A REGIONAL APPROACH : Collaborating with Non-Profits

BY GREG BLOUNT

Public agencies of all sizes face financial challenges and difficulties in securing the resources needed to provide important services. Many governments consider collaborations with private businesses (public-private partnerships, or P3s) as a potential solution, but a similar partnership with a non-profit/private partnership (an NP3) provides another possibility, especially among regional jurisdictions. When properly planned and developed, an NP3 can help governments save money and deliver services more efficiently. An NP3 is a type of P3, so these agreements require extensive research and evaluation before you make a decision that can change the way your government operates.

A REGIONAL APPROACH

One type of NP3 that governments should keep in mind takes a regional approach, with two or more jurisdictions working together to share information, resources, activities, and capabilities to achieve an outcome that would not be feasible for the governments on their own. Many regional approaches include state, county, municipal, and council of government (COG) partnerships.

Shared services are designed to meet a specific need, yet remain flexible enough to change as the jurisdiction grows. The services most often provided collaboratively include health and human services, transit systems, airports, sewage collection, disposal of hazardous wastes, libraries, tax assessing, and title records. Other services that can be regionalized include floodplain services; animal control; emergency, ambulance, fire, and police; shared, web-based software systems; and customer service.

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The bigger question is whether governments should regionalize and share services. This is where collaboration with a COG pays off, as they typically have the resources and skills to achieve collaboration among key stakeholders. Having these types of discussions early in the process is crucial. All of the departments involved must understand the challenges and pain points facing each jurisdiction, as well as the service needs and soft costs. Soft costs can include governance and monitoring costs, benefits, and the value of improved citizen satisfaction.

THE REGIONAL APPROACH: POST-HURRICANE KATRINA

In 2005, Hurricane Katrina hit the State of Louisiana with a force that the United States had never before seen in a natural disaster. The hurricane caused hundreds of billions of dollars of property damage and economic losses. With the insurance industry demanding statewide building codes, Louisiana faced some major challenges in the recovery process. A state mandate required 369 certified building officials (one for each county and municipality in the state), hundreds of certified residential and commercial inspectors, and hundreds of certified plan reviewers. In addition, many jurisdictions did not have or even understand building codes, and most departments had to be created from scratch.

These challenges, along with other factors, led many areas of Louisiana to seek a regional solution to comply with the new requirements, which included safety, state law, insurance, staff shortages, the need for self-sustaining departments, and lack of funding. The affected jurisdictions quickly implemented the regional model, which has become an example that many others have since followed.

A state contract provided funds in "emergency areas" that received the most damage. A regional approach was enacted in multiple jurisdictions. These regional models usually involved intergovernmental agreements and some type of partnership with experts in the building code industry.

Over the long term, these agreements resulted in different jurisdictions using the same requirements statewide, making it easier for contractors to work with them. Underserved municipalities were able to obtain building department ISO ratings, resulting in reduced insurance premiums and flood insurance rates. More governments built structures that were designed to resist high winds and floods, and fewer unlicensed contractors were used.

Working with a COG allows jurisdictions to reduce the administrative burdens of issuing a request for proposals; member governments can use the COG's master agree-

ment as a cooperative purchasing document. Several partnerships that work with IBTS use this approach, including the Indian Nations Council of Governments, the Northern Oklahoma Development Authority, and the Oklahoma Municipal League. the Institute for Building Technology and Safety (IBTS) conducted surveys to determine the service needs and pain points of these counties, cities, towns, and tribal nations in the State of Oklahoma, and identified several key areas of need in neighboring areas.

> The difficulty many areas of Louisiana faced in rebuilding after Hurricane Katrina led them to seek a regional solution to comply with the new requirements, which included safety, state law, insurance, staff shortages, the need for self-sustaining departments, and lack of funding.

SHARED SERVICES

Informal agreements may include such items as sharing information or equipment, coordination of individual efforts, or joint promotion, while more complex or formal agreements might include contracting with another government for service, sharing facilities, purchasing/insurance pools, merged departments, special districts, or regional planning. Formal intergovernmental cooperation often includes written agreements among governments, and may require a division of labor and/or transfer of funds.

Suburbs may be more likely to enter into shared services agreements due to the greater density of governments in a metropolitan area, proximity, and similar levels of service. Rural communities might consider shared services because they are smaller in size and have fewer resources. Rural areas may have more cooperative agreements between different types of governments.

In all cases, alternative service delivery that involves shared services requires governments working together to achieve shared policy objectives. In its best practice, *Alternative Service Delivery: Shared Services* (available at gfoa.org), GFOA shares the following process for successful implementation:

- Make it possible to establish relationships with other governments that will allow you to identify opportunities (e.g., talking with communities that have launched successful cooperative initiatives).
- Clearly identify the costs, benefits, and potential risks associated with a proposed agreement. Determine the return on investment, to the greatest extent possible, both in financial and quality control terms. Key items that should be considered in the feasibility stage include goals and objectives, tangible and intangible benefits, and potential barriers (e.g., political, economic, funding, human resource, legal, social, and/or economies of scale).
- Agreements between collaborating communities should:
  - Establish the liability and legal basis for the relationship.
  - Determine cost allocations (both direct and indirect) to establish the methodology for deciding who pays how much.
  - Identify revenue sources to fund the service.
  - Establish a governance structure, membership, and protocols.
  - Specify the time period covered by the agreement.
  - Address how disputes will be resolved and mediated.
  - Create service-level agreements (discussed below).
  - Include an opt-out provision, which is often crucial to gaining political support.
- Ensure continuity of service, which is of primary concern for stakeholders. Make sure employees are trained properly, and establish performance measures/benchmarks and/or milestones related to the particular service.
- Treat a shared service agreement as a contract, regularly monitoring the terms and conditions to ensure they are being met. All the governments involved need to agree on what will constitute regular monitoring — frequency (e.g., holding monthly meetings of the original study committee or the new governing committee to monitor progress and contract compliance), what to monitor, how to measure what is monitored (e.g., customer

satisfaction, finances, employee performance, hiring, and safety), communicating results (reporting format may include the medium or media for communicating the results, such as online or paper reports), and the quality and quantity of work performed.

- Allow for long-term review or reassessment of the agreement; the original assumptions or parameters surrounding the agreement may need to be adjusted at various intervals.

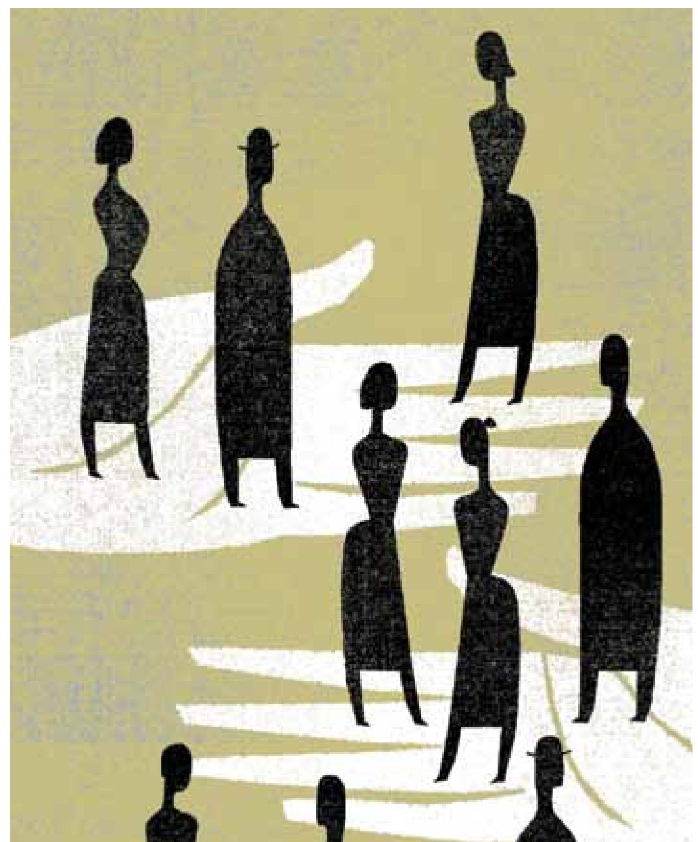
> Working with a council of governments allows jurisdictions to reduce the administrative burdens of issuing a request for proposals; member governments can use the council's master agreement as a cooperative purchasing document.

Another resource is a simple, free collaborative service delivery matrix decision tool to help jurisdictions discuss shared services, developed by the International City/County Management Association, the Alliance for Innovation, and Arizona State University. It is available on the IBTS website (ibts.org). IBTS is a 501(c)(3) non-profit that uses the matrix to help COGs share services successfully.

BEST PRACTICES FOR PARTNERSHIPS

NP3 (and P3) agreements can leave the public entity exposed to fiscal and/or political fallout if proper due diligence does not occur, the private partner fails to perform, or if expected project outcomes do not happen — and the same is true for an NP3. According to GFOA's P3 advisory (available at gfoa.org), a finance officer should consider the following when weighing the benefits of either type of agreement:

- Does the government have the legal authority and regulatory capacity to enter into the agreement?
- Does the project address a public priority, and is it consistent with the overall strategy, master plans, and financial policies of the organization?
- What is the expectation for competition in determining the best non-profit or private partner?
- Does the government evaluate and prioritize how to use project proceeds, if the opportunity involves an upfront payment in exchange for operation of a public asset?
- Has the government or an independent third party analyzed the opportunity to verify revenue projections, demand, and other assumptions used in evaluating it?
- Does the agreement specify how performance will be monitored and what remedy will be enacted if the specified results are not achieved?
- Does the expected term of the agreement limit the government's flexibility in responding to changing demographics or other circumstances? (Does the public entity have the ability to renegotiate the agreement?)
- Are project risks and risk transfer clearly articulated and understood by all key stakeholders? Is the government



- responsible for any costs should the non-profit or private entity not perform?
- Does the project proposal contain a comprehensive and realistic statement of transaction costs, and whether expected transaction costs will limit project benefits? (For smaller organizations and smaller projects, the time and costs associated with negotiating and finalizing an agreement can limit its potential benefits.)
- Will the government experience any positive or negative bond rating impacts?
- Have appropriate public outreach mechanisms (e.g., community meetings, informational newsletters) been met to provide transparency and feedback?

GFOA also encourages governments to look for external resources such as professional associations, state agencies, or non-profit organizations to support and assist in considering and creating the agreement.

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MASTER SERVICE AGREEMENTS

At this stage, the government should negotiate a master service agreement based on the community's needs. Regardless of whether you're pursuing an arrangement with a for-profit or non-profit organization, you will want a contractual arrangement that provides pricing, establishes targets and expectations, and transfers risk to the operator.

Financing is a crucial part of the master service agreement. The government needs to determine whether the NP3 is a realistic and sustainable option for the duration of the contract. For example, the agreement needs to protect the public's exposure to liability if a jurisdiction's revenue decreases, or if operations are disrupted due to natural disaster, statutory changes, or other risks.

All agreements should clearly define service and other required performance metrics for the designated term of service, as well as the related incentives and consequences for performance that is exemplary or lacking. This can be a key accountability mechanism for stakeholders, as it communicates the benefits and expectations to the public.

The agreement should address solutions, risks, performance, and benefits. It should state exactly how the partnership will address the jurisdiction's difficulties, be they financing, human capital, etc., as well as identifying problem areas, outlining the steps the parties will take in working toward solutions, and describing outcomes and benefits. This helps alleviate risks and service issues once the agreement is executed.

The agreement should also identify the level of risk each organization will carry. Risk transference, if done properly, can be one of the major benefits of an NP3 partnership. Some jurisdictions work with the partner organization to manage their human resources as a way of minimizing risk in this area.

MUCH LIKE PRIVATIZATION

NP3s, like P3s, sometimes refer to transactions that are essentially privatization efforts, in which a government entity enters into a long-term lease of a public asset or a transaction aimed at outsourcing services the government uses or provides (like the Human Resources example mentioned previously). These transactions present a fundamentally different set of opportunities, risks, and concerns than those found in customary NP3 and P3 agreements.

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NP3 and P3 agreements involve a substantial shift in duties away from government and therefore require considerable coordination, according to GFOA's *Establishing Public-Private Partnership (P3) Agreements for Outsourcing* resource page (available at gfoa.org). Each transaction is inherently complex and requires the government to estimate the cost of service delivery; measure service levels; select the most competent provider; ensure equity, fairness, and transparency; address technical concerns; and ensure accountability.

A successful partnership requires an understanding of a transaction's risks and benefits for both parties. Governments also need sufficient knowledge of potential service providers to assess their capabilities. The government is looking for outcomes with minimal financial risk — the public benefit should at least justify the public cost. The non-profit or private entity is looking for an appropriate return related to the level of resource investment and/or risk involved. Expected savings often fail to materialize, especially when outsourcing initiatives are not planned or administered effectively.

Governments typically have several reasons to consider outsourcing: cost savings, improved performance, increased responsiveness, and reduced financial obligations. But feasibility, costs, and benefits cannot be fully evaluated without clarity of purpose. Informed determinations depend largely on a thorough understanding of the rationale behind the outsourcing initiative.

Finding out what a service should actually cost the government requires a cost analysis based on estimates that include all related expenses. This is critical to ensure that a proposal is realistic and reasonable. It is also imperative to understand the services offered by potential providers, and the underlying concepts and technologies associated with such proposals. Comparisons between internal and external options should involve a consideration of likely transaction costs, including data gathering, contract negotiation, performance monitoring, and contract review or amendment.

Potential partnerships must also be evaluated to determine if privatization will have an effect on existing or expected service levels. Any direct or indirect effects on existing services should be carefully considered and entirely disclosed. The privatization agreement should also include appropriate enforcement features to promote service quality and compliance with all applicable standards and requirements.

CONCLUSIONS

Consider all the service delivery options available to ensure your government is making an informed decision. Alternatives might include in-house delivery or using another unit of government, contracting with non-profits or for-profit institutions, or a hybrid arrangement. To compare all the options, decision-makers need complete cost, benefit, and performance data for all functions and services that may be part of the agreement.

When evaluating whether an NP3 is a good solution, consider whether your government is being proactive or reactive — don't wait for a disaster like Hurricane Katrina to test and expose weak spots in service. Regional solutions can address a government's needs and pain points while providing maximum benefit and lower implementation costs.

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