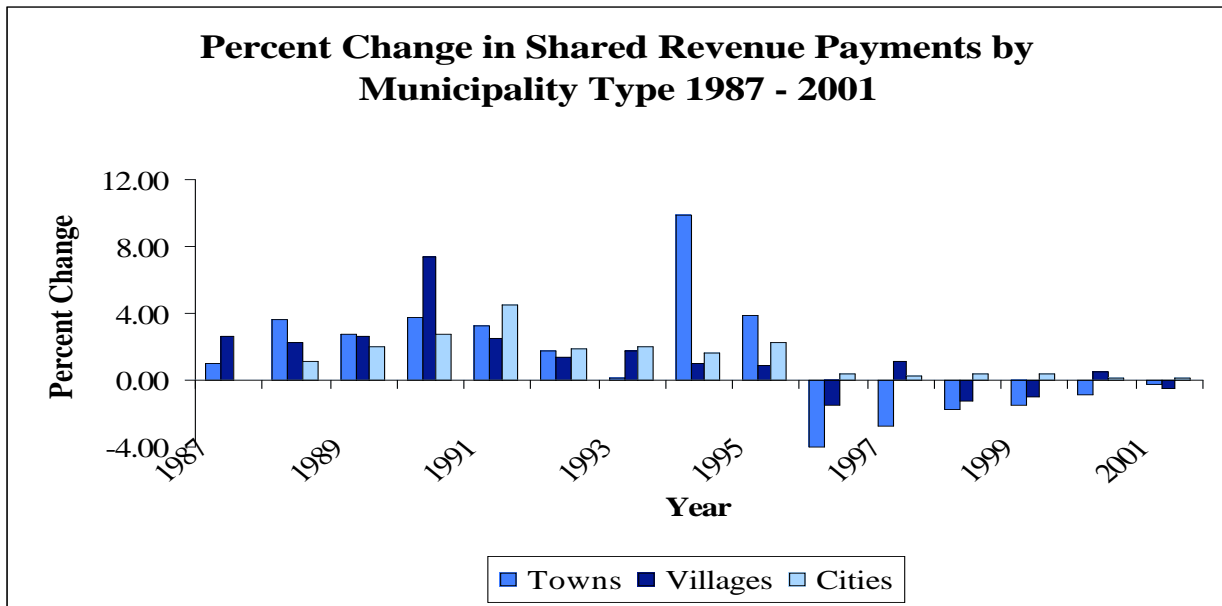
SOURCE: Wisconsin Department of Revenue, *County and Municipal Revenues and Expenditures*.

Figure A-3



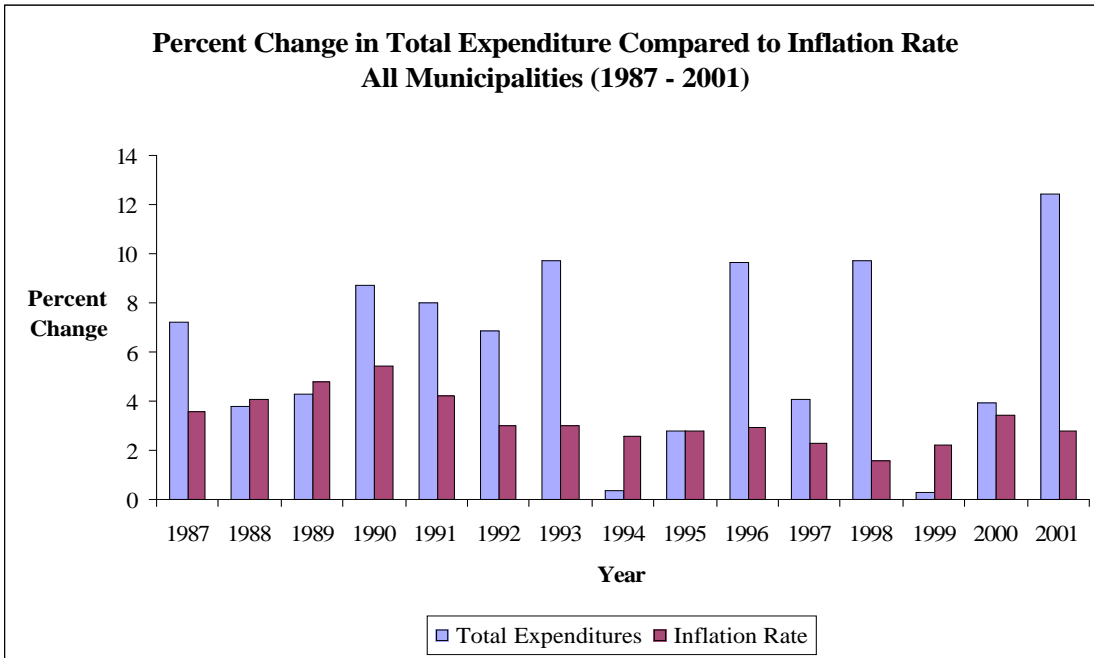
SOURCE: Wisconsin Department of Revenue, *County and Municipal Revenues and Expenditures*.

Figure A-4



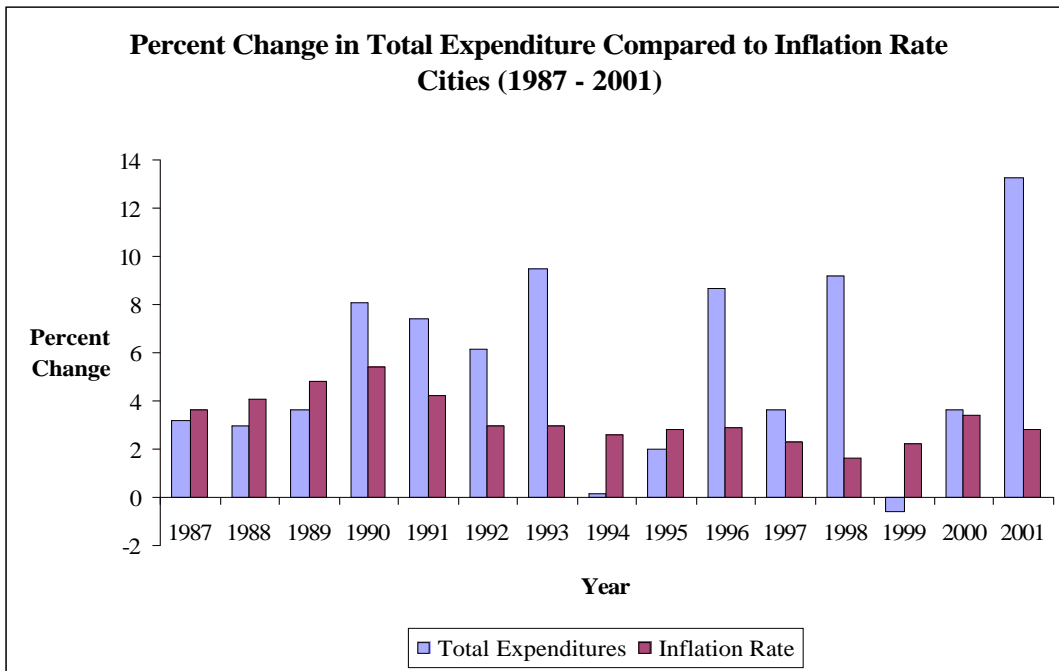
SOURCE: Wisconsin Department of Revenue, *County and Municipal Revenues and Expenditures*.

Figure A-5



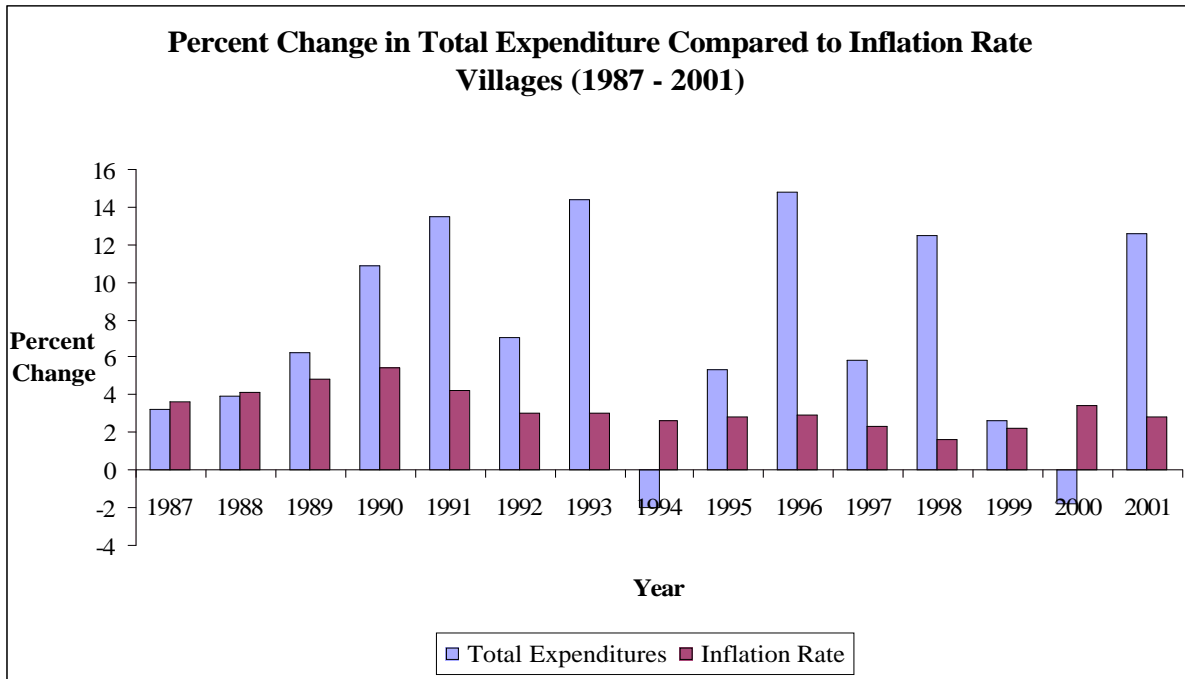
SOURCE: Wisconsin Department of Revenue, *County and Municipal Revenues and Expenditures*; U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Price Index, All Urban Consumers*, available at <http://data.bls.gov/cgi-bin/surveymost>.

Figure A-6



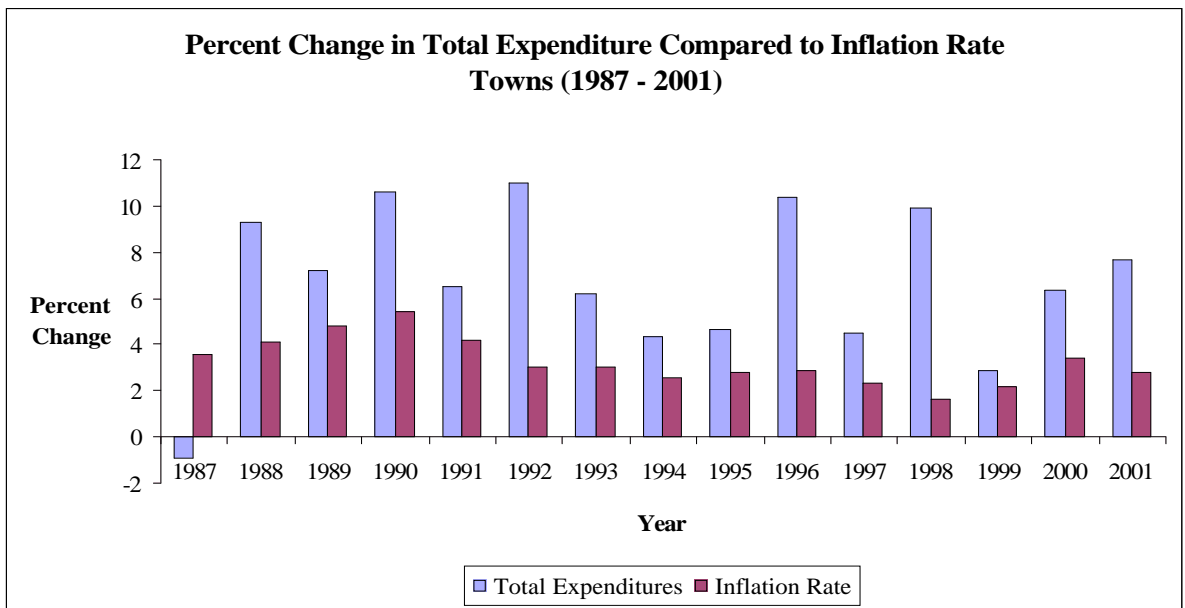
SOURCE: Wisconsin Department of Revenue, *County and Municipal Revenues and Expenditures*; U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Price Index, All Urban Consumers*, available at <http://data.bls.gov/cgi-bin/surveymost>.

Figure A-7



SOURCE: Wisconsin Department of Revenue, *County and Municipal Revenues and Expenditures*; U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Price Index, All Urban Consumers*, available at <http://data.bls.gov/cgi-bin/surveymost>.

Figure A-8



SOURCE: Wisconsin Department of Revenue, *County and Municipal Revenues and Expenditures*; U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Price Index, All Urban Consumers*, available at <http://data.bls.gov/cgi-bin/surveymost>.

APPENDIX B

GOALS AND ALTERNATIVES MATRIX

Goal	Criteria	Alternative		
		Implementation supports	WISC payment	CSI team
Secure state/local relationship	Continue high degree of revenue transfer	<ul style="list-style-type: none"> Leaves SR untouched Will not influence future payment Provides a new funding source 	<ul style="list-style-type: none"> Adds a new transfer payment More money goes from the state to the local governments 	<ul style="list-style-type: none"> Team funded at state level; costs municipalities nothing to use
	Maintain high quality of services provided by municipalities	<ul style="list-style-type: none"> Eliminates need for municipalities to fund the implementation costs Leaves more revenue to fund and improve service quality 	<ul style="list-style-type: none"> Cost savings that must be shown can go to service improvement and the new payment can further enhance service quality 	<ul style="list-style-type: none"> Enhances the ability to efficiently improve services offered by municipalities
Cost savings	Services are provided at a lower cost after collaboration	<ul style="list-style-type: none"> Cost savings are a required part of the application Savings can be applied to increase service quality 	<ul style="list-style-type: none"> Cost savings are a required part of qualification ACC form provides verification of savings 	<ul style="list-style-type: none"> Team explores the possibilities for cost reduction
Efficiency and oversight	Simple benefit calculations	<ul style="list-style-type: none"> One-time payment Won't know precise grant amount if the application goes to review or the payments have to be prorated 	<ul style="list-style-type: none"> Projection of savings over 5 years required to determine payment Payment is unevenly distributed 	<ul style="list-style-type: none"> No payment made, benefit comes as improved program analysis due to expert advice
	State can reclaim incentive if cooperation is not implemented	<ul style="list-style-type: none"> Grant: Cannot reclaim money once it has been transferred and spent on implementation Loan: Possible to recover costs 	<ul style="list-style-type: none"> The latter portion of the total payment can be cancelled if the collaboration agreement is terminated 	<ul style="list-style-type: none"> No payment made, no money to reclaim If no cost saving options are found, time and resources are lost
Political feasibility	Addresses the balance of winners and losers	<ul style="list-style-type: none"> All municipalities compete on the same field for the same pot of money Losers: those who cannot collaborate 	<ul style="list-style-type: none"> Everyone is eligible if they can demonstrate cost savings as a result of collaboration Losers: those who cannot collaborate 	<ul style="list-style-type: none"> Every municipality has the opportunity to search for collaboration savings with help of expert panel
	Fits within the overall Shared Revenue program	<ul style="list-style-type: none"> Totally independent of SR so there is no way that this grant will influence the SR payment a muni gets 	<ul style="list-style-type: none"> No impact on the Shared Revenue formula and does not require any changes to the current formula. 	<ul style="list-style-type: none"> No payment made, thus this program will not influence SR payments
	Maintains consistent payment levels	<ul style="list-style-type: none"> One-time payment Does not change SR 	<ul style="list-style-type: none"> Distribution of payments is predictable and guaranteed unless agreement is cancelled 	<ul style="list-style-type: none"> No payment made as part of this plan

NOTE: SR is an abbreviation of "state revenue."

APPENDIX C

COST SAVINGS ISSUES

Defining cost savings for the WISC payment creates some difficulties. The varied nature of collaboration allows for several kinds of cost savings to exist. Defining a formula to calculate cost savings would be difficult. We have therefore devised some guiding principles that should influence this definition. As a suggested foundation, projected savings should be made on the basis of total (not per capita) spending, and the initial (before consolidation) spending level would be determined to be the combined spending level for the service in all municipalities participating in the collaboration agreement during the year prior to the proposed agreement start date. Additionally, projected inflation in non-personnel costs would be included as part of the cost calculations. This should be calculated at the 10-year average increase (presently 2.2 percent) in consumer price index as reported by the federal Bureau of Labor Statistics.

Further, we recommend that capital construction costs be exempt from both spending projections and WISC audits (new capital costs not deducted from projected cost savings) and that increased staff training costs resulting directly from the merger should be included in cost projections and specified in the agreement. The DOR may wish to exclude a set percentage of these training and implementation costs, to be deducted from new spending levels for the first year of the agreement only. Municipalities should consider new or increased spending for general or higher quality supplies prior to collaboration, however, and should not be exempt from cost projections.

Whenever possible, guidelines for staff salary and benefits increases should be negotiated in principle prior to collaboration. The DOR should also consider exempting all or some of the salary and benefits increases for pre-existing staff levels for each year in its calculations of cost savings. If salaries from one or more bargaining units are increased to meet the existing level of another unit, the DOR should include these increases in the total costs of collaboration. Increases in staffing levels above the initial level over the life of the collaboration agreement should be considered by municipalities prior to collaboration whenever possible, and should not be exempt from cost projections.

Enforcement of consolidation agreements is a primary consideration for the viability and fairness of the WISC program. Each collaboration agreement should be subject to annual affidavits of participation for participating municipalities to complete and return promptly to the DOR. Annual WISC payments would not be made until that year's affidavit was returned. Each year, approximately 10 percent of these affidavits would be audited. After 5 years of WISC payments or the termination of any agreement, there should be a final audit by DOR to determine actual 5-year cost savings. Total payments to municipalities exceeding 50 percent of actual 5-year savings would be refunded to the state through a reduction in shared revenue payments.

To discourage overestimation of cost savings as a way to increase initial payments, the DOR should consider capping collaborating governments' projections of 5-year savings at a reasonable percentage of combined costs for the service (these governments would be free to project any amount of savings below that amount). Collaborating governments should be

responsible for achieving this level of savings and would have the difference (plus interest) deducted from future state aid payments. Municipalities should be able to adjust savings estimates (downward only) between the second and fourth years without penalty if expected savings reductions were lower than the remaining amount of aid payments.

APPENDIX D

NORTH SHORE CONSOLIDATED FIRE DEPARTMENT

Explanation of Calculations

Table A–1 displays the total fire protection service expenditures for each municipality participating in the North Shore Fire Department Collaboration in the year preceding and 5 years following implementation of the consolidation. This 5-year spending data was used to calculate the eligible cost savings and potential WISC payment these communities would have been able to receive. The final two categories of the 1995–2000 costs and percent of total costs explain the share of costs under the agreement that would be borne by each participating municipality.

Table A–2 shows the simulated cost savings calculations for the North Shore collaboration, based on the reported expenditures and estimated expenditures. This takes the difference between the actual annual expenditures for fire protection, as calculated in Table A–1, and a pre-consolidation expenditure level adjusted for increased personnel and inflationary costs. Additionally, the total WISC-eligible cost savings is given. Further definitions are provided below.

- *Adjusted base.* Pre-consolidation expenditure (\$8,652,100) adjusted upward annually for increased personnel and supplies. For Year 1, this is pre-consolidation expenditure times 1.041. For every year that follows, this is 1.041 times the previous adjusted base (i.e., Year 2 Adjusted Base = 1.041 × Year 1 Adjusted Base). Expected annual salary and benefits increases are calculated at 6 percent and all other fire service expenditures are calculated at the 8-year rate of inflation (2.2 percent, as reported by the Bureau of Labor Statistics). Expenditures are assumed to be evenly split between these two categories, meaning the hypothetical standard increase adjustment is 4.1 percent per year (cost personnel = cost other, $(2.2 + 6) / 2 = 4.1$)
- *Actual spending.* Total expenditures for the year based on CMRE report and the calculations performed in Table A–1.
- *Actual annual savings.* The total expenditure for a year minus the expected expenditure for that year if there had not been a consolidation (Adjusted Base). (Actual Annual Savings = Adjusted Base – Actual Annual Spending).

Finally, based on the calculated savings, the total WISC payment by year and municipality are calculated in Table A–3. Total payment is calculated as 50 percent of projected 5-year savings. Since there was no actual projection of savings prior to collaboration, we projected the savings. The total payment is multiplied by the percent of the overall WISC payment to be paid out in any given year. Based on the proposed “U-shaped” payment schedule, Table A–3 shows the total payment per year. A municipality’s payment in any given year equals the total WISC payment times the percent of the payment to be paid out that year (30, 50, or 10 percent) times that municipality’s share of total costs (Table A–1).

Table A-1
North Shore Fire and EMS Expenditures Before and for Five Years After Consolidation

Municipality	Before consolidation (1994)	Year 1 (1995)	Year 2 (1996)	Year 3 (1997)	Year 4 (1998)	Year 5 (1999)	1995-2000 spending	Percent of total spending
Bayside	\$105,300	\$504,800	\$503,700	\$500,945	\$513,894	\$701,841	\$2,725,180	6
Brown Deer	2,065,400	2,179,600	1,724,600	1,688,184	1,786,965	1,871,516	9,250,865	21
Fox Point	1,026,800	1,065,600	1,057,300	1,081,608	1,033,849	951,394	5,189,751	12
River Hills	79,200	227,700	235,700	225,067	252,781	290,733	1,231,981	3
Shorewood	1,884,800	1,835,400	1,768,400	1,763,020	1,787,249	1,721,869	8,875,938	20
Whitefish Bay	1,454,500	1,566,000	1,670,100	1,645,586	1,527,314	1,518,129	7,927,129	18
Glendale	2,036,100	1,858,600	1,897,300	1,956,928	1,870,277	2,270,864	9,853,969	22
Total	8,652,100	9,237,700	8,857,100	8,861,338	8,772,329	9,326,346	45,054,813	100

SOURCE: Wisconsin Department of Revenue, *County and Municipal Revenues and Expenditures*.

Table A-2
Simulation of WISC Payment Eligible Cost Savings for North Shore Fire Department Collaboration Agreement

Municipality	Before consolidation (1994)	Year 1 (1995)	Year 2 (1996)	Year 3 (1997)	Year 4 (1998)	Year 5 (1999)	Total (1995-1999)
Adjusted base (4.1% annual increase)	\$8,652,100	\$9,006,836	\$9,376,116	\$9,760,537	\$10,160,719	\$10,577,309	
Actual spending	8,652,100	9,237,700	8,857,100	8,861,338	8,772,329	9,326,346	
Annual savings	N/A	-230,864	519,016	899,199	1,388,390	1,250,963	\$3,826,704

SOURCE: Authors calculations based on data from Wisconsin Department of Revenue, *County and Municipal Revenues and Expenditures*.

NOTE: WISC Payment Calculation:
 $50\% \times \text{Total Anticipated Cost Savings Over 5 Years}$
 $.50 \times \$3,826,704 = \$1,913,352$

Table A-3
Annual WISC Payments by Municipality

Municipality	Percent of total costs	Year 1 (1995)	Year 2 (1996)	Year 3 (1997)	Year 4 (1998)	Year 5 (1999)	Total (1995-1999)
Bayside	6.3	34,719	17,360	11,573	17,360	34,719	
Brown Deer	20.5	117,858	58,929	39,286	58,929	117,858	
Fox Point	11.3	66,118	33,059	22,039	33,059	66,118	
River Hills	2.9	15,696	7,848	5,232	7,848	15,696	
Shorewood	19.5	113,081	56,540	37,694	56,540	113,081	
Whitefish Bay	17.1	100,993	50,496	33,664	50,496	100,993	
Glendale	22.3	125,541	62,771	41,847	62,771	125,541	
Total	100	574,006	287,003	191,335	287,003	574,006	1,913,352