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Governance by Agreements: Why do  
Local Governments Enter into  
Multilateral Agreements?

Simon Andrew  
University of North Texas, sandrew@unt.edu

**GOVERNANCE BY AGREEMENTS: WHY DO LOCAL GOVERNMENTS  
ENTER INTO MULTILATERAL AGREEMENTS?\***

Simon A. Andrew, Ph.D.  
Department of Public Administration  
University of North Texas  
P.O. Box 310617  
Denton, Texas 76203-0617  
Email: sandrew@unt.edu  
Tel: (940) 565-4982

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# **GOVERNANCE BY AGREEMENTS: WHY DO LOCAL GOVERNMENTS ENTER INTO MULTILATERAL AGREEMENTS?**

## **Abstract**

While much can be learned about the roles of interjurisdictional agreements between two jurisdictions, little is known about the range and scope of multilateral agreements (MLAs) in the provision of collective goods. Based on the theory of institutional collective action, this article explores two characteristics of agreements: restrictive and adaptive, and seeks to understand why local governments enter into one arrangement and not the other. This article argues that the local government decisions to enter into MLAs are influenced by the characteristics of goods and services, the nature of interjurisdictional relations, the geographic configuration of governments, and the number of signatories involved. An analysis of public safety activities in Florida provides support for these propositions.

**Keywords:** interjurisdictional agreements, mutual aid agreement, public safety, emergency management, institutional collective action.

## **GOVERNANCE BY AGREEMENTS: WHY DO LOCAL GOVERNMENTS ENTER INTO MULTILATERAL AGREEMENTS?**

Recently, there has been a tremendous interest in formal agreements in area of emergency management (Lynn 2005; Kettl 2007; Nicholson 2007). While formal agreements between two jurisdictions are relatively common, agreements with multiple parties are much less so. When they do exist, they tend to establish functionally organized coalitions of specialized agencies for finite periods of time---which Friesema (1970) referred to as multilateral agreements (MLAs). Are multilateral agreements undersupplied? One reason to suspect they are is that, regardless of the collective benefit they provide, MLAs are difficult and costly for local actors to create since the transaction costs are generally higher than bilateral agreements. For example, local governments participating in multilateral mutual aid agreements may subject themselves to tort immunity or workers compensation issues (Reynolds 2003; Nicholson 2007). Local governments may also find themselves “locked-in” or lose freedom of unilateral action upon entering into an MLA (Sonenblum et al 1977; Hirlinger & Morgan 1991).

MLAs represent special contractual dilemmas. The costs of organizing tasks and monitoring the signatories’ behaviors increase with the number of participants. Agreements that involve multiple specialized agencies, such as joint planning agreements, often involve political bargaining. Indeed, effective preparedness and detailed mitigation programs demand the willingness and capacity of multiple agencies to plan, regulate, and enforce local land-use and building codes (Waugh 1994). Even though agreements among similar agencies may represent homogenous policy goals and

preferences, potential conflicts over administrative boundaries and loss of autonomy can occur, posing barriers to MLAs.

The identification of MLAs in previous studies implies they are not *ad hoc* or piecemeal arrangements for regional integration. Rather, MLAs provide an important piece in the governance puzzle. Local governments tend to establish a variety of contractual arrangements to accommodate preferences and accomplish specific tasks such as interlocal services agreements, mutual aid agreements, joint planning agreements, and memoranda of understanding (Atkins 1997; Nunn & Rosentraub 1997; FLCIR 2001). However, key questions remain: why do local governments enter into a particular type of agreement and not the other; and why do they choose MLAs, even though they could free ride on the efforts of others?

One hypothesis focuses on mechanisms used to control the behavior of signatories. Adaptive arrangements, for example, provide broad discretion and flexibility for future circumstances; restrictive arrangements, on the other hand, provide procedural characteristics, authority, and outcome requirements that are clearly stated in advance to ensure that parties fulfill the terms of their contracts. Neither mechanism, however, is free from the transaction costs of contracting. Thus, local governments choose the one with the least costs in order to govern their transactions.

This study departs from prior work on survey-based perceptions of formal agreements by differentiating different types of MLAs (Friesema 1970, 1971; McDavid 1977; Smith 1979; ACIR 1985; Hirlinger & Morgan 1991; Foster 1998; Thurmaier & Wood 2002). The analysis examines the structure and characteristics of all MLAs reported by Florida's major county and municipal governments. Specifically, it analyses

the *contents* of MLAs, which include information on the type of agreements, the activities carried out by the government units, the number of signatories, the functional unit that provides the services, and the status of the agreements.

This study focuses on MLAs in Florida in activities of public safety---fire, police, and emergency medical services (EMS). Studying MLAs for specific categories of services in a single state has its limitations, but there are also advantages. It allows us to control for statutory variation across states and provides an opportunity to study the choice of agreements in-depth. Florida is one of the most progressive states in encouraging interlocal coordination through formal agreements, and given its geographical location, most local governments---acting as first-line responders---allocate substantive budgetary amounts for public safety activities in order to respond to major disasters (such as hurricanes, tornadoes, and flooding) and routine law enforcement activities (such as drug trafficking, traffic patrol, and law enforcement). Although the advantages of MLAs can be realized when local governments agree to work together, they are often strained by past conflicts and rivalries, making public safety a worthwhile activity to study (Ostrom & Whitaker 1973; Ostrom et al 1973; McDavid 1977; Carr & LeRoux 2005).

The following section lays out the theoretical arguments linking transaction costs to local government choices about MLAs. The second section explores explanations for local government decisions based on the institutional collective action framework. The third section identifies the methods, data on MLAs in Florida, and the characteristics of goods and services related to public safety activities. The fourth section reports the findings. The conclusion identifies future research needs for MLAs.

## **STRATEGIES AND MECHANISMS FOR COLLECTIVE ACTION**

Why do local governments enter into MLAs? The conventional answer is that a MLA is a consequence of joint benefits that can be anticipated by negotiating parties. Transaction costs theory complicates this answer by asserting that uncertainties impose costs on intergovernmental relations. Absent foresight, local governments cannot agree on a substantive response to uncertainty, so in order to minimize costs of planning, adapting, and monitoring task completion across jurisdictions, binding contracts are crafted as a procedural safeguard to reduce uncertainty (Gillette 2001; Brown & Potoski 2003; Feiock 2004; 2007). Collective action theory posits that uncertainties impose costs on interjurisdictional agreements. Various arrangements sanctioned by the state provide alternative mechanisms for managing uncertainty according to their available capital and human resource endowments. However, these alternative arrangements also impose different costs on local governments' relationships. Thus, local governments enter into an agreement in a bounded rational fashion by selecting an arrangement to achieve task completion that simultaneously minimizes the transaction costs of contracting.

A variant of transaction costs theory argues that decisions to enter into agreements depend upon the structural arrangements established by the agreements. For example, mutual aid/operational assistance agreements can be used as legal documents to establish organization, typically by function, in order to coordinate activities of various local entities. Administrative bodies such as bomb squads or regional task forces have strong functionally organized bureaucracies to ensure stability and decisiveness (Lynn 2005; Kettl 2007). Public officials seeking stability through organizational structure can opt for legally binding agreements to safeguard their property rights such as specialized

equipment, protection against tort liability, and reimbursement of actual costs when performing mutual assistance.

The theoretical and empirical basis for the transaction costs argument remains underdeveloped. Theoretically, there are variations in the types of agreements available to local governments (Miller 1981; ACIR 1985; Atkins 1997; Nunn & Rosentraub 1997; FLCIR 2001). An informal agreement leaves local governments less secure in their rights to adjudication during a dispute, but such an arrangement is relatively easy to modify should unforeseen circumstances arise. Memoranda of understanding and/or memoranda of agreement can greatly reduce the transaction costs of writing and implementing an agreement compared to interlocal service agreements, but they are nonobligatory, reciprocal, and yet easily terminated without significant legal consequences. Mutual aid or operational assistance agreements, on the other hand, are only operative “when certain conditions come into existence and they remain in operation only so long as these conditions are present.” (Bollens & Schmandt 1965: 77)

The methodologies of empirical studies on MLAs have not advanced much beyond the surveys on interjurisdictional agreements conducted in the 1970s. The difficulty lies mostly in how to identify the different kind of agreements. Several studies count the number of bilateral agreements by service categories (Friesema 1970, 1971; Thurmaier & Chen 2005); developing survey instruments to determine the extent of utilization of agreements (ACIR 1985; Hirlinger & Morgan 1991; Carr & LeRoux 2005); and conducting interviews and surveys to determine the attitudes of local officials toward such agreements (Smith 1979; Foster 1998). Consequently, most agreements are classified as a single arrangement and thus fail to provide insight on how different types

of agreements produce different incentive structures for local governments to form alliances (Feiock 2004; 2007).

### **Adaptive and Restrictive MLAs**

The range of MLAs can be characterized as adaptive or restrictive. An agreement is “restrictive” if it can protect local governments’ property rights through a set of clearly specified rules. Safeguards depend on the extent to which parties can come to a consensus on the effectiveness of an agreement governing their transactions. To be effective, the arrangement must be backed by specific state statutes or legally and economically defensible local ordinances. The specific services to be rendered and the organizational structure established are predictable and can be included in the agreement. The legal regime that induces the desired cooperative behavior is the one that enforces the promises to the letter. Stability and decisiveness can be promoted because the set of working rules that determines specific outcomes produces stability for all parties involved in the arrangement. This is particularly important because, unless the agreement is very specific, the passage of time and turnover of local decision-makers can erode and obscure the original basis of the agreement (FLCIR 2001). Examples of restrictive arrangements include legally binding contracts such as interlocal service agreements, contracts, or lease agreements. A restrictive arrangement may also include a hybrid mutual aid/operational assistance agreement.

On the other hand, the existence of adaptive arrangements such as mutual aid agreements, memos of understanding, letter of agreements, or informal agreements can also provide alternative mechanisms to secure coordination. One of the advantages of an

adaptive arrangement is that it specifies the activities to be rendered without unnecessarily intruding on the authority of other jurisdictions. Sclar (2000), for example, considered a flexible contract to be an arrangement established by parties in complex settings leaving the details to be filled in later. This arrangement produces a flexible organizational structure in order to provide general guidelines for locally-coordinated efforts. They are purposely designed to complement pre-existing policies as opposed to a nearly crafted joint vision to improve the overall welfare of the participating local governments' constituents. However, the extent to which they have been used to secure coordination is still an open question.

These broad characteristics are consistent with the transaction costs approach in the sense that the working rules embedded in a range of interlocal agreements can be identified and aggregated, and then compared based upon their characteristics. Depending upon the authority granted by state statutes, the restrictive and adaptive arrangements would allow us to define the scope, stringency of requirements, and the degree to which local governments can enforce their claim if signatories default and therefore, permit us to predict how local governments will behave given the uncertainty of their transactions. Moreover, we are most interested in determining not only the general pattern in which different factors can affect local government's contractual choice, but also the context in which the arrangements are formed.

## **DETERMINANTS OF MULTILATERAL AGREEMENTS**

The decision to enter a restrictive or adaptive agreement presents a challenging institutional design problem because local actors must overcome collective action as well

as transaction cost problems. The institutional collective action perspective suggests that institutional design results from efforts to minimize the costs of developing and maintaining contractual arrangements (Scholz & Feiock 2007). Local officials participating in MLAs may be concerned whether assistance can be provided in a timely and equitable manner to their constituency if others request similar aid. Crafting a legally binding contract is also an option, but it is almost impossible for localities to assign monetary values or specify detailed reciprocal emergency aid and assistance before disasters occur. Although it is difficult to imagine an instance in which a jurisdiction in critical need of assistance would not receive it from neighboring governments, the decision not to provide assistance is also a strategic act available to avoid legal liability and financial costs. We argue that the transaction costs associated with MLAs are further exacerbated by the problems of institutional collective action.

Institutional collective action problems occur when the transaction costs of organizing tasks and monitoring the behaviors of signatories increase with uncertainties. The problem gets complicated when an agreement involving multiple agencies requires political bargaining and compromises. It is uncertain whether signatories would claim fiscal hardship or avoid implementation of an agreed set of plans by deliberately underestimating their capacities to meet standards of mitigation, preparedness, response, and recovery activities. Consequently, localities with the most resources may have to compensate for their shortcomings. If a significant number of signatories adopt this pattern of behavior, the rewards produced by MLAs will be suboptimal. Although group pressure can minimize the dilemma, the costs of communicating with other parties and reaching a joint decision are generally high, especially when the number of signatories

increases. Because of these dilemmas, some localities would prefer to have a legally binding contract or a restrictive arrangement to minimize the risk of opportunism.

Building from the ICA framework, the following sections identify four factors that shape the transaction costs of contracting: the nature of goods and services, the number of signatories involved, interjurisdictional relations, and the geographic configuration of governments.

*Characteristics of goods and services:* While some activities may require local governments to work collaboratively with different specialized agencies to get the job done, local officials must customize their arrangements according to the nature of goods and services (Ferris & Graddy 1986; Post 2004; Stein 1990; Brown & Potoski 2003). For goods and services with high sunk costs and outcomes difficult to specify in advance, the transaction costs are especially high, especially if the arrangements are based on restrictive arrangements. However, when coupled with uncertainty that future circumstances may change, local governments could find themselves trapped by the agreed set of rules, leading to a joint-decision trap (Baird 1990; Gillette 1990; Scharpf 1998). As an alternative, an adaptive arrangement can be crafted in order to avoid future disputes. This type of arrangement is preferred because signatories can behave flexibly according to changed circumstances.

In public safety, MLAs have been used by local governments to cope with routine and non-routine emergency activities. For example, activities of law enforcement agencies are highly diverse ranging from recurring and routine public safety services (such as standard police patrol, educational programs, enforcement of sanitation and licensing regulations, control of crowds) to civilian defense and disaster duties during

episodic events (such as evacuations planning, mutual aid responses, and recovery efforts). While some routine activities can be shared or provided by other jurisdictions through legal arrangements, episodic activities require the combined efforts of disparate agencies across organizational and jurisdictional boundaries.

Restrictive arrangements are most important for local governments in two types of transactions: (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 of payments, revenue sharing, or impact fees. In addition to issues related to delegation of power and financial transfers, local governments may enter into restrictive arrangements in order to protect themselves from inherent risks associated with highly asset specific transactions (Brown & Potoski 2003; 1985). The arrangements for these transactions, as authorized by a state statutory framework, are legally binding.

On the other hand, when services involve knowledge-based specificity, local governments would prefer to enter into adaptive arrangements. Examples include standardized procedures, planning and mitigation strategies, technical reports etc. Specifying the exact processes and outcomes in advance for such services creates difficulties in the sense that they are costly to enforce in a legal system and economically costly to monitor. In addition, measurement problems hinder monitoring and effective enforcement because they require quantitative measures of what counts as an appropriate level of activity by a service provider, or the extent to which the services achieve their

desired impacts (Brown & Potoski 1985). In this circumstance, a more adaptive arrangement will be established to govern their transactions.

*Number of signatories:* The number of signatories in an agreement is also salient to local institutional design decisions. But, the effects of group size on contractual choice are ambiguous (Pisano 1989; Gulati 1995; Gulati & Singh 1998). On one hand, the larger the number of signatories, the greater the possibility that labor and specialization will be divided, resulting in an increased likelihood that local governments will cooperate and benefit from the agreement. On the other hand, the larger the number of potential collaborators, the greater the difficulty of communication among the members and the less stable the interlocal cooperation. Pisano (1980) observes that the larger the number of partners involved in an agreement, it is more likely that an alliance will be based on relational contracting. Gulati (1995) and Gulati and Singh (1998) conclude that this variable has no statistically significant impact on the choice of governance form. By contrast, Oxley (1997) found a larger scope of partners has a significant and positive effect on the probability of relational contracting.

The number of signatories dictates the relative distributional gains and organizational costs. For instance, the smaller the group, the easier it is to establish a restrictive arrangement because there are fewer problems determining how benefits will be distributed. The monitoring costs will also be lower and thus, signatories will be less likely to act opportunistically. A large number of signatories will decrease the relative benefits to individual participants; it will lead to greater organization costs and thus, there is a tendency for signatories to free ride on the efforts of others. The transaction costs are higher as the number of signatories increases. For example, a qualitative study conducted

in Iowa by Irene Rubin (2004) reports evidence that local governments entering into an MLA require a level of ongoing participation to keep the service going and solve problems. The need for ongoing participation creates some informal limits to how many MLAs can be entered into by localities. So, we would expect a larger number of signatories would lead local governments to enter into an adaptive arrangement.

*Intergovernmental relations:* Conventional wisdom suggests that localities are highly competitive and face obstacles to divide bargaining surpluses from cooperative efforts. Although they share similar concerns, their attempts to improve conditions are impeded by strategic acts to capture the greater share of the surplus (who should get the credit). Hence, contractual arrangements between municipal governments are likely to be based on a clear set of working rules in order to secure a distributive surplus. On the other hand, local governments may work collaboratively through adaptive arrangements. Although their pre-existing relations may be strained by past conflicts and rivalries, they need not enter into a restrictive arrangement. They can take advantage of redundancy in local emergency responses, resources and personnel through adaptive arrangements covering a large and multi-jurisdictional boundary. The higher the number of municipalities located within a county, the more likely an adaptive MLA will be employed to avoid future disputes.

Intergovernmental relations can also be captured by agreements involving specialized provision units such as police, EMS, and fire services. For example, an agreement that involves two or three specialized agencies is not uncommon in Florida. There has been a gradual increase in the trend of local governments merging or consolidating their EMS with other functional areas such as fire or police in order to reap

the economies of scope and scale. But, under certain conditions, this need not be the case. When an agreement affects the administrative boundary of a provisional unit, parties to the agreement might incur high transaction costs in negotiating, operating, and enforcing their multiple preferences. We expect an MLA with restrictive arrangements will be preferred over operating and enforcing the provision of a service in order to avoid future disputes.

On the other hand, an MLA---established by similar functional agencies---represents homogeneity of policy goals and preferences. Having similar concerns and policy goals can reduce the transaction costs of negotiating an agreement, and thus should motivate specialized agencies to choose an adaptive arrangement as opposed to an agreement involving multiple specialized agencies. For example, McDavid's (1977) study of 26 independent police departments in St. Louis County found unwritten mutual aid agreements and information agreements have positive impact on police performance suggesting smaller jurisdictions have the capacity to develop informal networks of intergovernmental relations to facilitate the delivery of services in multiple-jurisdictional settings. This conclusion is similar to other empirical studies on police performance (Ostrom & Whitaker 1973; Ostrom et al 1973).

*Geographic location and number of jurisdictions:* Localities that are prone to natural disasters and evacuation concerns are more likely to enter into adaptive arrangements rather than restrictive arrangements in order to take advantage of redundancy in local emergency response. Geographic location reflects local preferences i.e., as expressed through residents particular cultural and social styles of living. For example, residents living along the coastlines---defined by their social and economic

status---tend to have homogenous preferences and are likely to have higher expectations of their local officials on public safety activities. Because demographic homogeneity reduces agency costs for officials negotiating interlocal agreements on behalf of citizens, we can expect intra-jurisdictional homogeneity will increase the likelihood of MLAs. The nature of such arrangement is still an open question, however.

Feiock (2007) has suggested that fixed geographic border creates interdependencies. Governments with common borders are not stuck in a one-shot prisoner's dilemma; the impossibility of exit means defection from cooperation exposes the defector to retaliation. The prospect of future play with the same party constrains opportunism such that it is in the interest of each government to cooperate with neighbors who cooperate. This suggests the tendency for local governments to enter into a mutual aid or memoranda of agreement since it would be sufficient to curb opportunistic behaviors through informal sanction. The higher the number of jurisdictions within a political boundary, the more likely they would enter into adaptive arrangement if such arrangement can provide opportunities for mutual assurances that each government will contribute to the provision of the collective good.

However, the higher the number of municipalities located within a county's political boundary, the more likely their relationships could be strained by rivalries and past conflicts and thus, the more likely a restrictive MLA will be employed to avoid future disputes. Moreover, if local officials are still concerned whether assistance can be provided in a timely and equitable manner, the likelihood of agreements with the state or other jurisdictions independently will be very high.

We also control for vulnerabilities of localities given their proximity to the

coastlines. This variable captures local government decisions when there is a need to become more resilient to natural disasters i.e., by establishing MLAs (Comfort 2006).

## **RESEARCH DESIGN AND DATA**

### **Identifying Multilateral Agreements**

To gain a better sense of MLAs used by local governments, consider a combined mutual aid/operational assistance agreement in the realm of public safety in Florida. The agreement is aimed to coordinate multiple-jurisdiction activities in an event requiring an 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., the core group is a frontline taskforce consisting of four law enforcement agencies in Leon County<sup>1</sup>. As the producer of this service, the taskforce's 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. A group of seven counties, nine municipal governments, and one independent special district in Central Florida recently entered into a "Permitting Mutual Aid Agreement" under which the actors agreed to establish administrative and standard procedures to be used when responding to non-routine emergency activities. An outcome of the agreement takes the form of a non-hierarchical structure. There is no central actor to coordinate the activities of members but the agreement carries broad associational and practical benefits. For instance, even though the agreement, as

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<sup>1</sup> The taskforce consists of personnel from the State of Florida Division of Fire Marshals, Florida Department of Law Enforcement (Division of Capitol Police), Leon County Sheriff's Office, and Tallahassee Police Department.

sanctioned by Florida's Mutual Aid Act, grants the assisting personnel the same powers, duties, rights, privileges and immunities they command in their own jurisdiction, the assisting party, acting on its sole discretion, can still withdraw assistance at any time.

These examples illustrate the different structural outcomes produced by MLAs. The arrangements define the scope, stringency of requirements, and the degree to which local governments can enforce their claim if signatories default, and thus may be used strategically by local government to span administrative and political boundaries. In order to differentiate these possibilities, we identify the different types of MLAs in Florida utilizing the data from various *Interlocal Service Delivery Reports* (hereafter the Report). The information is compiled by the Florida Department of Community Affairs<sup>2</sup>. The Report contains information on the types of agreements and the activities carried out by local governments from 1973 to 2003. The Report also includes the number of signatories in an agreement, the functional unit that provides the services, and the status of an agreement.

In order to systematically identify the MLAs from the Report, we tried to ensure that the arrangements listed were in accordance with statutory definitions. For example, the Interlocal Cooperation Act of 1969 (s. 163.01, Fla. Stat.) provides a *broad* legal framework for local governments to enter into agreements with either the public or private sector; the Florida Mutual Aid Act authorizes local and state law enforcement agencies to enter into mutual aid or operational assistance agreement; and Florida's Growth Management Act, which has "had a significant impact" on encouraging

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<sup>2</sup> Under Chapter 2002-296, Law of Florida, added sections 163.3177(6) (h) 6, 7, and 8, Fla. Sta., all counties in Florida with greater than 100,000 population and their municipalities and special districts were required to prepare and submit the Report to Florida Department of Community Affairs.

intergovernmental coordination through the use of joint planning agreements (FLCIR 2001). Although most localities generally made implicit reports on the types of agreements governing their transactions, others did not. To overcome this problem, we relied on the substantive titles of reported agreements and matched them against the statutory framework that authorized their usage to gain insight into the structural arrangements established by local governments.

The Report highlights an array of agreements ranging from interlocal service agreements to contract and lease agreements, from mutual aid agreements to memoranda of understanding, to joint planning agreement and letters of agreement (Table 1). To capture the different arrangements, whether they are authorized by the state statutes or not, MLAs are classified into two general forms: restrictive and adaptive. The adaptive arrangement includes mutual aid agreements, memoranda of understanding, and letters of agreement. The restrictive arrangements include interlocal service agreements, joint planning agreements, contracts, lease agreements, or a hybrid arrangement that establishes a single or two-tier hierarchical structure such as the Permitting Mutual Aid Agreement in Central Florida and the Big Bend Region's Bomb Squad Mutual Aid/Operational Assistance agreement respectively. We identified 390 MLAs in Florida's 32 largest counties.

**[Table 1 about here]**

### **Identifying Characteristics of Goods and Services**

To test the proposition that characteristics of goods and services have an effect on

contractual choice, services are classified by their asset specificity and measurement difficulty. The approach is an extension of Williamson's transaction costs theory (1975), which defines asset specificity as the extent to which a specialized investment needed for the production of one service can also be used for the production of another; service measurability refers to the relative difficulty in measuring and monitoring the outcomes of the services. However, general service classifications such as that of Brown and Potoski (2003) are problematic because, they do not focus on specific functions, account for contracting with governments rather than the private vendors, or take into account non-routine public safety activities i.e., "Mutual Aid Assistance/Disaster Relief," "Planning/Standard Procedure," and "Joint Studies/Technical Assistance."

Following Brown and Potoski's procedures, we first identifying the categories of goods and services and then conducting a survey of independent experts in emergency management and practitioners (n=18). That is, we identified and developed a list of goods and services based on previous empirical studies in the realm of public safety and matched the list against goods and service involved in our agreements. We then characterized each category by a two-by-two transaction costs matrix based on a mean rating (i.e., asset specificity *mean*=3.43; service measurability *mean* = 2.77). Those categories that fall below the mean are characterized as having low asset specificity or service measurability; those above the mean are characterized as having high asset specificity or service measurability. While high on both asset specificity and service measurability problems reflects the importance of a trust-based relationship among signatories, low on both characteristics suggests the relative ease by which units of governments can enter into binding contracts (Brown & Potoski 2005). Fourteen public

safety service categories are identified. Table 2 summarizes their characteristics.

**[Table 2 about here]**

## **RESULTS AND DISCUSSION**

The decision to enter into a restrictive or adaptive MLA is based on the comparative advantages of contracting. The proposition is tested using a logistic model, where the dependent variable takes a value of 1 for an MLA associated with an adaptive arrangement; and 0 otherwise. Table 3 provides the descriptive statistics. In Table 4 the overall model is statistically significant, Chi-square (9) = 114.48,  $p < .00$ . The model correctly predicts about 77.01 percent of the cases. Diagnostics performed to detect multicollinearity above 0.8 suggest no serious problem.

**[Table 3 about here]**

**[Table 4 about here]**

The transaction costs perspective suggest that governments will enter into an adaptive arrangement for difficult to measure and highly asset specificity services. Local governments would prefer to enter into a restrictive arrangement when a transaction involves goods and services that are relatively low on both asset specificity and service measurability problems. Table 4 reports that local governments are more likely to enter into an adaptive, rather than restrictive, contracts when goods and services

have high rather than low asset specificity and measurability problems,  $\beta = 4.65, p < .00$ .

Specifically, on average, an MLA is more likely to be in an adaptive rather than restrictive arrangement by a factor of 104 times when the characteristic of goods and services has high rather than low asset specificity and service measurability problems, holding the other independent variables constant.

Within the context of public safety, when public officials are faced with multiple tasks requiring specialized knowledge and their efforts to accomplish those tasks are difficult to determine in advance, they tend to opt for an adaptive arrangement. A similar conclusion can be reached with goods and services that have low asset specificity but high service measurability problems. Here, we can expect an MLA with an adaptive rather than a restrictive arrangement to be more likely established by local governments,  $\beta = 3.57, p < .00$ . In an adaptive arrangement, local governments can integrate multiple organizational preferences and expertise in the provision of public safety activities such as standard procedure and joint technical assistance without having to craft a legally binding agreement.

A local government's decision to enter into an MLA is also influenced by the number of potential signatories because size determines the costs of negotiating, maintaining, and enforcing an arrangement. As the number of signatories gets larger, the greater the organization costs involved, and the easier it is for localities to free ride on the efforts of others. Theoretically, individual localities may not contribute fully to the efforts of the collective since the proportion of the shared benefits to a single locality decreases as the group size gets larger. Moreover, lack of openness makes it difficult to identify who should contribute most to solving complex regional problems. Our results show that,

as the number of signatory increases, a flexible or adaptive arrangement will be preferred,  $\beta = 0.11, p < .00$ . Local governments can avoid a joint-decision trap in the presence of uncertainty when they can craft an MLA with an adaptive arrangement since the fulfillment of the arrangement is generally nonobligatory, reciprocal, and yet easily terminated without significant legal consequences compared to a restrictive arrangement.

However, the extent to which an adaptive arrangement is feasible depends on the pre-existing relationships of signatories. Given the geographical proximity of local governments, pre-existing relationships may not be an immediate issue, but local politics often complicates future policy preferences and thus may affect the motivation for cooperation. We employed two variables as proxies for interjurisdictional relations: the number of municipalities located within a county political boundary and the functional categories of service providers (i.e., police, fire, EMS, or any combination of providers). We assume adaptive MLAs can provide opportunities for mutual assurances if each signatory will contribute to the provision of the collective goods. Bearing this in mind, we can expect the number of jurisdictions within a political boundary to have a positive effect on the type of MLAs. Our results show that, on average, as the number of municipalities within a county increases by one unit (ranges from 1 to 38 units), we can expect the likelihood of adopting an adaptive rather than a restrictive arrangement to increase by a factor of 1.03 times, holding the other variables constant,  $\beta = 0.03, p < .07$ .

As for the functional categories of service providers, an agreement in the company of similar functional agency, an adaptive arrangement is more likely than restrictive arrangement when compared to an agreement involving multiple specialized agencies. This is because agencies having similar concerns and policy goals can reduce

the transaction costs of negotiating an agreement. The variable is treated as a nominal category where the involvement of multiple specialized agencies is regarded as the benchmark. The result shows that when compared to an MLA that is made up of several specialized agencies, an MLA for police departments is more likely to be based on a restrictive rather than an adaptive arrangement,  $\beta = -1.00, p < .00$ . The usage of a restrictive contract such as an interlocal service agreement, leases, or contracts, reflects how the presence of local politics can influence the type of arrangement used to govern a contract. On the other hand, when compared to an MLA involving several specialized agencies, an MLA entered into by EMS or a fire department tends to be based on flexible contracting. The differences are not statistically significant, however.

## CONCLUSION

Why do local governments enter into a particular type of MLA? In addition to economic and legal reasons, theoretically, local governments enter into MLAs for strategic reasons. Depending on the characteristics of goods and services, the nature of interjurisdictional relations, and the number of signatories involved, local governments can minimize the transaction costs of contracting based upon the governance structure established by the agreements.

Empirically, our results provide strong statistical evidence that the number of signatories influences the decisions of local government i.e., on the type of MLAs. This finding is by no means obvious, for the transaction costs literature is divided on what types of agreements local governments would enter into given a particular number of potential signatories (Pisano 1989; Gulati 1995; Oxley 1997; Gulati & Singh 1998). One

explanation emphasizes the tendency to establish restrictive arrangements to control opportunistic behavior since a large number of signatories would suggest higher monitoring costs; while another explanation calls attention to the importance of associational or group norms which could bring about informal sanctions to curb opportunistic behavior.

The nature of goods and services also influences the type of arrangements, and these arrangements are not confined to contractual decisions with organizations in the private or nonprofit sector (Brown & Potoski 2003). By showing the extent to which local governments' decisions might be influenced by the characteristic of goods and services, this article's results speak to the enduring paradox of local government's participation in MLAs while highlighting the difficulty in maintaining adaptive contracts because of intergovernmental relations (Ferris & Graddy 1986; Hirlinger & Morgan 1991; Stein 1990; Post 2004). This finding is by far the most cited reason why local governments might establish agreements with another government rather than organizations in the private or nonprofit sector.

However, there are several limitations in our findings. An underreporting of agreements in public safety activities by local governments is highly probable. This is largely because most local governments do not keep a central file on all written and unwritten agreements. Furthermore, because most MLAs are based on self-reporting made by large counties in Florida, information on public safety agreements may reflect activities between municipalities and county governments. There is no obvious way around these shortcomings since no other systematic gathering of agreement-specific information is currently available at the state level. Nevertheless, this study makes several

contributions. Unlike prior studies, which largely used cross-sectional survey data and case studies to capture local officials' perceptions of cooperation, our analysis takes on the characteristics of the agreements. It provides insights on how different types of agreements may produce different incentives structures for local governments to enter into MLAs.

Of course, all things are not equal. Future research should explore the importance of the state statutory framework. Local governments' decisions are often influenced by the state statutory framework and local political institutions, which may be specific in articulating the administrative procedure for forming agreements (Carr 2004). As documented by Atkins (1997): Local government efforts to consolidate ambulance and fire services through interlocal service agreements may require public support as well as union blessing; municipal governments providing assistance to the County Sheriff's Office through mutual aid agreements depend on the good faith of all parties; and the joint efforts of special districts to initiate tax sharing activities may require local ordinance and state legislature approval. Although in-house provision and production is always an option, state and local institutions may specify the administrative process for contracting out certain services and activities to other jurisdictions (Miller 1981).

Future research should examine the importance of associational benefits generated by MLAs. For example, an MLA having adaptive characteristics generally would require local governments to develop ongoing relationships with different specialized agencies in order to accommodate and coordinate diverse policy preferences (Thurmaier & Wood 2004; Lynn 2005). The need for ongoing relationships creates some informal limits to how many MLAs can be entered into by localities. The more diverse

the policy preferences, the more time and effort would be required to ensure deliberative processes are made consensually. Although public safety activities are interrelated and pre-existing relationships may not be an immediate issue, local politics often complicate future policy preferences and affect the contractual choices made by local governments. The problem becomes acute as multiple levels of government are involved.

Moreover, an MLA often leads various signatories to take on multiple roles. For instance, when entering into MLAs, individual localities not only must improve their capabilities and strategize responses to local concerns, they must also coordinate activities with other localities. Since local governments' concerns are rarely over a single issue, they must allocate internal resources to spread risks, build local capacities, and adjust their efforts in other areas. Consequently, activities in one functional area may have implications for another area (Scholz & Feiock 2007). In short, MLAs, which provide alternative governance structures for local governments to coordinate activities across political boundaries, may have implications for other policy areas that not obvious to policy makers.

**Table 1**  
**Types of Agreement in Provision of Public Safety (Frequencies)**

<b>Type of Agreements</b>	<b>Frequency</b>	<b>Percentage</b>
Interlocal Service Agreement	163	41.8
Mutual Aid Agreement*	165	42.3
Memorandum of Understanding (MOU)/ Memorandum of Agreement (MOA)	31	7.6
Joint Planning Agreement	17	4.4
Contract/Lease Agreement	7	0.3
Informal/Letter of Agreement**	1	0.3
Others*** (i.e., Ordinance, Permit)	6	1.5
<b>Total</b>	<b>390</b>	<b>100</b>

Notes: \* Statewide mutual aid agreements are excluded. Mutual aid agreement includes operational assistant agreements

\*\* Based on self-reporting and likely to be underestimated by local governments.

\*\*\* Some agreements are difficult to classify given lack of description by reporting counties. Data include specific ordinance and permits.

Source: Author's data coding. Taken from various interlocal service delivery reports by 32 major counties, Florida's Department of Community Affairs (2003).

**Table 2**  
**Characterization of Public Safety Service Categories**

	<i>Low Asset Specificity</i>	<i>High Asset Specificity</i>
<i>Low Service Measurability</i>	Licensing equipment/ software Billing and financial transfers Vehicle fleet maintenance	Police/Fire/EMS communications Educational/Training programs Emergency medical services Prisons/Jails
<i>High Service Measurability</i>	Planning/standard procedures Technical studies/assistants Operation of building/shelters	Fire protection/prevention Law enforcement/police patrol Mutual assistant/disaster relief Crime prevention /investigation

**Table 3**  
**Descriptive Statistics**

Variables	Mean	Standard Deviation	Min	Max
Adaptive Arrangement	0.45	0.49	0	1
Characteristics of Goods and Services:				
Low Asset Specificity, Low Service Measurability	0.13	0.33	0	1
High Asset Specificity, Low Service Measurability	0.12	0.32	0	1
Low Asset Specificity, High Service Measurability	0.17	0.37	0	1
High Asset Specificity, High Service Measurability	0.59	0.49	0	1
Number of Signatories	6.56	4.37	3	20
Number of Cities in County	12.98	10.41	1	38
Functional Service Areas:				
Combined Efforts	0.30	0.46	0	1
Police Services	0.49	0.50	0	1
Emergency Medical Services	0.03	0.16	0	1
Fire Services	0.17	0.37	0	1
Coastal Area	0.58	0.49	0	1
No. of Observations = 261				

**Table 4**  
**Logistic Regression on Adaptive Multilateral Agreements**

Dependent Variable: Adaptive Arrangement	Coefficient estimates	Standard error	Odds ratio
Constant	-4.44***	1.19	-
Characteristics of Goods and Services:			
High Asset Specificity, Low Service Measurability	.17	1.53	1.18
Low Asset Specificity, High Service Measurability	3.57***	1.13	35.52
High Asset Specificity, High Service Measurability	4.65***	1.07	104.58
Number of Signatories	.11**	0.04	1.12
Number of Cities in County	.03*	0.01	1.03
Functional Service Areas:			
Police Services	-1.00***	0.36	0.37
Emergency Medical Services	1.26	1.36	3.52
Fire Services	0.39	0.52	1.43
Coastal Area	-0.39	0.34	0.68
No. of Observations	261		
LR Chi squared	114.48		
Pseudo R-squared	0.31		
Log Likelihood	-122.66		
% Correctly Predicted	77.01		

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

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