STATUS REPORT:

HAMILTON AND WENHAM PUBLIC SAFETY REGIONALIZATION/ COORDINATION

JUNE 7, 2004

BACKGROUND

This memo is intended to provide a review of the discussion of regionalization and sharing of facilities by the Hamilton and Wenham public safety departments during FY'03 and FY'04. (For a review of several earlier studies on the issue, please ask for a copy of the Town Administrators' summary, "Police and Fire Departments Regionalization Study", Nov. 11, 2003).

The call to re-examine the concept of public safety regionalization was a product of the municipal financial stresses that were looming in 2002 and 2003. State aid cutbacks and local cost increases squeezed the budgets of Hamilton, Wenham and the Hamilton-Wenham Regional School District (H-W School District). Deep cuts in the FY '03 and '04 School budgets produced a strong sense of urgency to look for ways to cut municipal expenses. This process was vividly played out in the painful months of School override defeats and budget votes in the summer of 2003.

It was in this context that both Hamilton and Wenham examined proposals for new public safety buildings—in Hamilton, a combined facility for Police, Fire and emergency dispatch (ECO), and in Wenham a Town Hall/Police Station complex. In both towns, the full amounts of funding needed for the proposed projects were disapproved by the voters, and many citizens, including the League of Women Voters (the League) and several Finance committee members from both towns urged that the Selectmen revisit the concept of capturing significant cost savings by consolidating some or all of Hamilton's and Wenham's public safety operations. The League focused on this topic in their 2003 League Study, and called on the H-W Selectmen to undertake a financial analysis of the feasibility and savings potential of regionalization of the police and fire departments. (ECO has already been regionalized for many years).

The Selectmen decided to proceed with the study, and jointly issued a request for proposals for a financial and legal analysis. The Municipal Police Institute (MPI) was ultimately awarded this contract. It was hoped this study would be more definitive than the previous studies on public safety regionalization by putting a strong emphasis on hard numbers rather than on the more ambiguous political and administrative factors. Both towns suspended the work of their building committees, who were part-way through project redesigns (in response to their voters perceived mandate to cut project costs), until such time as the results of this study were known.

Before the contract was awarded, however, the Selectmen and Town Administrators convened a forum of local officials to "brainstorm" about public safety regionalization. The forum, held on January 10, 2004 at Gordon-Conwell Seminary, was facilitated by three public safety experts from the International Association of Chiefs of Police (IACP). They worked with a group that included the Selectmen, Town Administrators, Police and Fire Chiefs, ECO Director, staff representatives from all affected public safety departments, members of the Finance Committees and Planning Boards, Hamilton Master Plan Committee members, as well as the press. At the conclusion of this forum, it was the consensus of all participants that: a) the two towns were satisfied with the level of service provided by each of the Police and Fire Departments; b) that regionalization of either sets of departments under the State enabling statutes was not advisable; and c) that the two towns would be advised to proceed with a cost/benefit analysis of some form of consolidation(s) under a less restrictive alternative approach (i.e., Inter-municipal Agreement, shared services or space, etc.).

With this forum as background, the towns retained MPI to perform a financial/legal analysis of various public safety regionalization scenarios. The main mission of the study was to estimate the cost of operating a regionalized H-W police department, including the construction of a single new police station to house the consolidated force. This scenario was to be compared with the alternative scenario of having each town build its own new station, and operate separate police departments. For both scenarios, the joint Selectmen established as an up-front assumption that the existing level of police and fire service was to be maintained, a finding and recommendation of the January forum. The study also reviewed the available legal mechanisms for regionalizing and intercommunity sharing of public safety costs, and outlined the costs and issues of fully or partially regionalizing the fire departments, in the context of keeping call-fire service viable for as long as possible.

FINANCIAL ANALYSIS OF PUBLIC SAFETY SCENARIOS

The MPI study (a copy of which can be downloaded from either the Hamilton or Wenham web-pages) was completed and delivered in mid-April, 2004, and a presentation was made by Rick Marchese, Executive Director of MPI, and Jack Collins, General Counsel to MPI, on April 20, 2004. Based on the legal and financial analysis in the MPI study, the Hamilton and Wenham Selectmen concluded that full regionalization of Police and Fire was not desirable, due both to a lack of sufficient savings, and to legal and administrative problems. The key points were as follows. (See also the "Executive Summary" of the MPI report).

Legal Basis for Regionalizing To fully regionalize, the towns would probably have had to regionalize under a statute (MGL Ch. 41, Sec. 99B-K) that provides for a regional police commission with independent budgeting power. Both Boards of Selectmen felt that this structure would complicate the towns' political and financial situations, and reduce, rather than improve, budgetary control. There had also been broad consensus at the January forum that this Police District Statute, and its Fire District Counterpart (MGL Ch. 48, Sec. 60-80), would create Police & Fire Districts which were dangerously financially autonomous, and because of this, use of those statutes should be avoided.

Although MPI pointed out many options for cooperation short of full regionalization, most of them were already in use by the H-W police and fire departments in the form of shared emergency dispatch (ECO), mutual aid and many shared communications and training programs. So, there were few opportunities for new operating savings. (New capital savings opportunities do exist, and full regionalization would not be necessary to take advantage of them).

Elusive Savings. Even if we disregard the problems of the police district statute, the financial analysis indicated that regionalization would NOT produce a significant operating savings for both towns. Chart #1 on p. 21 of the MPI study, which compares police operating costs under the regionalized department and separate departments scenarios, showed that by regionalizing, Wenham would save $64,202/ yr. in operating costs, but Hamilton would spend $439,958 / yr. MORE than if the towns each operated separate departments. A significant portion of Hamilton's increased cost came from a transition from the Hamilton police-run ambulance service (which generates a revenue to Hamilton of about $85,000/ yr.) to a 64% share ($230,724) of a commercial ambulance service alternative. Although some have suggested that the police-run ambulance could be extended to both towns, providing savings to both communities, the Selectmen believe that the police-run ambulance is workable at its current scale but would not work out with a two-town arrangement. The increased ambulance demand would be too disruptive of regular police workload with a larger entity, and it could also be very difficult to add ambulance duties under the Wenham police union contract. Another suggestion, that the ambulance responsibility be turned over to the fire departments of both towns, does not appear to achieve a significant savings for either Town. Wenham's current very favorable arrangement of Fire Department "medical aid" support from a Beverly-based commercial ambulance service would increase dramatically in cost if extended to another town, as an ambulance would probably have to be stored in Hamilton in order to maintain response times. If the fire departments actually took over the basic life support ambulance service, following the Hamilton police model, the fire departments would have to go from call-fire to full-time shifts around the clock in order to provide the 24 hour response and the requisite response times. This would add hundreds of thousands of new wage costs per year for both towns.

Those readers who feel that the ambulance costs are too speculative to play a big role in the comparisons of estimated operating cost might be reassured to see how the comparisons come out without the large influence of the impact of ambulance cost on Hamilton. Even if we completely factor out the ambulance cost increase generated in the Hamilton analysis, Hamilton still would see NO operating savings from regionalization. If Hamilton's share of the cost of a $360,000 two-town regional ambulance contract ($230,724 for Hamilton) is subtracted from the $439,958 net loss to Hamilton shown in chart #1 (MPI study, p. 21) that still leaves a $209,234 operating loss per year for Hamilton.

While we are reviewing MPI's figures on regionalized versus separate police department costs, it is important to acknowledge the concern by some observers of the public safety debate, that MPI represents the interests of police chiefs in maintaining the status quo and that MPI would therefore incorporate a bias against regional solutions into their study. The only way to evaluate the validity of that concern is to examine the numbers and assumptions that MPI used in generating the comparisons between the separate department and regional department scenarios and ask ourselves if the numbers are reasonable and realistic. (Pages 22-28 of the MPI study provide the background on how the numbers for salaries, expenses, and ambulance costs were chosen). The Selectmen of both towns believe that the values assigned to the various types of operating costs were realistic, but those who want to test the model can plug in other values to see what happens to the bottom line if they wish.

As we will discuss below, if we look at the assumptions used by MPI in estimating capital costs and savings of a shared police station, there is no evidence of a bias against regionalization. In fact, MPI used assumptions that tended to magnify the potential savings from a shared building, by using a low-end cost figure for a shared building, and high-end figures for the separate new stations to which the regional station was compared.

On the operating cost side, the only MPI assumption that seemed at all arguable was the assumption that a combined police department would have the same number of full time officers (25) as the sum of the two existing departments (10 in Wenham, 15 in Hamilton), not including the chiefs. This assumption was based on experience with regionalization elsewhere in the United States, and on the Selectmen's request that the study is to assume no change in the level of service. BUT, even if we assume a very large 20% cut in the number of officers in a regionalized department, from 25 to 20, Hamilton would still have a prohibitive operating loss from regionalization. We must also factor in the realization that a consolidation of staff from both departments would create a larger, more complex operation that would necessitate the hiring of a greater number of mid-management positions. The cost impact of these additional supervisory positions would more than likely eliminate any benefit derived from the aforementioned 20% staffing cuts.

Specifically, using Chart#1 from p. 21 of the MPI study, let us assume the regional department saves the cost of 5 officers per year X $50,000 annual salary apiece, for an annual savings of $250,000. That would reduce the total annual operating cost of a regional police department to $2,280,537, of which Hamilton's 64.09% share is $1,461,596. Compared to the annual operating cost of a separate Hamilton department, which is $1,181,863, the regional approach would leave Hamilton with a loss of $279,733 per year. Even if we also drop the ambulance loss to Hamilton out of the picture, (to be further discussed below), assuming that Hamilton loses $0 instead of losing $230,724 due to a phase-out of the police-run ambulance, Hamilton STILL would have a loss of $49,000/year from regionalization.

There just seems to be no way around the MPI conclusion that Hamilton would be financially hurt by regionalization. Naturally, if one participant would not benefit significantly from regionalization, it becomes politically infeasible regardless of how beneficial it would be for the other town.

Now, turning to the capital costs and savings of regionalization, Chart #2 on p. 33 of the MPI study did show a capital savings for both towns from sharing a single new police station under a full regionalization scenario, as compared with building separate new stations. Wenham is shown as saving $41,108/yr. in debt service costs, and Hamilton as saving $30,106/yr., both over the 20-year life of the associated borrowing(s). When combined with the operating savings/loss, this capital savings left Wenham with a net savings of $105,220 per year, and Hamilton with a net loss of $409,851/yr. (That is without making any adjustments to the ambulance or salary costs assumed in Charts#1 and #2.)

After reviewing the MPI study, the League acknowledged that regionalization of police services did not now appear to save operating funds for both towns. However, the League noted the finding of capital savings from a single police station, and urged the Hamilton and Wenham Selectmen to look at the idea of having two separate departments share a single building. Constructing two separate new stations so close to each other troubles many observers of the public safety decision process, so we need some strong figures to document the true financial impact of building separately, as opposed to building together.

The Selectmen and Town Administrators considered the possibility of an additional consultant study of the separate-versus-shared station scenarios, but after discussion at a joint meeting on May 14, 2004, they decided that the capital savings indicated in MPI's Chart #2 (p. 33) would NOT be realized if we implemented a shared station occupied by two separate departments. This is both because; a) individual Hamilton and Wenham stations would very likely cost less than the figures used by MPI for their comparison, and b) a shared station housing separate departments would very likely cost more than the figures used by MPI, which were for a shared station housing a single regional department.

More specifically, MPI used figures for the individual stations that were higher than either town would have approved for an individual station, which in turn tended to make the capital savings from regionalization look bigger. For Hamilton, MPI used the individual police station cost of $3.1 million, which came from the proposal that was defeated in May, 2002. The Hamilton Selectmen felt strongly that the only valid comparison would be with a revised figure for a scaled-down station. The Hamilton Public Safety Building Committee was in the midst of station re-design to generate a lower-cost proposal when the regionalization debate interrupted the process. Furthermore, the $3.1 million separate new station cost assumed that Hamilton would be carrying the entire cost of a new ECO space in the police station, when in fact that capital cost is likely to be offset by a contribution from Wenham, as the ECO is a regional program.

For Wenham, MPI assumed an individual station that was much larger (10,000 sq. ft.) than the 6000 sq, ft, design that was originally approved by the Wenham voters. MPI estimated the 10,000 sq.ft. station cost at $2.1 million. In fact, the Wenham Town Hall/ Police Station complex is currently being redesigned to decrease costs, and it is very unlikely that the size of the police station component would increase beyond the 6000 sq.ft. originally designed. Using MPI's per square foot cost of $210/sq.ft. X 6000 sq.ft. yields a police station cost of $1,260,000, which is $840,000 less than the cost assumed by MPI.

Therefore, for both Hamilton and Wenham, using a lower and more realistic cost figure for the individual stations in the comparisons would eliminate much of the perceived savings of a shared building.

It was also observed that MPI's comparisons of a hypothetical regional station with individual stations did not take account of any of the net savings either town would have gained from the multi-purpose complexes they were designing. Hamilton was combining a new police station with a fire station and emergency dispatch center, and Wenham was combining a police station and a Town Hall into a single project. By having just one set of drawings, and one mobilization for construction, rather than two, each town would have saved money that is not reflected in the MPI figures on the individual stations.

The Selectmen also noted that if a shared station cost MORE than the figure used by MPI, the potential annual savings (Wenham, $41,108; Hamilton $30,106) of a shared police station would be less than indicated in the MPI study. The Selectmen thought that it was very likely that a station shared by two separate departments would in fact cost more than the $4.2 million estimated by MPI, (see Building Size Worksheet, p. 31, MPI study), for two reasons. First, MPI's assumptions for land costs to site a shared building were very low. MPI assumed that if the building were sited on land already owned by either town, the land cost would be zero, and if a private site were acquired along Route 1A, the land cost would be $200,000. However, with the joint Library project, the towns have already established the precedent that the host town receives a buy-in payment from the other town, in recognition that both towns should be sharing the land cost, whether by purchase or re-imbursement. For the Hamilton-Wenham Library and Recreation Center, Wenham paid a one-time buy-in of $350,000. It seems reasonable that if either town hosted a joint police station, the land buy-in would be at least $250,000, which would be added to the proposed construction cost of $4.2 million, raising the shared station cost to $4.45 million. See the table below for a playout of what this would do to the projected capital savings that MPI estimated.

If the towns decided to purchase or take a suitable site, it would probably be on Rte. 1A between the two downtowns, and would therefore have a relatively high land value. If the towns paid $800,000 for a 2-acre site, the shared project cost would rise to $5 million. See the table below for the effect on MPI's projected savings.

In addition to the likelihood that land costs for a shared building would exceed the figures used in the MPI study, it is also likely that the shared building itself would cost more than the MPI figure of $4.2 million for a 20,000 sq.ft. regional station building. MPI had assumed that a regional facility would save about 25% of the floor area of two separate stations, due to a single chief's office, sally port, reception lobby, cell-block , armory, utility/heat system and locker-rooms. If, however, the building were to house two separate departments, rather than a single regional department, there would have to be duplication of many parts of the building. Instead of a 20,000 sq. ft. regional station [@ $210/sq.ft. (for a cost of $4.2 million)], the station would be more likely to be 23,000 sq. ft. [@ $210/sq.ft. (for a cost of $4.83 million)]. This would push the Hamilton share of annual debt service over $215,000, even before factoring in a realistic land cost.

Comparison of Estimated Building Costs
Effect of Land Cost on Capital Savings

	Project Cost	Debt Service	Hamilton Share (64.09%)	Wenham Share (35.91%)
Hamilton separate station	$3.1M	228,625	all	none
Wenham separate station	$2.1M	152,250	none	all
Regional station, land cost $0 Town land free per MPI	$4.2M	309,750	198,518	111,231
Savings over separate station			**30,106**	**41,108**
Regional station, land $250K Town land buy-in cost assumed	$4.45M	322,625	206,770	115,855
Savings over separate station			**21,855**	**36,395**
Regional station, private land Land cost $200K per MPI	$4.4M	324,500	207,972	116,527
Savings over separate station			**20,653**	**35,723**
Regional station, private land Land cost $800K assumed	$5.0M	363,500	232,967	130,532
Savings over separate station			**(-)4,000**	**21,718**

All Debt Service figures were computed by MPI and assume a 20 year bond Starting at 4% and ending at 5% interest.

Finally, MPI cautioned the towns that they had only estimated the operating/capital costs of a regionalized department, but did not estimate all the additional costs of the transition to regionalized status. Moving, consulting, legal, and labor negotiation costs would be significant and uncontrollable. Since Hamilton sees no savings from police regionalization even under the rosiest of assumptions, the transition cost simply seals the infeasibility of full regionalization for Hamilton, and therefore for Wenham.

CONCLUSION

Given all the above examination and estimating, the Hamilton and Wenham Selectmen felt they had sufficient basis to conclude BOTH that:

a. Full regionalization did not offer the hoped-for savings; and

b. that the perceived capital savings from a shared building housing two separate departments would not in fact materialize.

Therefore, both Boards of Selectmen have instructed their building committees to get back to work on designs for individual stations, with the proviso that both committees will consider the possibilities for collaboration in meeting state requirements for holding cells, and any other facilities that could be economically shared.