

Section 3: Village Operations

Chapter 11: Village Service Options

A principal responsibility of local government policy bodies is determining the mix of community services to provide to local residents. While variation or mix of services is noted among municipal governments, each unit makes four basic decisions about services:

1. method of organization, production, and provision;
2. quantity of services to be produced and provided;
3. quality of services to be delivered to citizens, and
4. how to pay for services provided.

These decisions display a degree of interdependency, but can be addressed separately.

Cities and villages throughout Michigan have generally been formed when a group of residents has requested additional or a higher level of services than those provided by the township.

When township residents are willing to become part of a village incorporation and pay additional taxes for services, the jurisdiction has increased financial capacity to provide a broader mix of services (sewer, water, hard surface roads, fire, police, land use planning, and solid waste disposal) to support a quasi-urban life style.

The village incorporation process also creates new sets of intergovernmental relationships. Village residents are members both of the village and township, and therefore are subject to both village and township taxes.

As population increases in the areas outside the village boundaries, new demands are put on village services, straining the village's capacity to sell excess municipal services to township residents. These increased population pressures and service demands stimulate a rethinking of township-village service production and provision relationships.

This chapter is intended to provide general law village officials with both a conceptual framework and practical guidelines for exploring

ways to provide municipal services other than through internal village operations.

Community Service Production and Provision Options

Communities, given a choice, would prefer to self-produce and provide municipal services. Any other option to service provision increases transaction costs (negotiating with someone else, public or private).

Why Seek Alternatives to Self-Production of Service?

Communities explore alternatives to self-production and provision when faced with excess service capacity, financial stress, capacity constraints (financial or human capital), spillover benefits or costs associated with the service, or as a means of sharing risk.

For example, fire protection and emergency service production requires significant financial investment in equipment and accessories, training of personnel, and management. Once the fire suppression or emergency response capacity is generated, excess capacity is often created since emergencies do not occur frequently or regularly.

Communities with excess capacity attempt to sell a portion of the capacity to neighbors, thus a buyer-seller relationship is established.

Village government as a population center of a township historically became the producer and provider of fire services. A local unit would be unwilling to sell services to an area outside of the incorporated territory if they lacked the capacity or were unable to obtain compensation to cover the marginal costs of the additional service requirements.

Intergovernmental Contracting

The buy/sell, or intergovernmental contracting, method to obtain municipal services is by far the most common method of service provision once self-production is not possible.

Research done in the 1970s found that contracting for fire services was the least expensive way to acquire this service.

Joint Service Production through Authorities

Joint production of service may take several forms. One or more townships and a village may join forces to provide services such as fire, police, emergency dispatch, solid waste, land use planning, building inspection, assessing, recreation, or tax collection, to name a few.

The village may join with neighboring local governments to establish a special assessment district with a defined service district. Increasingly, local units are creating authorities as a means of producing and providing a service and sharing both financial and associated risks.

Privatization of Services

When adequate private market options are available to the community, service provision may be privatized. Solid waste collection is a service that a large percentage of Michigan municipal governments have privatized.

Consolidation of Services

A final option is the consolidation of municipal services. Three types of consolidation exist:

- functional,
- geographic, and
- political.

Functional consolidation might include specific service functions such as fire, police, sewer/water, assessing, road maintenance, or solid waste collection. Such arrangements would involve two or more local government units with each legislative body appointing representatives to an oversight board. The consolidation of school districts is an example of **geographical consolidation**.

The political boundaries of a consolidated school district are not consistent with the general-purpose governments, but cut across boundaries. So, a separate governing body (school board) is established to provide oversight.

The most difficult consolidation to achieve is **political**; that is, merging two or more separate units of government into a new government.

An example of this is the consolidation in the Upper Peninsula of the cities of Iron River and Stambaugh and the village of Mineral Hills. This merger was approved by voters on November 2, 1999 and took effect July 1, 2000. The new city was called Iron River.

Another example of political consolidation is Battle Creek Township and the city of Battle Creek, although technically the merger between the city and township was accomplished through annexation. As one would expect, political consolidation is difficult to achieve since a sense of community and community identity is involved.

Legal Authority for Contracting and Alternative Delivery Systems

The state of Michigan has permissive legislation enabling local governments to engage in contracting, consolidation, and joint ventures for service provision. Basically, if a local government unit has the authority to engage in the provision of a service to residents, the entity may provide the service through a contractual arrangement (public or private). The Legislature has enacted a number of intergovernmental statutes specific to governmental services in villages, such as fire, police, sewer, water, and other utilities.

In 1967, during a specifically called session of the Legislature, two broad intergovernmental statutes to facilitate intergovernmental contracting and cooperation were enacted. The Urban Cooperation Act (PA 7) and Intergovernmental Transfers of Functions and Responsibilities Act (PA 8) are frequently used for buy/sell contracts and joint production arrangements for a variety of community services. The popularity of the two statutes is in part due to the flexibility of the laws permitting local governments to tailor agreements to the specific needs of the communities. The two statutes do not provide taxation authority, thus necessitating contracting parties to negotiate the terms, conditions, financing, and method of cost-sharing for the services exchanged or provided.

The Emergency Services Authority Act (1988 PA 57) provides general purpose governments with the ability to create a special unit of government (an authority) to provide police, fire, or emergency service for a unit or in

a multiple arrangement. The advantage of creating an “authority” to produce and provide the service is that the new entity is an independent body with its own appointed board, bylaws and capacity to levy millage in support of the enterprise. Levying millage to support an authority requires voter approval.

Obstacles to Contracting and Joint ventures

Joint or contractual partnerships may be impeded due to the transaction costs—the costs of reaching joint decisions. The fear over the perceived loss of control, turf protection, “skeletons in the closet,” uncertainty of the sustainability of the joint agreement, and the perception that “hidden agendas” are present may constrain viable partnerships from materializing. Local residents and public officials often shy away from joint production arrangements due to the perception that service quality and quantity will change once the unit engages in a joint or contractual venture.

Methods of Cost allocation under Joint Production Arrangements

The method of sharing and allocating cost shares under a joint production or contractual arrangement is often critical to the success and failure of joint ventures. A necessary step in negotiating sustainable joint ventures involves developing a clear rationale of why a particular cost allocation method has been selected.

Allocating cost shares is a separate decision from selecting a method to finance the service. In joint production arrangements, sharing costs and generating monies needed to finance a service become somewhat muddled. The strengths and weakness of a number of cost allocation methods will be discussed to illustrate how the distributional consequences change under each method.

Relating Benefits to Costs

A basic guiding principle in allocating cost shares is: where possible, relate benefits (services received) to the costs of production and provision. Identifying service demand gets complicated with services such as police, fire, emergency response services, economic

development activities, or services that are oriented to prevention and emergency response. Other services such as sewer and water, streets, sidewalks, curb/gutters, street lighting, inspection, tax assessing, etc., lend themselves to easier identification of beneficiaries and demand.

Factors to Consider in Allocating Cost Shares

A variety of options are available to local governments when it comes to allocating cost shares under joint ventures and co-production arrangements. Units that are similar in size and demographic composition and engage in joint ventures will find that an equal sharing of cost shares presents no problems. The more dissimilar communities are who enter into joint production arrangements the more creative they need to be to insure that equity in cost sharing occurs. Developing a weighted cost share formula may be more equitable due to the inclusion of factors that influence demand. A weighted cost share formula is perhaps more equitable to services such as fire, police, ambulance, library, and recreation services. Population density, congestion, household income, or other demographic characteristic may influence demand.

Population may be the appropriate factor to determine cost shares for jointly produced planning and development services. Or, a combination of population and tax base could be used since the output from planning and development has applicability to a wide variety of users (governments, private firms, and individuals).

Jointly produced infrastructure services, such as sewer and water, present less of a challenge. Variable costs are easily identified and are related to consumption.

Buy/sell, contractual, or co-production/provision arrangements for providing community services present a challenge for both the producer (seller) and buyer. The seller is concerned about covering their total costs of producing and providing services, maintaining service capacity and establishing the price to charge for the services rendered. Buyers, on the other hand, are concerned that they not be overcharged for the service since many municipal services are provided in a monopoly

environment. Units contracting services are also concerned whether the supplier of services will accommodate their specific needs.

Financing Joint Ventures

Financing joint ventures represents a critical decision point, for the selected finance method has far-reaching distributional consequences (who benefits and who pays the costs). Local governments can use general fund revenues, extra-voted property taxes, special assessment, user fees, third party payments, grants, and donations/contributions to fund community services. Each financing strategy carries issues that need to be resolved by the body politic.

General Fund Revenues are used to finance services that are made available to all community residents. Units engaging in co-production arrangements for service provision often use general fund monies (if available) to support such activities, but with stressed budgets, local governments have sought alternative sources of funding.

Extra-Voted Property Taxes have become a common means of supporting local services and are a way to expand service delivery. Local governments frequently go to the voters requesting additional millage levies for police and fire protection, library, buildings, recreation, new technology acquisition, emergency services, and 911, all aimed at maintaining or expanding the level of output of services. Extra-voted revenues become restricted revenues and are treated as special revenue funds meaning that their use is limited for a specific activity.

Special Assessment Levies are the financing strategy most municipalities prefer. Special assessment districts are formed when the beneficiaries of a service or public improvement are clearly identifiable, such as the case of streets, sidewalks, street lighting, drains, roads, streets and curb/gutters. Increasingly, local governments use the special assessment districts to provide fire, police, ambulance, and recreation. Technically, special assessment levies are not considered property taxes, although property value is used as the base upon which the levy is assessed.

User Fees and Service Charges, in large part, eliminate the problem of benefits not being related to costs of the service received.

Beginning in the mid-1980s, local governments began to rely more on user fees and service charges to support community services. This was especially true after the demise of the federal revenue sharing program in 1986 as units scrambled to replace federal monies. User fees increase administrative costs due to collection, monitoring and accounting, but help to regulate demand for the service.

User fees are increasingly being used to support fire run calls, selected police services (such as obtaining an accident report for an insurance carrier) and ambulance calls. Even if a governmental unit is producing and providing a service through the general fund or special millage, local units may assess a user fee.

Third party payments can partially support services such as emergency services, police, fire, and ambulance. Homeowner and auto insurance policies, in most cases, contain provisions for reimbursing policyholders for costs incurred in ambulance transport and fire suppression calls. Though local governments incur additional costs in billing customers who use emergency services, third party payments can assist in offsetting costs for service provision. If a unit decides to bill residents or users of emergency services for emergency response, an informational campaign is needed to inform citizens of the new strategy. Residents may have to check with their insurance carriers to see if such coverage is provided or if a rider can be purchased. Charging users for emergency services permits a service provider to charge non-community residents for services used.

Obviously, local governments can combine financing options to provide community services. Utilizing extra-voter millage to support a service does not preclude the use of third party payments. Or a base level of service can be financed through general fund revenue and additional services through the collection of user fees and service charges. Local officials need to examine each revenue option and determine which method matches their community's needs.

Village-Township Financing Agreements

Intergovernmental agreements among townships and cities are fairly straightforward compared to village-township contracts. The complexity of the agreements is due to village residents still

being a part of the township. Care needs to be taken in the development of joint cost share agreements to insure that village residents are not subjected to double taxation. This issue becomes relevant in cases of joint production arrangements where the township levies a millage for a service but still expects the village government to contribute a proportionate share. In fact, the village resident has paid their share in most cases via the millage levy since village residents are also township residents. The selected method of financing a joint service needs to be evaluated to insure that cross-subsidization is not occurring.

Conclusion

Joint production arrangements and intergovernmental contracting for services

represent cost-effective means to obtain services or provide services to units lacking the financial capacity. The key to developing viable and enduring intergovernmental arrangements is to develop a concise and detailed intergovernmental agreement.

Intergovernmental arrangements require patience, perseverance, compromise and most of all, an open mind. It is often said “cooperation is an unnatural act between two non-consenting adults.”

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