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Interlocal Contractual Arrangements in
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ABSTRACT

The range of interlocal contractual arrangements in the realm of public safety in Florida provides a research opportunity to examine the extent by which these arrangements have been used by local governments. We developed a contractual perspective on interlocal contractual arrangements as relational contracts by arguing that their institutional designs are partly an effort of the involved parties to reduce transaction costs that are the product of the properties of the services themselves; and partly by state statutes that allowed mixed approaches to contractual arrangements. A relational contract is advantageous because it specifies the activities to be rendered without unnecessarily intruding on the authority of the other jurisdiction. It is nonobligatory, voluntary, and easily terminated without legal consequences to either party. Alternatively, municipal and county governments can choose a more legally binding contract in the presence of regional politics and avoid future disputes by using non-relational contracts such as interlocal agreements, contracts or leases.

Utilizing the data compiled by the Florida Department of Community Affairs from various *Interlocal Service Delivery Reports* prepared by 33 county governments with greater than 100,000 population, we identified 2,251 different types of contractual arrangements in the provision of public safety. Our results show that there is a positive and significant association between city-county relations and the type of contractual arrangement chosen to govern contractual relations. There is also evidence to suggest that when a specialized investment is required in the provision of public safety services, a non-relational contract will be preferred; and when measuring and monitoring the outcomes of the services are relatively difficult, a relational contract will be preferred. Homogeneity of a single functional service area represents similar policy preferences affecting the transaction costs of negotiating, operating, and enforcing contractual arrangements; so did the number of collaborators involved in an agreement.

Municipal and county governments coordinate their activities in the provision of services of mutual concern through a variety of approaches: from interlocal service agreements to contract and lease agreements, from memoranda of understanding to mutual aid agreements, to informal “gentlemen's handshake” and letters of agreement. The different contractual arrangements employed by local governments to coordinate their activities are “commonly accepted ways” to adjust their resources and capacities to their service responsibilities (ACIR 1985:1). We conceptualize the different forms of interlocal contractual arrangements as relational contract developed to structure a range of interlocal exchanges. They act as mechanisms to cope with various magnitudes of uncertainty because they (1) provide information about how actors are expected to act in a particular situation; (2) can be recognized by involved parties in the action arena as rules to conform to; and (3) structure strategic choices in such a way to produce equitable outcomes (Ostrom 1990; Knight 1992; Maser 1998; Heckathorn & Maser 1987). They promulgate a variety of standards of conduct targeted to produce collective benefits by stipulating action to be carried out by involved parties sometime in the future and lay out rewards and penalties for compliance or failure to comply.

Interlocal contractual arrangements have received much attention recently because of increasing pressure on local governments to carry out their functional responsibilities at lower costs (ACIR 1985; Atkins 1997). The benefits of interlocal contractual arrangements, formal or informal, accrue when local governments can coordinate and share their resources such that any duplication of local services can be eliminated; negative externalities and locally unwanted land use can be effectively addressed through joint planning; economies of scale and efficiencies in standardized service provision are realized (Stein, 1990; Morgan & Hirlinger 1991); and the management of local growth can be effectively coordinated in order to improve the regional communities as a whole (Florida Intergovernmental Commission 2001). Interlocal contractual arrangements are particularly beneficial to localities facing fiscal constraints, especially in functional areas that involve large capital start-up and personnel expertise (Sonnenblum, Kirilin & Ries 1977; Post 2002).

Interlocal contractual arrangements have also been characterized by a high level of interdependence amongst municipal and county governments, their specialized departments as well as their regional agencies (Thurmaier & Wood 2002). The agreements are encouraged by activities that span political and administrative boundaries, symbolizing the fragmented American urban system. Interlocal contractual arrangements were also encouraged by the motivation to collaborate and cooperate in order to develop common perspectives on region-wide policy concerns and norms of cooperation and trust. Through the informational and reputation effects of formal and informal interactions, interlocal contractual arrangements increased potential region-wide policy effectiveness at lower cost than a political approach such as annexation or city-county consolidation that requires statutory authorization and approval by the citizens (Feiock & Carr 2004).

The substantive focus of this study is to determine factors explaining the local government choice of interlocal contractual arrangements in an increasingly important urban policy area: public safety, where activities often cut across political and administrative boundaries. Public safety activities involving police are important for maintaining law and order, to protect life and property through exchanging arrest information, emergency communication, and police patrolling; while activities involving fire departments are useful for fire suppression and prevention; and the Emergency Medical Services are important for first responses during life threatening situations. Public safety personnel and capital resources are under increasing stress due to a recent rise in unforeseen natural disasters such as hurricanes and threats of man-made disasters such as terrorist attacks. Consequently, they are in need of coordinated policies involving a wide range of actors from hospitals and shelters and administrative organizations to multiple local provisional units such as the city police and county sheriff departments, emergency medical services, and fire departments as well as state and federal agencies. Indeed, there have been a range of contractual arrangements used by these actors to form ties in the provision of public safety services. Encouraged in part by the state statutes, they provide one of the most common management tools used by local government in public safety (Sonenblum, Kirlin & Ries 1977; Morgan & Hirlinger 1991) and provide the milieu in which we study the institutional choices local governments make in the

provision of public goods.

The range of interlocal contractual arrangements in the realm of public safety in Florida provides a research site to examine the extent to which these arrangements have been used by local governments. This was conducted by examining the number of collaborators, and composition of a contractual arrangement, and whether the characteristics of goods and services determine the type of arrangements municipal and county governments will enter in the provision of the services. Our concern is also on state enabling statutes that encouraged cross jurisdictional activities that spanned administrative and political boundary. Different types of interlocal contractual arrangements were used to govern activities in order to reduce transaction costs of contracting. In the next section, this study develops a contractual perspective on interlocal contractual arrangements as relational contracts by arguing that their institutional designs are partly an effort of involved parties to reduce transaction costs that are the product of the properties of the services themselves; and partly by state statutes that allowed mix approaches to contractual arrangements.

TRANSACTION COSTS, INTERLOCAL CONTRACTUAL ARRANGEMENTS, AND THE PROBLEM OF UNDERSUPPLY

The transaction costs economic approach posits that an organization's decision to internalize the production and provision of goods and services or to engage in an economic exchange through the market depends upon the comparative advantages of institutional arrangements in reducing the costs of transaction (Williamson 1975). According to the approach, the criteria influencing an organization's decision depend upon (1) the transaction-specific asset that lacks transferability for use in a given transaction to other uses, (2) the relative ease in which an organization can monitor and measure the vendors' fulfillment of the specificity of the contract, and (3) the frequency of contracting after the first round of bargaining (Brown & Potoski 2003). The combination of these characteristics makes the transaction costs of identifying, monitoring, and enforcing contracts somewhat difficult. For example, in a transaction that involves a highly specific asset where the vendor's behavior is difficult to monitor and

the contract is long term, there is a high possibility that the vendor will act opportunistically and exploit the contract. The organization locked into the transaction will also subject itself to a weak bargaining position for renegotiating the contract in the future. In order to avoid being at this disadvantage, the transaction costs perspective predicts that an organization will opt for the transaction cost advantages of internal production.

Previous studies relying on the transaction cost approach in explaining local government's contracting decision generally focused on two extreme continuums of institutional arrangements: hierarchy and market structure. That is, whether to buy the service from the market or to produce internally the production or provision of services. When transaction costs are high, local government will be motivated to produce the service internally; while transaction costs are low, local government are motivated to reduce production costs through complete contracting. Some evidence suggests that complete contracting can lead to cost efficiency and costs saving by lowering production costs (Miranda & Lerner 1995; Perry & Babitsky 1986).

However, local governments are not limited to the basic choice between complete contracting and direct provision. Local government experiencing threats of shirking problem with the private sector can mitigate the problem by contracting with other governments or nonprofit organization with similar mission-goal (Wise 1990). Within the public sector itself, recent empirical work has shown that local governments used multiple types of contractual arrangements to coordinate their activities in the delivery of public goods and services (ACIR 1985; Atkins 1997; Savas 2000).

This study emphasizes that interlocal contractual arrangements are essentially relational contracts used by local governments to manage interlocal relations within the public sector due to uncertainty. Following Heckathorn and Maser (1987) extension of the transaction costs approach, relational contracts are defined as "adaptive features to affect realignments caused by unanticipated disturbances" (Maser 1998:528). And that, rational actors attempt to minimize unanticipated circumstances by crafting different

types of arrangements that are necessary and sufficient to secure interlocal cooperative relationships.

How does the framework explain the existence of multiple types of interlocal contractual arrangements? The theoretical argument runs like this: uncertainties impose costs on interlocal relationships when in the course of coordinating multiple activities to meet local demands they are affected by natural disasters or interjurisdictional strategic acts. Absent foresight, parties to any transactions cannot agree on a substantive response to uncertainty, so in order to minimize costs of planning, adapting, and monitoring task completion across jurisdictions, interlocal contracts are crafted as a procedural safeguard to reduce uncertainty (Gillette 2001; Maser 1998; Heckathorn & Maser 1987). The existence of multiple types of interlocal contractual arrangements provides alternative mechanisms for managing uncertainty because the ability of municipal and county governments to cope with uncertainty differs given their available capital and human resource endowments. They strategically align the safeguard guaranteed to them by a particular contractual arrangement against uncertainty accordingly because alternative arrangements also impose different costs on their relationships. So, local governments enter into a contractual arrangement in a bounded rational fashion by selecting an arrangement to achieve task completion that simultaneously minimizes the transaction costs of contracting.

The Heckathorn and Maser's framework would posit that some interlocal contractual arrangements promote stability and decisiveness of a transaction if the set of rules---what Ostrom (1990:51) calls the "working rules"---governing that transaction are specified clearly and the outcomes of the transactions are also predictable. The specific rules determining specific outcomes determine the stability and decisiveness of the contractual arrangement. Once such a contractual arrangement exists, localities involved in the transaction will clearly know how the established arrangement can resolve potential disputes and enforce outcomes in predictable ways. Each locality involved knows that others also know this arrangement and thus will ensure cooperative acts.

For example, interlocal service agreements oftentimes require strictly fulfilling the terms of an agreement. Such agreements may include some or all of the following elements that specified the rules: the nature of the assistance to be rendered; discretion by the parties as to when and to what extent assistance will be available; the agency or entity that shall bear any liability arising from acts undertaken under the agreement; the procedures for requesting and for authorizing assistance; the agency or entity that has supervisory responsibility; a time limit for the agreement; the amount of any compensation or reimbursement to the assisting agency or entity; and any terms and conditions necessary to make the agreement effective (FLCIR 2001). If parties to the agreement follow these specified rules, resources will be allocated more efficiently, interlocal conflict will be reduced, and the services will be sustained over time.

However, there are tradeoffs to clearly defined sets of rules and outcomes. A clearly defined set of rules embedded in the contractual arrangement determines the effectiveness of the monitoring mechanism to cope with the problems of uncertain future and the risks of opportunism. Once an agreement is adopted, it becomes legally binding. The rules governing the transaction can only be changed with the agreement of all. Parties to the agreement can only act on the basis of the negotiated agreement, unable to respond to changed conditions, leading to suboptimal outcomes. Individual parties to the agreement will then have lost the freedom of unilateral action or local autonomy and control in meeting their community needs even though external circumstances or preferences might change in ways that render the standing agreement unacceptable to one party. This situation is more acute when multiple localities are involved---referred by Friesema (1970) as multilateral agreement---where renegotiation would involve high transaction costs. The agreement now turns into the “joint-decision trap” (Scharpf 1988), where the party gaining the most from the established agreement can block any changes, or at least extract an exorbitant side payment unless the decision to change can be made by consensus¹.

¹ Consensus is defined here as the interactions amongst involved localities in discussion for alternative rules until no one insists on opposing a proposed solution, yet having the possibility of a clearly defined set of rules in the presence of blatant obstruction (Coleman 1990; Scharpf 1998).

Alternative sets of working rules exhibiting “adaptive features” forming contractual arrangements are necessary to accommodate unanticipated changes in future conditions. Such contractual arrangements can greatly reduce transaction costs of writing a contractual arrangement and monitoring credible commitment if the decisions to provide public goods and services are made based upon consensus. One advantage for having adaptive features in contractual arrangements under consensus lies in the norm of reciprocity based on the expectations that none will engage in a strategic act to free ride on the efforts of others. Such reasoning seems a far stretch on goods and services having the characteristics of common pool resources such as water resources, but within the realm of public safety, for example mutual aid agreements for emergency first responses, the expectation that a locality will render assistance during disasters is not unforeseeable. In this situation, viewing interlocal contractual arrangements as relational contracts implies an intensive process of socialization and the existence of established long term associations serves as an effective means of control.

In other instances however, social control as a means to monitor parties to an agreement are in compliance with the set of rules are not sufficient. Insofar as most interlocal contractual arrangements are between two local jurisdictions, some are made up of multiple jurisdictions and their specialized departments together with state and federal agencies. Individual locality incentives to participate in multilateral agreements do not reflect the full benefits since an additional effort increases the information and reputation resources for all others in the region without any additional investment by the others. Although such multilateral arrangements encouraged by state and federal policies could reduce the transaction costs to forming regional wide planning, the implementation efforts are actually public goods that tend to aid the region as a whole more than they aid any individual localities. The decision-making process will be dominated by lack of individual incentive to contribute to the effort of the collective, and thus will lead to an underinvestment in region-wide efforts to resolve their mutual concerns, which according to Ostrom (1990) is the second order collective action problem of institutional undersupply. We next consider whether there is a potential role for state statutes in

encouraging local governments to enter into interlocal contractual arrangements and thus resolve the second order collective action problem.

FLORIDA’S STATUTORY FRAMEWORK

In the state of Florida, the expansion of interlocal service agreements came with the passage of the “Interlocal Cooperation Act of 1969” (s. 163.01, Fla. Stat.). The Act provides a broad legal framework for local governments to work together (ACIR 1995). For example, the Act authorizes local government units to enter into interlocal service agreements either with the public or private sector. Florida’s Interlocal Cooperation Act reflects also a general law allowing a mix in the approaches adopted to deliver services, which has led to extensive use of interlocal service agreements by counties in Florida (Florida Advisory Council on Intergovernmental Relations 1991:85). The identified benefits of this Act to local governments are to reduce the risk from litigation, especially in areas relating to utility coordination, school concurrency, gas tax splitting, planning issues and annexations (FLCIR 2001). Motivated by fear of litigation and legal liability, most local governments protect themselves by confining interlocal service agreements to a specific entity when conducting continuous governmental functional responsibilities. Under Section 163.01(5) Fla. Stat., the Act provides specific terms and definitions under which interlocal agreements may be entered into, including but not limited to the purpose, duration, organization, and manner by which contracted parties will provide financial support and disbursement of funds (FLCIR 2001).

Interlocal service agreements are most important in two arenas: (1) when local government makes a permanent transfer of total responsibility for the provision of a service to another governmental unit such as functional consolidation (ACIR 1985; Atkins 1997; FLCIR 2001); and (2) when transactions involve some forms of exchange for payments, revenue sharing, or impact fees. The contractual arrangements for these transactions, as authorized by the Act, are legally binding. This is particularly important because, unless an interlocal agreement is very specific, the passage of time and the “changing of the guard” of local decision makers can erode and obscure the original basis of an interlocal agreement, potentially causing significant problems for those left to

interpret its original goals (FLCIR 2001).

Another important state statute designed to offer intergovernmental relations a higher priority is Florida's "1985 Local Government Comprehensive Planning and Land Development Regulation Act," amended in the 1990s (Growth Management Act). Under this Act, the "intergovernmental Coordination Element" is a mandatory element of a local government comprehensive plan, which ultimately created a state requirement for local governments to coordinate planning activities with school boards, regional agencies, and state government. According to Florida's Legislative Committee on Intergovernmental Relations (2001), the Growth Management Act has "had a significant impact" on interlocal coordination in two ways: (1) it has increased the use of joint planning agreements, which are agreements local governments enter into in order to plan for an area prior to its becoming available for development such as in the provision of water and sewer services, mutually maintained traffic corridors, police and fire protections, or mitigation strategies; and (2) it has made it mandatory for municipal governments to enter into interlocal agreements for planning coordination purposes, especially service responsibilities that potentially enhance the role of county government.

Joint planning agreements and interlocal service agreements formed by localities in compliance with the Growth Management Act can potentially benefit local governments in several ways. In a broader sense, such agreements provide valuable information about localities growth management activities because so much of local government's activities are unobservable to most state agencies. By entering into interlocal agreements and reporting them in the Intergovernmental Coordination Element, they are akin to building local government's reputations: their values are in the visibility of local governmental actions to cooperate and interact with other jurisdictions, regional agencies, and state department. Aside from the advantages of economies of scale, elimination of duplicative local government services, and increased effectiveness of growth management, the interlocal agreements incentive lies in eligibility requirements for participation in state or federal programs where coordination with other governmental

entities is a prerequisite.

The third most important state statute can be found in Part I, Chapter 23, Florida Statutes, the “Florida Mutual Aid Act,” which authorizes a law enforcement agencies and state law enforcement mutual aid plan providing for the coordination of law enforcement planning, operations, and mutual aid across jurisdictional lines. It is important to note that mutual aid agreements in Florida can be classified into three general categories (FLCIR 2001): (1) Operational assistance agreements between law enforcement agencies or between one or more law enforcement agencies and school boards that employ safety officers for the rendering of assistance in a law enforcement emergency, (2) Voluntary agreements used by local law enforcement agencies in protecting lives and property in event of disaster or emergency, and (3) The combination of both types of agreements.

Local governments enter into these types of contractual arrangements because the terms and conditions of such agreements are generally non-obligatory; participation in the agreements is also generally voluntary and reciprocal. The agreements are flexible and adaptive in their usage for sharing of capital outlay and personnel resources. Compared to interlocal service agreements that emphasizes the fulfilling terms of an agreement in the provision of continuous governmental functional responsibilities, mutual aid agreements have generally been regarded as a way local governments can share resources during an emergency without fear of being locked in to a contractual trap. Furthermore, mutual aid or operational assistant agreements “are operative only when certain conditions come into existence and they remain in operation only so long as these conditions are present” (Bollens & Schmandt 1965:77).

Local law enforcement agencies are motivated to craft mutual aid agreements or operational assistance agreements for three reasons: (1) when emergency conditions come into existence and, upon request, employees of a law enforcement agency rendering aid outside their jurisdiction pursuant to the written agreement would have “the same powers, duties, rights, privileges, and immunities as if the employee were performing duties inside the employee’s jurisdiction.” The agreement allows a law enforcement

agency to provide assistance beyond its political boundaries; (2) a local agency rendering aid outside its jurisdiction will also be able to request reimbursement of the actual costs of providing the mutual aid either from the requesting jurisdiction or the state or federal government; (3) the benefits of accumulation of resources, especially when the capacity for local emergency services to respond to a large-scale regional event is questionable. Mutual aid and operational assistance agreements focusing on developing redundancy in local emergency response resources and personnel can limit the need for, and reliance upon, geographically distanced assistance especially during the initial stages of an emergency; and (4) the benefits also flow from the adaptive features such as non-mandatory requirements for assistance and the incentive of not holding them liable for anything that might happen in the process of trying to help especially in the event of emergency. In an area of mutual concern, services identified are highly specific in nature and yet the contractual arrangement does not require a complete assumption of authority by the other jurisdictions.

As for the emergency medical services, in addition to written contracts and interlocal service agreements in the provision of ambulance services, an EMS provider can respond and render services under a written mutual aid agreement at the request of a signatory to the agreement during a major emergency. Other state statutes also encourage interlocal cooperation such as Chapter 252, Fla. Stat., known as the State Emergency Management Act. This act also applies to the provision of fire rescue.

State statutes can encourage municipal and county governments to enter into contractual arrangements and provide a foundation for further interlocal cooperation in the provision of services because they allow a mixed approach to cooperation, from clearly specified working rules governing interlocal transactions i.e., interlocal service agreements, to more adaptive and flexible arrangements such as mutual aid agreements. The different approaches define the scope, stringency of requirements, and the degree to which local governments can enforce their claim if signatories default, and thus encourage cross jurisdictional activities to span administrative and political boundaries.

DATA

For a better sense of interlocal contractual arrangements in the provision of public safety, consider a combined mutual aid/operational assistance agreement in coordinating multiple jurisdiction activities in an event involving emergency response to bomb threats, explosives, hazardous devices, and weapons of mass destruction in the Florida Big Bend region. Under the Big Bend Bomb Squad agreement authorized by Section 23.12, Fla. Stat., a front line task force was established in 2005 consisting of four law enforcement agencies in Leon County: the State of Florida Division of Fire Marshals, Florida Department of Law Enforcement (Division of Capitol Police), Leon County sheriff's office, and the city police of Tallahassee. The agreement promulgated standards of conducts targeted to produce public benefits through a redundancy in local emergency response resources and personnel because a local emergency service's capacity to respond to a large scale event alone was questionable. As the producer of this service, the task force responsibility remains in Leon County at all times and may provide first line response to the other 12 counties in the Big Bend region only upon request.

Take another example of contractual arrangement. In 2002, an Evidence Storage agreement was entered between Leon County's sheriff and the Florida Department of Transportation. A relatively straightforward agreement, the contractual arrangement involved two signatories and provided temporary access for the Florida Department of Transportation to store the department's property/evidence on a large shelf within the Sheriff's evidence storage vault. No financial transfer was involved in this agreement, but the obligations specified in the contract were unique only to this agreement such as the familiarization training regarding submission procedures and retrieval of evidence, packaging of evidence, identifier log, and firearms. The highly specified working rules gave protection to both parties in the event of any claims if any of the signatories should default. Contrary to the mutual aid agreement, the evidence storage agreement between two public organizations provided specific safeguards to both parties' legal rights.

Identifying Interlocal Contractual Arrangements. In order to identify the different types of interlocal contractual arrangements, we utilized the data compiled by the Florida Department of Community Affairs (FDCA) from various *Interlocal Service Delivery Reports*. The FDCA required 33 county governments in Florida with greater than 100,000 population, their municipalities, and special districts to report interlocal service agreements by eight major types of community services or functional categories. Our substantive area focused on the different types of contractual arrangements in the provision of public safety, which includes police, fire, and emergency medical services.

In identifying the different types of contractual arrangements, we tried to ensure that the agreements reported were in accordance with statutory definitions discussed earlier. Although most localities generally made implicit reporting on the types of agreements governing their transactions, others did not. To overcome this problem, we relied on titles of agreement to gain insight on the types of contractual arrangements. For example, the Big Bend Region Bomb Squad Mutual Aid and Operational Assistant agreement would fall under the mutual aid agreement classification; whereas the Evidence Storage agreement would fall under the interlocal agreement.

We found the following types of interlocal contractual arrangements were commonly used by local governments in the provision of public safety: informal interlocal agreements based on mutual understandings or letter of agreement to assist other jurisdictions “upon verbal request”; Memorandum of Understanding, typically used to establish general guidelines for a specific locally coordinated activity; intergovernmental coordination agreement or interlocal agreement that establishes a formal agreement between governments on specific roles and responsibilities; mutual aid agreement and operational assistance agreement between jurisdictions on public safety services that cut across multiple political boundaries; and joint planning agreements which set standards or limitations on actions taken by local governments in the area prior to its development. Other types of contractual arrangements were also frequently used such as contracts or leases, permit agreements, local ordinance, and resolutions.

Identifying Public Goods and Services. With our list of interlocal contractual arrangements identified, we needed to distinguish the specific types of goods and services in the provision of public safety---which Savas called “component sub-services” (2000:71). There has been considerable progress being made by scholars in constructing types of goods and services in the public sector (Farris & Grady 1986; Post 2002; Stein 1990; Brown & Potoski 2003). These studies suggested that local governments choose different types of contractual arrangements was based on their response to key characteristics of the services. From these empirical studies, a range of goods and services in the provision of public safety by local governments was provided (ACIR 1985; Sonenblum & Kirlin 1977; Farris & Graddy 1986; Brown & Potoski 2003). We reviewed them and then arranged the different service types from the previous studies and cross-checked them against the description of the agreement reported in the Interlocal Service Delivery Reports (FDCA 2004). We identified fourteen specific types of services in the provision of public safety. The list is presented in Table 1 below.

THE MODEL

The logistic regression model is designed to explain whether boundary spanning as encouraged by state statutes, the characteristics of goods and services, functional service area, and the number of collaborators in the provision of public safety influence the types of interlocal contractual arrangement. The model takes into account the arguments put forward by Heckathorn and Maser on relational contracts, an extension of the transaction costs approach.

The Dependent Variable

To operationalize Heckathorn and Maser’s framework on relational contracts, we aggregated different types of interlocal contractual arrangements into two general classifications: “Relational Contract” and “Non-Relational Contract”. For example, the Big Bend Region Bomb Squad agreement with its nonobligatory and voluntary features would fall under the relational contract classification; whereas the Evidence Storage agreement with its strict requirements for fulfillment of the contract will fall under the

non-relational contract classification. The dependent variable takes a value of 1 for an interlocal contractual arrangement having a relational contract; and 0 otherwise.

These broad classifications were particularly important to our analysis because they determined the different working rules embedded in different types of interlocal contractual arrangement. They are essentially “rules about rules and about authority” (Lowi 1985:74). They structured actors’ behavior and can be changed by actors themselves, so they were also affected by the strategic choice actors made when crafting contracts, i.e., whether to have clearly defined working rules or flexible working rules governing a transaction. Moreover, we are most interested to determine not only the general pattern in which different levels of interlocal relations have affected contractual choice, but also the context in which the contractual arrangements were formed.

Independent Variables

Boundary Spanning. We used three types of interlocal relationships as proxies to determine statutory effects on interlocal contractual arrangements. The argument that state statutes enabled local governments to enter into contractual arrangements encouraged political and administrative boundary spanning. In order to span these boundaries, municipal and county governments choose the types of interlocal contractual arrangement that could reduce the transaction costs in maintaining those relations. To illustrate this proposition, we focused on three types of political and administrative boundaries spanning: county-county, county-city, and city-city relations; and seek to understand how these relations have affected the types of contractual arrangements local governments entered into.

First, interlocal contractual arrangements explained by vertical boundary-spanning involve municipal and county governments. Research on intergovernmental relations has long identified the importance of vertical integration in the area of planning for emergency and policing activities (Waugh 1994; Rubin & Barbee 1985), regional cooperation (Savitch & Vogel 1996), or city-county consolidation. Because county-city relations in Florida are often beset by conflicts over turf and annexation problems such as

streets bordering another city lie within an adjoining municipality, it may make sense to standardize planning effort uniformly throughout a patchwork of fragmented jurisdictions. But it is less sensible for any single jurisdiction unwilling to forgo control or autonomy. A positive and significant association between city-county relations and the type of contractual arrangement suggests a preference for a relational contract. A relational contract is advantageous because it specifies the activities to be rendered without unnecessarily intruding on the authority of the other jurisdiction. It is easily terminated without legal consequences to either party. Alternatively, municipal and county governments can choose a more legally binding contract in the presence of regional politics and avoid future disputes. A negative and significant association between city-county relations and the type of contractual arrangement suggests a preference for a more legally binding contract with clearly stated working rules.

Second, interlocal contractual arrangements explained by horizontal boundary-spanning between municipalities. These arrangements will integrate local municipalities operating within or across county political boundaries. Local municipalities are most vulnerable to the incidence of urban crimes and often act as frontline responders to emergencies. However, conventional wisdom suggests that localities are highly competitive and face greater obstacles to dividing bargaining surplus from cooperative efforts. They share similar concerns, but their attempts to improve conditions are impeded by collective action problems. For example, competitive jurisdictions will act strategically to capture the greater share of the surplus (who should get the credit). Specifically, each is likely to use private information about costs incurred and benefits gained from any joint project to indicate why it requires certain concessions to make participation worthwhile. Hence, contractual arrangements between municipal governments are likely to be based on a clear set of working rules governing transactions in order to secure distributive surplus.

Third, interlocal contractual arrangements explained by horizontal boundary-spanning between county governments. These arrangements integrate the region as a whole when multiple counties working together can take advantage of redundancy in

local emergency response resources and personnel. The capacity for region-wide services improves responses to emergency and minimizes risk to local residents and businesses. Activities covering a large and multi-jurisdictional boundary require a contractual arrangement that has a broad impact and yet is adaptive to conditions or changes. So, we would anticipate a relational contract to be most likely in intergovernmental relations of county-county interactions.

Characteristics of Goods and Services. Previous studies suggesting that local governments choose different types of contractual arrangements are based on their response to key characteristics of the services (Farris and Grady 1986; Post 2002; Stein 1990; Brown and Potoski 2003). This section supplements the relational contract argument that municipal or county governments will choose contractual arrangements that can reduce the transaction costs of writing, monitoring, and enforcing of a contract. When the transaction costs are high in the provision of goods services, outcomes of the contract are difficult to quantify and local government will opt for a more adaptive type of contractual arrangement. When the transaction costs are high in the provision of goods and services involving high asset-specificity, local government will opt for a clearer set of working rules governing the contractual arrangement. A non-relational contract will be crafted. Following Brown and Potoski's (2003) extension of Williamson's transaction costs approach, asset specificity is defined as the specialized investment required to produce the services i.e., whether specialized investments needed for the production of one service can also be used for the production of other services. Service measurability is defined as the relative difficulties in measuring and monitoring the outcomes of the services.

As an operational necessity, we have aggregated the different types of public safety goods and services based upon Brown and Potoski's general dimensions, but we must not forget that this is a constrained view, especially when goods and services may contain both dimensional properties. Thus, for example, the joint planning, mitigation strategies, and protocol services would also fall under a realm that is difficult to measure, but the key action required has also to do with the need to plan a detailed strategy to

mitigate a specific problem. The action required would be highly procedure specific and asset specific. When the outcomes of developing and planning for mitigation strategies, joint terrorism task forces, or a mutual aid operating plan are relatively difficult, a potential free rider problem is inevitable. In addition, because of the specialized investment required to meet the region-wide efforts, actors in the contractual arrangement may also subject themselves to opportunistic behavior by others in the agreement. For these reasons, a third category is presented to capture services that have high asset specificity and high service measurability.

Functional Service Areas. This variable attempts to capture whether agreements within a particular traditionally functional service area such as law enforcement for police department, ambulance services for EMS, and fire prevention/suppression for fire departments---affects the type of contractual arrangements. A single functional service area represents homogeneity of policy goals and preferences. A single functional service area can reduce the transaction costs of negotiating an agreement, expending fewer resources, and encouraging the development of mutual trust among local governments. A contractual arrangement in the presence of homogeneity in a functional service area reduced transaction costs of negotiating, operating, and enforcing contracts, motivated local government to choose relational contracting.

The traditional public safety functional roles are eroding, however. The provision of public safety can cut across multiple functional agencies' responsibilities. Some localities combined EMS and fire department responsibilities such that some ambulance dispatch services and emergency helicopter services were carried out by the fire departments. Increasingly in Florida, interlocal agreements have been used in the provision of public safety involving multiple agencies. When a service cuts across multiple provisional units, parties to the agreement having additional responsibilities compromise their traditional functional roles; and anticipated high transaction costs of negotiating, operating, and enforcing will be observed in the provision of the contract. A non-relational contract would be used to avoid future disputes over operating and enforcing the provision of a service. High transaction costs in combined functional

service areas, involving seemingly different functional agencies, would indicate a likelihood of non-relational contracting to mitigate future uncertainty.

The effect of functional service areas is operationalized using dummy variables: a single functional service area includes the law enforcement category; fire category; EMS category; and the combination of any of these specialized functional areas.

Number of Collaborators. The number of collaborators involved in a contractual arrangement is an important determinant of collective action. The number of collaborators entering into a contractual arrangement is directly related to Olson's (1965) notion of group size: it dictates the relative distributional gains, monitoring and enforcement costs of others behavior. The smaller the group, the easier it is to form a contractual arrangement because there are fewer problems determining how benefits will be distributed, the monitoring cost will be lower and thus, less shirking problems. A large number of collaborators in a contractual arrangement make the relative benefits to individual collaborators decrease. The higher the number of collaborators, the greater the organization costs, and the easier it is to free ride from the efforts of others. The transaction costs are higher in large size collaboration.

The number of collaborators determines the type of contractual arrangement when the anticipation to renegotiate a contractual arrangement involves high transaction costs, especially in multilateral agreements. Inability to renegotiate a term of a contract can turn into a joint-decision trap unless those mostly benefiting from the contract are willing to renegotiate and adjust to an unanticipated change of conditions. Under this situation, a relational contract will be preferred because the fulfillment of the arrangement is nonobligatory, reciprocal, and yet easily terminated without legal consequences. So, the higher the number of collaborators, the more likely a relational contract will be adopted.

ANALYSIS

Differences in Patterns of Interlocal Contractual Arrangements By Types of Goods and Services

Before discussing the model estimation, it is important to examine several cross-sectional differences in the types of contractual arrangements used for particular types of services. The non-relational contracts identified include interlocal agreement, contract or lease; and the relational contracts include mutual aid agreement, memorandum of understanding, and letter of agreement or informal agreement. The bottom column in Table 1 shows that the non relational contracts were mostly formed by interlocal agreements i.e., about 52% of the total interlocal contractual arrangements; whereas, relational contracts were mostly formed by mutual aid agreements and memorandums of understanding. When combined they constituted about 34% of the total interlocal contractual arrangements. At a glance, information in Table 1 suggests interlocal contractual arrangements in the provision of public safety were mostly conducted through non-relational contracts rather than relational contracts.

[TABLE 1 ABOUT HERE]

In terms of types of public safety services provided through a range of interlocal contractual arrangements, all services in the provision of public safety between local governments were conducted using interlocal service agreements. In the last column of Table 1, the types of services involved in interlocal contractual arrangements were mostly in mutual assistance-disaster relief (26%), followed by joint planning and mitigation strategies (12.3%), fire prevention/suppression (12%), and crime prevention and law enforcement (10.5%). Most emergency medical services and fire prevention/suppression were provided using interlocal service agreements; while most mutual assistance-disaster relief services involved mutual aid agreements.

Although interlocal contractual arrangements can be argued to have been determined by state statutes such as mutual aid agreements authorized by the Mutual Aid Act and were generally used for emergency services, interlocal service agreements as

authorized by Intergovernmental Coordination Act of 1969 were for continuous service provision. This is not necessarily true across the board. The patterns illustrated in Table 1 also suggest that interlocal agreements have been used for mutual aid-disaster relief; and mutual aid agreements have been used for crime prevention and law enforcement services. We come to the conclusion that state statutes have allowed mixed approaches to contractual arrangements across a wide range of services.

Table 2 provides the summary statistics. The incidence of contractual arrangements among municipalities and the contractual arrangements among county governments were low compared to the incidence of contractual arrangements amongst municipal and county governments. The incidence of contractual arrangements in emergency medical services was also low compared to police, fire, and the combined functional service areas. The average number of collaborators was about 2.5 per agreement suggesting that most agreements were conducted between 2 jurisdictions. Diagnostics performed to detect multicollinearity above 0.8 suggests no serious problem; the independent variables were dependent to each other.

[TABLE 2 ABOUT HERE]

[TABLE 3 ABOUT HERE]

Interpreting Logit Coefficients

In Table 3, the overall Model 1 chi square is 645 and is statistically significant (df9, $p < .01$). The model correctly predicts about 74 percent of the cases and the Proportional Reduction in Error is about 32 percent. To interpret the effect of each independent variable, the results show that the coefficient operating on city-county vertical boundary spanning is negative and statistically significant at the .01 level. This indicates that if boundary spanning involved city-county relations, the probability that a relational contract was used in the provision of public safety decreases compared to other

type of boundary spanning relations. Specifically, for a vertical boundary spanning involving city-county relations, the log odds ratio of having a relational contract is .68 lesser than the other form of boundary spanning, holding all other variables constant. The effects of the other boundary spanning variables on relational contracts are anticipated though statistically not significant.

The effects of characteristics of goods and services variables on relational contracts are both statistically significant. For example, when outcomes of services are relatively difficult to measure and the monitoring and enforcement costs are high, a relational contract was preferred to safeguard the arrangements. On the other hand, when the services have high asset specificity, a non-relational contract was preferred. The log odds ratio of a contractual arrangement involving asset specificity having a relational contract is .26 less than other types of goods and services, holding other variables constant.

The effects of individual functional service area on relational contracts are statistically significant, but the type of contract used to govern transactions differs. For example, in a combined functional service area, where more than one specialized functional agency was involved in the provision of public safety, the contractual arrangement used was more likely to be a relational contract. The effect of law enforcement functional area on relational contracts was anticipated and statistically significant. The emergency medical services, on the other hand, generally employed non-relational contracts. The directional effect of EMS on the type of contractual arrangements formed was unanticipated by the model and we discuss the reasons in the next section.

Theoretically it is possible that the effects of functional service area on the type of contractual arrangement varied by the number of collaborators in an agreement. A contractual arrangement involving combined functional service areas such as law enforcement, fire, and EMS must reflect the diverse policy preferences of those concerned. Negotiation involving a larger number of agencies with multiple functional

service areas would lead to a relational contract because a large number of parties with different preferences can potentially lead to disputes over policies and goals more likely than with a homogeneous functional service area. Moreover, a joint decision trap is highly probable. This proposition predicts a positive association between the interactive terms of a combined functional service area and the number of collaborators on the type of contractual arrangement.

In Model 2, we introduced the interactive effects of the number of collaborators and functional service area on the type of contractual arrangement. A likelihood ratio test was used to determine whether the inclusion of the interactive terms contributed to the overall effect of the model. The inclusion of the interactive terms is statistically significant ($LRX^2 = 15.86, df = 3, p < .0012$). The predicted probability in the model ranges from .033 to .996, with a mean predicted probability of having a relational contract of .611. In Model 2, the results show that the anticipated effect of combined functional service area on the type of contractual arrangement varying by the number of collaborators was correctly predicted but statistically it was not significant. A similar conclusion was reached on the effect of EMS and number of collaborator interactive terms.

Theoretically, it is also possible that the effect of a single homogeneous functional service area on the type of contractual arrangement varies by the number of collaborators. The results in Model 2 suggest that the effect of law enforcement functional area on the type of contractual arrangement indeed varied by the number of collaborators. The effect is negative and statistically significant. We compared the differences between law enforcement and the other functional service areas to predict the type of contractual arrangement. Our calculation indicates that the probability of having a relational contract is less likely for law enforcement than the other functional service areas, when the interaction term was taken into account and holding the other variables at their mean. Specifically, the predicted probability was .264 less for law enforcement than the other functional service areas.

DISCUSSION AND CONCLUSION

The decision to enter into a relational contract with another government is usually viewed as a technologically driven choice to reap the benefits of economies of scale (Ferris & Graddy 1986) and the characteristics of goods and services that are the product of transaction costs (Brown & Potoski 2003). For example, when there is difficulty of imposing jurisdictional boundaries or exclusion of other users such as cultural and recreational services, local governments are more likely to enter into an interlocal agreement (Stein, 1990). When outcomes of the services are difficult to monitor and the investment required is highly specific and lacks transferability, local governments are more likely to contract with each other rather than with the private sector (Brown and Potoski 2003). And, when a large service area is required to attain scale economics in capital-intensive investment and another local government is currently providing the service, other local governments are likely to enter into an arrangement with that government (Farris and Grady 1986, Post 2002).

Although these studies have provided theoretical grounds to examine the local governments' contractual choice in meeting local residents demand for services, they fall short of explaining the different types of existing interlocal contractual arrangements capable of coping with uncertainty. As shown in our analysis, the type of contractual arrangement chosen by parties in the provision of public safety depends on the characteristics of goods and services: outcomes that are difficult to measure generally relied on relational contracts because the service outcomes cut across interjurisdictional boundaries. On the other hand, compared to other characteristics of goods and services, services that have higher asset specificity tend to be governed by non-relational contracts.

With whom have municipal and county governments usually joined in contractual arrangements? Typically, the type of interlocal contractual arrangement chosen when interjurisdictional relations were involved tends to be based on non-relational contracts. Previous studies have proposed that county government should take on a larger role in the provision of public safety for a region, arguing for the benefits of economies of scope and the accumulation of resources. Smaller and isolated municipalities may lack the incentive

to cooperate with each other in the provision of public safety, and thus the county should fill the role as central coordinator (Waugh 1994). The evidence suggests that when municipal and county governments entered a contractual arrangement with each other, the type of agreements employed generally involved non-relational contracts where strict and legally binding arrangements ensured safeguards in the transactions.

Non-relational contracts are more suited for the provision of public safety within the context of vertical boundary spanning because municipal and county governments are highly dependent on each other. Municipalities might depend on county governments because they are politically and administratively closer to state and federal governments in terms of receiving state resources and technical assistance; more able to act as mediators to inter-municipality policy goals and policy preferences; and have a larger geographical base, greater ability to reap the benefits of economies of scope, and a broader perspective to respond to regional needs. However, municipal governments are also apprehensive of county government over intralocal inequality of service provision such as decisions about allocation of fire or police stations. In order to avoid uncertainty and opportunistic behavior, municipal and county governments entered into non-relational contracts. Vertical boundary spanning, expanding political and administrative boundaries and relying on non-relational contracts, can produce a happy compromise based on stylized contracts that enumerate the obligations of each party.

The effect of functional service area on the type of contractual arrangement is particularly important. Law enforcement agencies entering into an agreement with other law enforcement agencies and having similar policy and goal preferences generally preferred to have relational contracts because they shared similar concerns, interacted and trained under the philosophical approach of professionalism. This is not to say that law enforcement agencies were generally cooperative in the provision of public safety; the key to emphasize here is that when compared to other functional service areas, in the area of law enforcement, the contractual arrangement generally involved a relational contract. This is because the transaction costs of negotiating and enforcing interlocal contractual arrangements are relatively lower than non-relational contracts.

In the case of EMS, when compared to other functional service areas, there is a greater likelihood of a non-relational contract. One of many reasons for this is because EMS generates revenues to local government. For example, in east central Florida, it has been reported that EMS can generate revenue to the tune of \$ 8 million to \$ 10 million a year (The Ledger, March 17, 2005). The operation costs, on the other hand, are relatively high and the provision of EMS is labor intensive. So, to ensure parties to the agreement do not act opportunistically, a non-relational contract is employed. In Leon County, the EMS system has about 96 employees, including 58 full time and 20 part time paramedics and emergency medical teams operating 10 or more ambulances at peak hours. Given the investment involved and the controversy surrounding the provision of EMS in the county, an interlocal agreement with the city of Tallahassee is preferred to ensure that the legal terms of the contract are met, the intake mechanism is effective, and the problems of uncertainty due to opportunism minimized (Tallahassee Democrat, January 16, 2004).

One of the surprise results is related to the provision of public safety that cut across multiple functional agencies' responsibilities. Increasingly in Florida, interlocal agreements have been used in the provision of public safety involving multiple agencies. The theoretical model argues that when a service cuts across multiple provisional units, parties to the agreement having additional responsibilities compromise their traditional functional roles; and anticipated high transaction costs of negotiating, operating, and enforcing will be observed in the provision of the contract. Compared to other functional service areas, the results of the model show that the effect of combined functional service area on relational contract was likely. One explanation has to do with the motivation to avoid a contractual trap, especially when there is a need to accommodate multiple preferences.

To conclude, we have examined the factors that explained the different types of contractual arrangements. We argued that they were the product of state statutes employed by local government to span their political and administrative boundaries. We have shown that vertical boundary spanning involving municipal and county

governments generally employed non-relational contracts. We have also shown that the characteristics of goods and services as the product of transaction costs influenced the types of interlocal contractual arrangements in the provision of public safety. Functional service area and the number of collaborators involved also influence the type of interlocal contractual arrangements municipal and county governments employed.

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TABLE 1
Patterns of Interlocal Contractual Arrangements by Types of Goods and Services: Public Safety

Types of Goods and Services (Public Safety)	Non Relational Contract		Relational Contract			Others Unspecified	TOTAL
	Interlocal Agreement	Contract / Lease	Mutual Aid Agreement	Memorandum of Understanding	Letter of Agreement / Informal		
<i>Asset Specificity</i>							
Equipment & Vehicle Maintenance	86	9	4	10	-	3	112
Building Expansion & Shelters	125	30	6	5	2	19	187
Police/Fire Communication	143	3	3	9	6	51	215
Crime Lab & Investigation	34	2	9	15	-	1	61
Crime Prevention & Law Enforcement	159	8	73	8	2	15	265
Billing & Financial Payment	160	13	8	3	-	7	191
Prisons and Jails	8	3	-	-	-	1	12
Licensing	6	2	-	-	-	-	8
Technical Training Programs	50	1	2	5	-	10	68
<i>Service Measurability</i>							
Emergency Medical Services	59	5	-	2	3	7	76
Fire Prevention/Suppression	169	10	-	50	12	55	296
Mutual Assistant – disaster relief	110	2	503	20	1	11	647
Joint Planning & Mitigation Strategies	168	5	83	26	-	27	309
Technical Assistant & Joint Studies	14	-	1	1	-	5	21
<i>Others</i>	39	6	-	2	1	5	53
TOTAL	1,330	68	746	117	12	217	2,521

TABLE 2
Descriptive Statistics

Variables	Mean	Standard Deviation	Min	Max
Relational Contract	.611	.488	0	1
Boundary Spanning`				
City-City relations	.075	.263	0	1
City-County relations	.435	.496	0	1
County-County relations	.181	.385	0	1
Others interorganizational relations	.293	.455	0	1
Characteristics of Services				
Service Measurability	.420	.494	0	1
Asset Specificity	.448	.497	0	1
Measurability and Asset Specificity	.132	.339	0	1
Functional Service Areas				
Combined	.299	.458	0	1
Police Services	.375	.484	0	1
Emergency Medical Services	.070	.255	0	1
Fire Services	.256	.437	0	1
No. of Collaborators	2.530	2.082	2	20
No. of Observations = 2,251				

TABLE 3
Logistic Regression Coefficients (and Standards Errors) Predicting
Potential Relational Contracting in the Provision of Public Safety

Relational Contract	Model 1	Model 2
<i>Boundary Spanning</i>		
City-County	-.379*** (.124)	-.402*** (.124)
City-City	-.039 (.202)	-.0475 (.202)
County-County	.135 (.156)	.131 (.157)
<i>Characteristics of Services</i>		
Service Measurability	1.339*** (.153)	1.358*** (.154)
Asset Specificity	-1.345*** (.159)	-1.347*** (.160)
<i>Functional Service Areas</i>		
Combined Functional Service Area	.484*** (.138)	.410* (.237)
Police Services	1.124*** (.146)	1.510*** (.220)
Emergency Medical Services (EMS)	-2.030*** (.297)	-2.605*** (.515)
No. of Collaborators	.032 (.025)	.096* (.055)
<i>Interaction Effects</i>		
Combined Functional Area / No. of Collaborators	–	.031 (.081)
Police Services / No. of Collaborators	–	-.145** (.064)
EMS / No. of Collaborators	–	.229 (.173)
No. of Observations	2,251	2,251
LR Chi squared	645.00***	660.85***
Pseudo R-squared	.21	.22
Log Likelihood	-1185.37	-1177.44
% Correctly Predicted	73.67	73.80
Proportional Reduction in Error	32.40%	32.82%

Note: Level of significant: ***p<.01, **p<.05, *p<.10