Local government – New Jersey

Shared services agreements save local governments money and resources

New Jersey local governments will continue to curb expense growth and save money via shared services agreements in an environment of rising costs and a declining appetite for raising taxes. A shared services agreement is when a local government contracts out or shares responsibility of a service with another municipality or pool of municipalities. The benefits of the agreements are cost savings, for both the sending and receiving entity, and improved service quality, if executed properly. Shared services are attractive because they help control operating costs, which is valuable given the revenue-raising and cost-cutting constraints on local governments. New Jersey is ripe for the agreements to increase because it has a massive number of local governments (565 municipalities and 21 counties), many of them small, which stand to benefit from economies of scale for services such as police, corrections and healthcare.

» Shared services agreements are an effective tool for local governments to control spending and save money while maintaining service levels. The agreements, which have received support from the state through financial and other incentives, take place at multiple levels of local government, including county-municipality and municipality-municipality. Some expansive agreements include multiple local governments forming a group. Gloucester County (Aa2 positive), for example, joined with neighboring counties to provide correctional services and has saved increasing amounts year over year, reaching the equivalent of 8.3% of fiscal 2018 current fund revenue.

» Shared services agreements are beneficial even without significant cost savings if a municipality receives better services. A local government benefits from paying another municipality that has invested in upgrading a service or has a particular expertise in a function, if the contract leads to a higher-quality service. Small local governments stand to particularly benefit from operational efficiencies from these agreements. In Passaic County (Aa1 stable), for example, municipalities are working with the county on health service operations. The county also works with a neighboring county to bolster other services such consumer protections.
Shared service agreements are an effective way for local governments to control spending and save money while still maintaining service levels

New Jersey local governments will continue to use shared services agreements to cut costs and save money. Shared service agreements take different forms including contracting out (paying an entity to provide a service) or sharing responsibilities for a service, both of which have the potential save money for the parties involved. In at least one sense, these agreements are attractive because the state is encouraging them by providing grants (such as the Local Efficiency Achievement Program), expertise and guidance services to municipalities. Municipal services across all aspects of government can use these agreements. Popular services encompassed by shared services agreements in the state include jail and correctional operations, health services, community colleges, procurement and public works. While county-county agreements involve large local governments, New Jersey is also primed for a continued increase in municipal-county agreements and municipality-municipality because the state has so many small entities among its 565 municipalities and vast number of special purpose entities. Shared services are also attractive because they help control operating costs. This is valuable given the revenue-raising and cost-cutting constraints on local governments.

Shared services agreements for correctional facilities provide a particular financial benefit because of the heavy costs related to the facilities. Operations require around-the-clock personnel who receive relatively high salaries, overtime pay and costly benefits. The need for capital investment is also ongoing. Gloucester County, for example, beginning in 2013, “regionalized” its correctional facilities with neighboring counties for male, female and juvenile inmates. Since the beginning of the regionalization, Gloucester’s estimated savings have grown annually with the county estimating savings of just over $21 million in fiscal 2018, or 8.3% of fiscal 2018 current fund revenues (see Exhibit). Gloucester has used the savings for other purposes, particularly expanding community college offerings.

**Gloucester County’s agreement to “regionalize” correctional facilities provides savings that free up funds for other purposes**

Buena Borough (A2), with less than 5,000 residents in Atlantic County, is an example of a small municipality benefiting from a shared services agreement, having contracted with Franklin Township for its police force in 2018. Similar to corrections services, a police force requires 24-hour staffing, capital investments and costly benefit and pension expenditures — a challenge for a municipality with limited resources. In fiscal 2017 (the last year Buena operated its police services), police expenditures cost the borough approximately $1.3 million, or 30.6% of current fund revenues (net of fund balance appropriated and taxes collected on behalf the county and school district). In fiscal 2018, it began a five-year agreement where Franklin Township, with approximately 66,000 residents, operates its police services. The yearly payments to Franklin Township increase 5% annually, reaching $912,000 in the final year of the contract, up from $750,000 in year one. The borough estimates savings during fiscal 2018 at $912,000 or 10% of fiscal 2018 revenues. The borough will continue to see savings as the pension expense, which is on a two-year delay, is no longer part of its expenditures in 2020. The borough has also shed financial and operational risks related to staffing, capital spending and escalating pension benefits resulting from union contracts. For Franklin Township, which is located in Gloucester, the costs of policing Buena are fairly low and the township is using the revenue to help with personnel and capital expenditures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.
Shared service agreements are beneficial even without significant cost savings if a municipality receives better services

Even if a local government fails to save a material amount of money via a shared service agreement, the municipality benefits if the agreement leads to improved service quality. Many government services require significant resources for operations, capital investment and compliance, including emergency dispatch, health and human services and snow removal. Some municipalities improve service quality if the responsibility is transferred to, or shared with, another local government that has invested in upgrading its operations or has a particular expertise in a function. The agreements stand to benefit both the party that pays for a service and the one providing it.

Having invested significantly in correctional facilities, Essex County (Aaa stable) is receiving fees from Hudson (Aa2 stable), Union (Aaa stable) and Gloucester counties to house prisoners on their behalf. That helps the three “sending” counties with operational efficiencies, if not significant cost savings. The three “sending” counties are also able to avoid significant corrections-related investments. Essex has spent at least $94 million on operations for correctional facilities in 2019. While the agreements with the three counties have generated approximately $1.4 million for Essex so far this year (or just 1.4% of its 2019 correctional facility spending), the agreements stand to help Essex reduce costs. A certain portion of expenses are fixed no matter the number of inmates and those costs are potentially spread among a larger number of prisoners. Also, a larger number of inmates allows for better pricing power by the facility because of economies of scale.

Passaic County serves as another example of a county using shared services agreements to benefit from operational efficiencies. The county is active in entering into shared services agreements with local governments located within the county in addition to neighboring Bergen County (Aaa stable). First, with municipalities in Passaic County, the county has agreements to provide certain health services given how much more efficient it is for the county to provide the services than the individual local governments, particularly in light of investments the county has made for its own needs. The county has provided health services to four local governments without hiring additional staff (aside from an additional service provided to one local government, the cost of which is built into that particular contract). Like Essex County with correctional facilities, Passaic benefits from the economies of scale in providing health services for a greater number of residents.

In addition to working with its local governments, Passaic County contracts with Bergen County to provide consumer protection services on its behalf. Bergen’s consumer protection department has made significant investments in that functionality by hiring former police officers to fully investigate inquiries. Instead of investing similar levels of resources into their own department, Passaic and Bergen now work together in this capacity for an overall better service delivery and a gain in operational efficiencies.

Shared services agreements are an example of strong governance

Shared services agreements that save money, increase the quality of service or yield operational efficiencies are examples of strong governance. The agreements are also a way for local governments to improve policy credibility and budgetary management. In New Jersey, where boosting revenue by increasing taxes is becoming more and more unpalatable, shared service agreements are a governance tool to help balance budgets while providing similar if not better service levels to taxpayers.
MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements. Fees ranging from JPY125,000 to approximately JPY250,000,000 may be charged for credit rating opinions and services rendered by MJKK or MSFJ (as applicable) for entities that are not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

Additional terms for Japan only: Moody’s Japan K.K. (“MJKK”) is a wholly-owned credit rating agency subsidiary of Moody’s Group Japan G.K., which is wholly-owned by Moody’s Investors Service, Inc. MJKK’s ratings are based on an assessment of the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY’S affiliate, Moody’s Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody’s Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to “wholesale clients” within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY’S that you are, or are accessing the document as a representative of, a “wholesale client” and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

© 2019 Moody’s Corporation, Moody’s Investors Service, Inc., Moody’s Analytics, Inc. and/or their licensors and affiliates (collectively, “MOODY’S”). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY’S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES (“MIS”) ARE MOODY’S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY’S PUBLICATIONS MAY INCLUDE MOODY’S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY’S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY’S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY’S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY’S OPINIONS INCLUDED IN MOODY’S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY’S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY’S ANALYTICS, INC. CREDIT RATINGS AND MOODY’S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY’S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY’S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY’S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY’S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY’S CREDIT RATINGS AND MOODY’S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY’S CREDIT RATINGS OR MOODY’S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY’S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY’S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY’S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided “AS IS” without warranty of any kind. MOODY’S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY’S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY’S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody’s publications.

To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY’S.

To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY’S IN ANY FORM OR MANNER WHATSOEVER.

Moody’s Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody’s Corporation (“MCO”), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody’s Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody’s Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from $1,000 to approximately $2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS’s ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and MIS rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading “Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy.”

www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy.”

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY’S affiliate, Moody’s Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody’s Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to “wholesale clients” within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY’S that you are, or are accessing the document as a representative of, a “wholesale client” and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody’s Japan K.K. (“MJKK”) is a wholly-owned credit rating agency subsidiary of Moody’s Group Japan K.K., which is wholly-owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of Moody’s K.K. (“MSFJ”). Moody’s Japan K.K. (“MSFJ”) is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization (“NRSRO”). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) Nos. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.