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Consolidation or Collaboration?

Common Solutions to Reduce Overlapping Services in Local Government

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Introduction

Across the nation, local governments are increasingly under pressure to perform efficiently and effectively in an environment marked by limited financial resources. For this reason, the topic of overlapping services, which occurs when two or more public entities provide a similar service to citizens within the same jurisdiction,¹ has become a major concern not only in Houston but also in cities across the county.

Overlapping services – which include cities and counties that provide similar services such as animal control, law enforcement, housing and health and human services – present opportunities to cut costs and improve outcomes. However, changes to these services can also prove contentious among residents.

Houston, a city of some 2.3 million residents, is the seat of Harris County, which has a population of more than 4.5 million residents. Both are major service providers in the region, each with law enforcement, housing authorities, public health agencies and other departments. The metropolitan area was the fastest growing region in 2015, adding 159,000 residents. While that growth has added new fiscal pressures for the city and county, citizens have been reluctant to increase taxes to pay for the additional services. In 2004, Houston voters approved a revenue cap that would limit the growth of property taxes. Though voters later approved additional revenue raising beyond the cap for public safety spending, the cap has forced the city to cut property tax rates to stay within the limits and forego millions of dollars in property taxes. Collaborative partnerships and the consolidation of goods and services between the City of Houston and Harris County could help mitigate such constraints.

Leaders from these jurisdictions and surrounding municipalities have already begun to explore opportunities for cooperation. In the 2015 State of the County Address, Harris County Judge Ed Emmett advocated for Harris County, the City of Houston and other municipalities to consider the consolidation of services such as affordable housing, law enforcement, ports and health care.² In September 2016, the Houston City Council approved a study to help form a long-term financial plan for the city, including the evaluation of the city's 23 departments to identify possible inefficiencies, report duplications and present best practices.³ Cross-jurisdictional collaborative options are likely to be among the possible solutions.

Indeed, many residents would welcome such improvements. In the 2016 City of Houston Citizen Survey, citizens reported being satisfied with fire protection, but they ranked public health and police services as fair, and they gave a poor review of flood prevention. Some of the highest levels of dissatisfaction were with public safety, flooding, street conditions and

¹ Although counties tend to serve unincorporated areas, they can still serve cities within the county's jurisdiction (i.e., county sheriff can still ticket people within cities).

² Harris County Judge Ed Emmett. (February 13, 2015). 2015 State of the County Address. www.judgeemmett.org/2015_SOC/2015_State_of_the_County_Address.pdf

³ Al Ortiz (September 8, 2016) Houston City Council Approves Ordering Study for Long-Term Financial Plan. KUHF. <https://www.houstonpublicmedia.org/articles/news/2016/09/08/167305/houston-city-council-approves-ordering-study-for-long-term-financial-plan/>

public transportation⁴. In some instances, these services overlap with those provided by the county as well.

In the fiscal year 2016, Harris County spent approximately 32 percent of its \$2.1 billion budget on police services, fire protection and health and human services while the City of Houston spent approximately 53 percent of its \$2.6 billion budget on the same service areas. Though some county services are limited to areas outside the city limits, there are several instances of overlap that offer the county and city opportunities to re-think the most efficient service provision strategy.

With this conversation well underway across the various municipalities within Harris County, this report is the first of several highlighting the various consolidation and collaboration options. The focus of this report is on the common forms of collaboration and consolidation currently in use across the country, which will be followed in the future by more detailed publications on specific service areas.

The options examined in this report are:

- In-House Production
- Privatization
- Contracting Out
- Consolidation

1. In-House Production

Local governments that rely on in-house production use their own resources (i.e., equipment and personnel) to produce and deliver services. This occurs when markets are the least efficient mechanism to provide services. Governments also produce services in-house to maintain accountability. Unlike the private sector, which is driven by profit and is less accountable to the public, government officials are elected and, as such, are theoretically bound to represent their constituents' needs, provide greater transparency and ensure that tax dollars are being used effectively to provide adequate services.

Pros: In-house production can reduce the risk of contract failures, government employees have invaluable experience about local conditions, reduced monitoring costs.

Cons: The disadvantages with in-house production are increases in fragmentation, issues of accountability and potential costs associated with achieving economies of scale.

Commonly Produced In-House Services

- + Public Safety
- + Environmental Protection
- + Education
- + Utilities

⁴ Robert M. Stein and Elizabeth Vann. 2016 City of Houston Citizen Survey: A Report of Findings. <http://www.houstontx.gov/council/committees/bfacommittee/20170110/citizensurveyreport.pdf>

Case Study

When the small town of Blue Mound, Texas incorporated in 1960, it outsourced its water services to Monarch Utilities, one of the few utility providers in the area. But lack of competition from other utility providers meant that Monarch could be less accountable to its customers and allowed them to drastically raise its rates over time. Resident complaints finally pushed the city government to pursue state legislative action to gain control of the city's water system and bring its operations in-house.⁵ In 2015, the city bought the water system from the utility company and reduced rates. Blue Mound's experience helps explain why many services are commonly produced in-house.

2. Privatization

Privatization is the process of government agencies transferring ownership of delivering public services to the private sector. The aim of privatization is to resolve the failures of the public sector by using market strategies or private companies to reduce costs and increase efficiency. Governments use this technique to reconcile budget deficits and provide residents with greater options and adequate services.

Pros: Privatization can provide cost-savings, increase efficiency and allow for the better use of resources.

Cons: Risks associated with privatization include a higher risk of broken or unfulfilled contracts, lack of accountability and insufficient information sharing.

Commonly Privatized Public Services

- + Refuse Collection
- + Revenue Generating Assets
- + Road Maintenance
- + Fleet Management
- + Daycare

Case Study

To ensure a balanced budget, local government officials can decide to sell public services for additional revenue. In 2008, Richard Daley, the mayor of Chicago, along with the City Council, without approval from residents, completed a contract that would allow a private company, a consortium led by Morgan Stanley, to lease the city's parking meters for 75 years⁶. The revenue collected from the sale of the parking meters (\$800 million out of the total revenue of \$1.15 billion) was used to fill short-term budget gaps, but in exchange for that flexibility the city gave up its authority over a public service. Following

⁵ State Representative, R-Fort Worth, sponsored House Bill 1160. This Bill proposed a transfer of a certificate of convenience and necessity in certain municipalities for utilities.

⁶ Given the large, unprecedented number of years the city agreed to give up authority and accountability of the parking meters to the private sector, this arrangement can be referred to as a sale of goods.

the sale, residents of Chicago have complained about parking rates. But, as was the case in Blue Mound, Texas, the city now has no control over pricing.

Despite this limitation the choice to privatize produced a number of positive outcomes for Chicago. It allowed the city of Chicago to increase traffic flow by reducing the time to find a parking space through new technologies introduced by the company, including a smartphone application. And the sale of public services provided the city with revenue to help stabilize its budget and provide needed funding to other public service areas.

3. Contracting Out

Contracting out services refers to the ability of agencies to collaborate and coordinate with other agencies or companies to produce and provide services without the total loss of autonomy or control. Despite the risk associated with contract failure, contracts are often used as a tool to coordinate and facilitate the provision of efficient services to residents. The partnerships established from these formal or informal arrangements can be involuntary (i.e., response to natural disasters) or voluntary between two or more entities. These types of agreements include, but are not limited to, inter-local agreements, mutual aid agreements, contracts, and memorandums of understanding. They can be formed with a variety of organizations, including nonprofits, other local governments and private companies.

Nonprofits

Local governments trust nonprofits to serve disadvantaged populations given their largely positive reputations and service-driven missions, even in situations where measuring impact is difficult. Second, nonprofit organizations have the ability to secure additional resources such as grants and private donations to help reduce costs to provide services.

Pros: Nonprofit organizations can obtain additional revenue sources from state and federal governments, philanthropists and private organizations. Partnering with nonprofits can create opportunities for capacity building and provide needed assistance to disadvantaged populations.

Cons: Contract failure may occur when the organization is unable to judge the actual costs of a service. Nonprofits may not have enough resources to address issues at a scale necessary for resolutions.

Commonly Contracted Out Public Services to Nonprofit Organizations

- + Health and Human Services
- + Affordable Housing
- + Recreation, Arts and Culture
- + Job Training

Case Study

Recognizing the mental health needs of some students in its schools, in 1967 the Lubbock (Texas) Independent School District partnered with the Lubbock Regional Mental Health and Mental Retardation Center to provide mental health, intellectual disability, and substance abuse services and coordinate early detection and intervention. This kind of arrangement was particularly applicable, as these services require highly skilled personnel to handle various mental and physical disabilities, which many school districts do not have readily available on staff.

Local Governments

When public services are easy to measure but difficult to monitor, as in the case of emergency management services, many local governments will contract out to other government entities. Such arrangements are often made when one municipality possesses personnel with specialized training to deal with unforeseen crises or has access to advanced equipment or technologies that the contracting municipality does not. Such arrangements are feasible because local governments trust other government agencies to hold to the mission of providing efficient services to residents. Sometimes these collaborations are forced, whether through natural or technological disasters that are likely to be cross-jurisdictional.

Pros: This type of service delivery arrangement relies on regional coordination, shared expertise and equipment. Collaborating with other local governments helps to reach economies of scale in service delivery and offers a lesser degree of contract monitoring.

Cons: Because so many local government agencies participate in this type of collaboration, it can be difficult to track progress and ensure departments do not neglect responsibilities. In addition, the number of local government collaborators can cause coordination issues or blur the lines of accountability. This can increase contract costs or result in contract failure.

Commonly Contracted Out Public Services to Local Governments

- + Airports
- + Emergency Medical Services
- + Transit
- + Law Enforcement
- + Facilities (shelters, training centers)
- + Library Services

Case Study

In the wake of Hurricane Katrina and Hurricane Rita in 2005, affected local governments contracted with other government agencies to provide emergency operation centers throughout the Gulf Coast. Contracted agencies brought a wealth of resources to affected communities. They helped direct requests for disaster funding, offered additional technological assistance and emergency personnel and coordinated evacuation and rescue services. Emergency operation services like these often require

specialized training and equipment that may not exist among private or nonprofit agencies, presenting an ideal opportunity for contracting out with other governments' departments.

Private Companies

Local governments can utilize market strategies in order to provide quality services at a lower cost. Unlike privatization, where local entities transfer ownership of services, contracting out a particular service to the private sector allows local government entities to maintain control over the service. In essence, the private agency works for the local government. This option allows the residents to continue holding government officials accountable for the success or failure of service delivery.

Pros: Collaborating with companies can provide a lower service provision cost. This strategy also increases access to resources including but not limited to finances, personnel and technology.

Cons: Contract failure occurs when one entity is not fulfilling its contractual arrangement. Also, there is an increase in contract costs to include monitoring mechanisms to ensure terms of the agreement are being met.

Commonly Contracted Out Services to Private Companies

- + Electric and Gas Utilities
- + Vehicle Towing
- + Hospitals
- + Waste Disposal

Case Study

Municipalities may decide to privatize services when government produces services that are inefficient (e.g., education and healthcare). In Texas, the state's education agency identified 66 school districts in 2016 that were failing or in need of improvement. Partly in response to a low-performing or a failing public education system, the number of charter schools has increased to help parents and students select different instructional strategies that cater to their child's learning needs for their success.

Typically, the state, school district or other designated body provides a charter to a school to provide educational services in exchange for public funding. Municipalities can also contract with private firms such as educational management organizations to govern schools in order to establish efficiency. This form of contracting out with a private company can be seen in San Francisco, Baltimore and Philadelphia.

Under these market strategies, the increase in school options theoretically increases the competition for traditional public schools to improve—resulting in better teachers, specialized curriculum, and increased efficiency. This is under the assumption that private entities have the ability to produce large quantities of goods at lower per unit fixed costs using fewer resources to produce quality goods.

4. Consolidation

Agency Consolidation

When two or more entities merge into one unified agency it is known as consolidation. Local governments are often trying to identify ways to provide better services at lower costs. The consolidation of services to form one agency often relies on legislative action, permission to consolidate departments based on clauses from city charters or board approvals.

Pros: Relying on one central department increases accountability, reduces duplication and exercises a more effective use of finances and personnel.

Cons: Consolidation of departments may result in an increase in expenditures to cover a greater number of residents, which could result in increased taxes or reduced services from the perspective of residents.

Commonly Consolidated Agencies

- + Health and Human Services
- + Parks and Recreation
- + 311 Citizen Service Center
- + Public Works

Case Study

In 2015, the *Los Angeles Times* reported that the Los Angeles County supervisors voted to consolidate three public health departments with the county. The purpose of the new unified agency was to reduce duplication and provide better services to its residents. Under the previously decentralized structure, residents would have to register with three different agencies in order to receive assistance. The consolidation of the three agencies would result in a budget of \$8 billion, or 29 percent of the county budget⁷. The objective of this merger was to reduce bureaucracy, allow residents greater access to public health resources and provide better outcomes for the community.

City-County Consolidation

City-county consolidation is a rare strategy. The Census Bureau identifies 34 city-county consolidated governments out of 3,069 county governments. This type of service delivery method usually occurs when local governments experience a decrease in population growth, poor economic development and/or inadequate delivery of public services.

⁷ Abby Sewell. (September 29, 2015). L.A. County merging three health-related departments into mega agency. *Los Angeles Times*. <http://www.latimes.com/local/lanow/la-me-ln-county-health-department-20150929-story.html>

Pros: City-county consolidation reduces bureaucracy and duplication through centralization. With one unified government, regional consolidation can also increase accountability and efficiency.

Cons: Economic and political constraints may make the decision to consolidate the city and county difficult. The lengthy process to consolidate could mean taxpayers have to wait to receive quality services and create additional issues.

Notable City-County Mergers

Baton Rouge-East Baton Rouge Parish, Louisiana (1949)

Jacksonville-Duval County, Florida (1967)

Indianapolis and Marion County, Indiana (1970)

Kansas City -Wyandotte County, Kansas (1997)

Case Study

Known as the “model of efficiency,” the 1963 Nashville-Davidson County merger helped the regional economy flourish. Without the competition between different cities and the county for the placement of businesses or manufacturing plants, the boost in jobs helped the entire region. The population in Nashville grew from 171,000 before the merger to 677,000 as of 2010. The merger also allowed cutbacks on duplicative efforts and broadened the tax base, creating a safeguard from loss of tax revenue when people relocated within the region (e.g. to the suburbs or other jurisdictions outside of the city). Thus, the merger established an efficient structure to adequately deliver services to all of their residents.

Despite these benefits, consolidating Harris County and the City of Houston may not be a feasible economic or political choice. Though most of the city sits within Harris County, Houston is divided between three counties—Fort Bend, Harris and Montgomery County. Even though a small number of residents are located outside of Harris County, consolidating the city-county would likely result in a long political battle, which could delay improvements to services and result in additional issues. As discussed, however, there are several alternatives to consolidation that local governments can take to reach a broader goal—efficiently and effectively providing services.

Upcoming Reports

When thinking about the provision of efficient services and cost-savings, it is important to understand how government officials decide to execute these activities. The decision to use any alternative presented in this report is contingent upon the level of risk associated with each service that is rendered. With these models for service delivery in mind, several service delivery arrangements in the City of Houston and Harris County will be analyzed to identify whether services are being efficiently provided to citizens or if cost-savings and improved service delivery can be found through another approach. Subsequent reports will focus on the provision of police services, flood management and public health in the City of Houston and Harris County. The next section gives a breakdown of each service area and explains why it was selected for analysis.

Law Enforcement

Both the Houston Police Department and the Harris County Sheriff's Office face increased demand with a growing population. In 2015, then-Police Chief Charles McClelland requested \$105 million over five years from the City Council, according to the *Houston Chronicle*, to hire more officers to address the thousands of uninvestigated cases due to lack of personnel.⁸ The request was not supported.

The Houston Police Department provides an array of services to its residents. These services include, but are not limited to, tracking active incidents, vehicle towing information, victim services, reporting gang activity, record requests, communications (i.e., 911 calls), background checks and volunteer programs. The Harris County Sheriff's Office provides some similar services across the county. Headed by an elected sheriff, the office includes eight elected constables that cover each precinct in the county, overlapping with territory covered by HPD. Constables and their command staff can make arrests, serve warrants and issue traffic citations. They also serve as bailiffs for Justices of the Peace.

While Houston and Harris County law enforcement have used internal crime data to show a need for more resources, there is little, if any, evaluation on the distribution of the current resources. Representing a significant portion of both the City of Houston and Harris County's budget – 31 percent and 29 percent respectively – law enforcement is a notable overlapping service worth investigating further. Thanks to a wealth of information provided by the city and county, analyzing the efficiency of the current structure and identifying changes that could be made in the near future will be the focus of another report.

Flood Management

The City of Houston and Harris County have faced increasingly regular flooding events in recent years, including the Memorial Day Flood in 2016, the Tax Day Flood in 2016 and the recent Jan. 18, 2017 flood. Flood management is a cross-jurisdictional issue that requires assistance from multiple agencies, making it an ideal research area to investigate the most efficient use of resources to reduce the negative impact of flooding.

Houston's Floodplain Management Office is seated in the city's public works department and has a range of responsibilities, including issuing permits and inspecting the floodplain within the city's jurisdiction. The Floodplain Management Office is also the city's official map depository, which is available to members of the community and administrators. Lastly, it maintains the drainage infrastructure within the city's jurisdiction.

The Harris County Flood Control District (HCFCD) also maintains the drainage infrastructure within its jurisdiction and serves as a map depository. It also widens and deepens bayous; coordinates voluntary buyouts for homes that are continuously damaged by floods; maintains the drainage infrastructure to address erosion, slope failure and sediment

⁸ Katherine Driessen and Mike Morris. (June 14, 2015). HPD's call for more officers gains little traction with Parker, council. *Houston Chronicle*. <http://www.houstonchronicle.com/news/politics/houston/article/HPD-s-call-for-more-officers-gains-little-6326955.php>

buildup; and excavates storm water detention basins to properly store millions of gallons of storm water.

Mitigation strategies can be analyzed in overlapping areas, such as Brays, Hunting and White Oak Bayous. Similar to law enforcement, there is limited, if any, research on flood control that evaluates services that overlap, the effectiveness of the current structure to deliver services or how resources are distributed to determine areas of waste or cost-savings. This study will identify the areas of overlap and duplication, which will help the city and county understand the effectiveness of existing resources, the need for new resources, and potential suggestions for greater efficiency of personnel and finances.

Public Health

Public health is among the top indicators for assessing a region's quality of life. Limited resources and coordination hamper the city and county's efforts to improve public health. Residents can face barriers to accessing health care, particularly in a state that is home to the largest number of uninsured individuals in the country. The 2015-2016 Houston State of Health, an annual report put out by the city and county, identified 19 medically underserved areas of the region, based on several factors including the primary care physician ratio per 1,000 population, infant mortality, the percentage of population living in poverty and the percentage of population 65 years and older.⁹

The Houston Health Department (HHD) currently collaborates with nonprofit and local government agencies to reach residents and provide additional services, including innovative HIV testing programs, children and family services, clinical programs, community support, health statistics, education and health promotion, environmental health services and emergency preparedness. Similar to HHD, Harris County Public Health Department (HCPHD) collaborates with other entities to provide services like HIV/STD education programs. There are also some points of difference. HCPHD, for example, offers services like pet adoption and food handler certification.

This service area is being evaluated not just to save costs but also to identify duplication of resources, the effectiveness of existing and new resources and the appropriate way to allocate resources to better serve residents.

Law enforcement, flood control and public health are all critical to the region's vitality. They were selected for analysis based on their impact on both jurisdiction's fiscal health, citizen concerns and the availability of information. Each report will discuss the strengths and weaknesses of current structures, identify the areas of overlap and provide potential suggestions to reduce if not eliminate duplication and waste. In addition, the reports will outline options for the City of Houston and Harris County to provide efficient delivery of services to residents and address potential savings for each option.

⁹ The State of Health: Houston and Harris County 2015-2016.
http://www.houstonstateofhealth.com/content/sites/houston/Houston_Harris_County_State_of_Health_2015-2016.pdf