Budgeting for Shared Services

BY PAULA SANFORD

Sharing services can improve the efficiency of service delivery and sometimes allow jurisdictions to offer increased levels of service, but there are also logistical and financial challenges — not the least of which is developing an initial budget. Being prepared for challenges and addressing them early in budget process can prevent financial, service delivery, and even political problems down the road. This article examines the consolidation of the City of Macon and Bibb County, both in Georgia, into Macon-Bibb County, exploring some of the issues organizations are likely to encounter in developing a shared-services budget and provides strategies for successfully working through them.

BACKGROUND

There are many ways to share services, with differing levels of complexity and shared authority. The most common form is a simple service reciprocity agreement, such as for snow removal or fire protection. A government agrees to provide services to another government as needed (typically infrequently). The jurisdiction that receives the service pays the other jurisdiction for the actual costs it incurs, or a predetermined price, so budget development concerns for this type of service sharing are relatively minimal.

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When service sharing involves regular and sustained financial commitments, determining an appropriate budget becomes more complicated, such as when one local government provides a service for one or more neighboring governments. Under this scenario, the government that provides the service retains budget development authority, often with consultation from its partners. Another form of service sharing occurs when two or more governments jointly provide a service. In this case, financial oversight would be managed through a board or committee that includes representatives from all participating governments. Within these two general models, local governments negotiate a variety of oversight, budgetary control, and payment relationships.

On January 1, 2014, the City of Macon and Bibb County officially consolidated to create Macon-Bibb County. This unusual event mandated immense change and reform, including approval of a new, six-month operating budget to cover the remainder of the government's fiscal year, which ended June 30. The process of drafting the inaugural budget highlighted questions, both organizational and financial, that apply to more traditional service sharing arrangements as well. In resolving these issues, the new county worked out issues ranging from communication to planning, revenue generation, and budget integration.

GETTING STARTED: COMMUNICATION

To ensure success, those who are preparing the budget need to communicate frequently with the department director who will be directly providing each key service. Servicing a new area raises many budgetary questions about issues such as staffing numbers, work space, equipment, and even operating supplies. We all know that developing a budget requires regular communication between the finance office and other departments, but with shared services, communication needs to include the finance staff from the partner government. In instances where one government is providing services for another, it will be helpful to know the historical costs for providing that service and whether the delivery area has cost idiosyncrasies such as a being relatively more expensive to serve than one would initially think. Having some understanding of how costs are accounted will help prevent confusion about the budgeted and eventual actual cost of service provision and appropriate payments.

ANALYZING THE CHANGES

Beyond these seemingly straightforward budgetary details, other issues are likely to arise. The governments involved in the service sharing agreement will need to consider all the costs and look carefully at how these changes will affect the organization, especially the department that will be providing the expanded service.

First off, governments need to consider the up-front costs. Proponents of service sharing tout its potential to create efficiencies and raise service levels — and this can happen, but not necessarily right away. Service consolidation often

requires initial expenditures for new equipment or hiring and training new employees, for example. Stakeholders need to understand the potential new costs as well as the savings that can be achieved over a specific period of time. To keep budget authority for one-time items from being built into the budget indefinitely, transitional costs such as new equipment can be segregated from ongoing items like operating supplies or personnel.

Managers and elected officials enter into service sharing agreements to reduce costs and/or increase service levels. In the latter case, the jurisdictions need to examine costs carefully, as increased service levels can affect costs in various ways. For example, if a municipality plans to provide information technology services to another jurisdiction, service quality might be increased by improved availability, bandwidth, better support, redundancy, and disaster recovery, but at the same time, these improvements might drive up costs. In some cases, service increases are expected immediately, or they might be phased in over a period of years. After management negotiates the levels of service, the financial officer needs to translate that service level into a cost estimate.

There are also likely to be adjustments to organizational design. A major change like service sharing provides a department director with an excellent opportunity to review their service delivery processes and staffing needs. One of the fundamental issues that should be addressed right away when creating the new budget is the department's organizational design. Work with the director to learn how the expanded scope of service will affect the department's design, and consider consulting peers that have experience with this kind of project. Will it be necessary to hire more people? Does the greater scope of service provide an opportunity to reorganize divisions, improving efficiency? Would reorganization affect the budget (e.g., creating new budget accounts)? Would changing cost centers require adjustments to the financial software system?

Service sharing can have budgetary impacts on support services as well. If the agreement results in a substantially larger department or one that is more financially complex, this change will likely affect support service departments such as finance, human resources, and information technology. For example, taking over a water system or solid waste collection for another government will result in more billing. These departments may need to hire additional staff or the budget may need to include dollars to contract out for information technology or vehicle maintenance. Even if the support services departments have the capacity to absorb the additional workload, the cost allocations that fund these departments may need to be recalculated. For example, a department that produces services for multiple jurisdictions will hire more staff, which will in turn require a greater contribution for a cost allocation, based on the number of employees.

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EMPLOYEE CONCERNS

When one jurisdiction takes over services for another, the partner government may expect that its former employees will be hired, at least initially, by the government producing the service. This condition will typically be written into the intergovernmental agreement. In these cases, there may be issues with the experience level of employees and redundancy. For example, the department may find itself with more highly experienced employees than it can afford. Financial staff should work with the director of the affected department to understand his or her plans for using the personnel and whether this will necessitate reorganization. Other issues can include culture, work rules, security, and pensions. Levels of salary and retirement benefits are also common concerns, along with turnover.

Employees who leave one government and join another are going to be concerned about how the transition will affect their benefits, particularly retirement benefits. The options available depend on the transferability of the benefit (i.e., whether or not both governments participate in a statewide plan) and the type of plan (defined benefit or defined contribution). When retirement benefits are not transferrable, the governments may allow employees to "buy into" the new employer's retirement plan, using the actuarial value of the benefits already accrued by employees from the partner government, but determining the actuarial value of the benefits

can be expensive. Typically, when a government hires staff from a partner government, the employee is treated much like any other new employee, including joining the retirement plan as a new hire.

Another common workforce issue with service consolidation is turnover. When employees from two governments begin working together, the transition to a new work culture can be difficult. Rather than adapting, some employees choose to find employment elsewhere or retire. Some level of attrition should be expected in governments that pay employees for untaken leave, so it is prudent to budget for payouts. On the plus side, this turnover enables greater freedom in designing the organization's new structure and hiring employees that best meet the organization's goals, which now include a successful service sharing partnership.

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REVENUE-GENERATING SERVICES

Governments need to thoroughly review fees and charges for services that generate revenue, based on the new operations model. The expanded service delivery will likely result in different expenditures and the cost per service may change. The transfer policy will also need to be reviewed if the revenue has either supplemented one partner government's general fund or received appropriations. In instances where the governments decide that a revenue-generating service will not be fully self-supporting, there needs to be a formal agreement as to how much each partner will contribute to fund it. Finally, all partner governments will likely need to approve the new revenue schedule, at least to the extent that the fees affect their constituents.

Special districts are involved in some shared service arrangements, either because one that is already in existence will require amendment or one will need to be created. For example, if a city will start providing services in an incorporated area of the county, the county may need to create a service district so only the incorporated area residents pay for that new service. Special service districts take time to fully develop and put into effect. Therefore, whether or not a special service district will be created needs to be determined relatively early in the process.

OTHER AREAS OF CONCERN

Debt. If one government is acquiring the assets of another government through a service sharing agreement, some debt may be attached, such as long-term leases for equipment. Another scenario would be revenue bonds from revenue-generating service like a water system. The amount of debt a government is willing to accept in exchange for the assets will need to be negotiated as part of the service agreement, and any resulting debt payments will need to be budgeted.

Capital Assets. Depending on the service, sharing may involve capital assets such as large equipment, vehicles, and even buildings, although that would be unusual. Financial staff should inventory and assess the condition of any capital assets that may be acquired through service sharing. As part of this review, learn how the equipment repair and replacement schedules of the governments differ. This analysis will be important if one government is purchasing the assets from another as part of the agreement. If future equipment and

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> Clarifying how costs are assigned will help prevent confusion about the budgeted and eventual actual cost of service provision and appropriate payments.

capital maintenance costs are to be shared, a new schedule must be created that both governments agree on, as it will affect the cost and quality of the service over time.

Technology. The broader scope of a shared service may require new or expanded technologies. Serving a larger geographic area or more constituents may justify new technology that would not have been cost-effective for a smaller department. Likewise, technology upgrades may be needed because current systems would not be scalable or capable of providing functions that can service multiple organizations. Because new technology often represents a long-term investment, departments may want to consider whether the purchase can be delayed for a year or two to ensure that the shared services arrangement is working well before large sums of money are spent.

CONCLUSIONS

Service sharing offers tremendous opportunities for governments to increase efficiency and/or levels of service; however, for the agreement to be executed, the service needs a budget. There are many important considerations when developing the initial shared services budget, and addressing them thoroughly and fairly should make future budget development easier and less contentious for all parties involved.

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