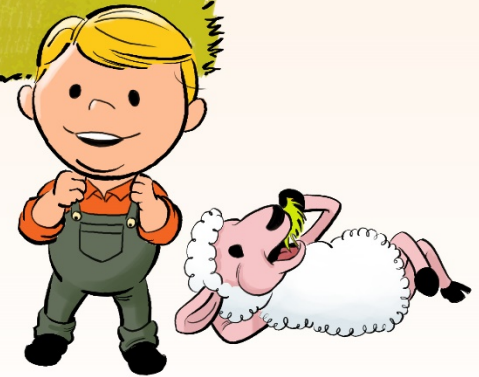
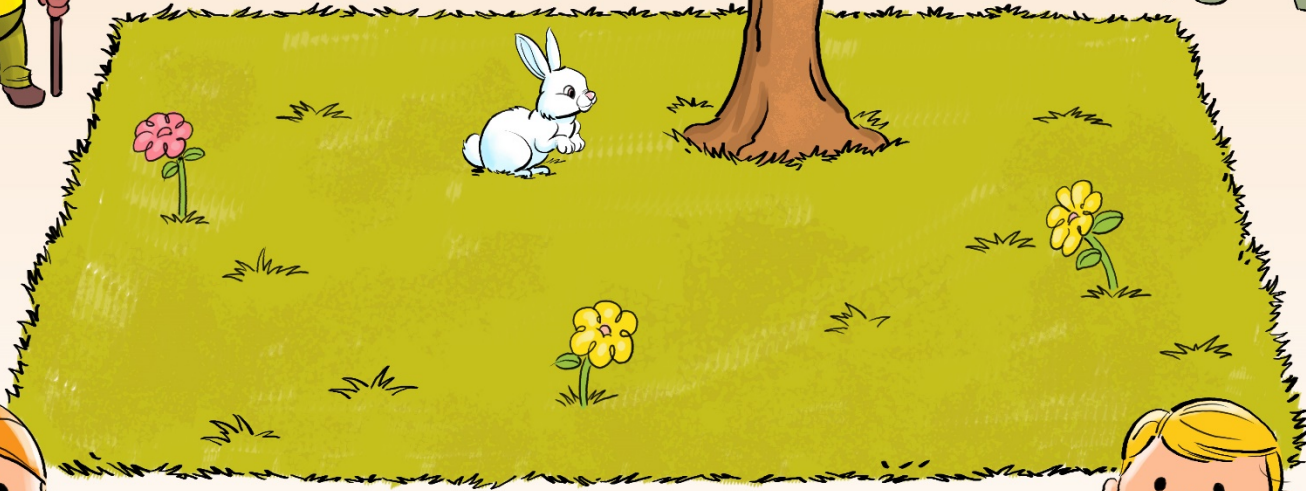
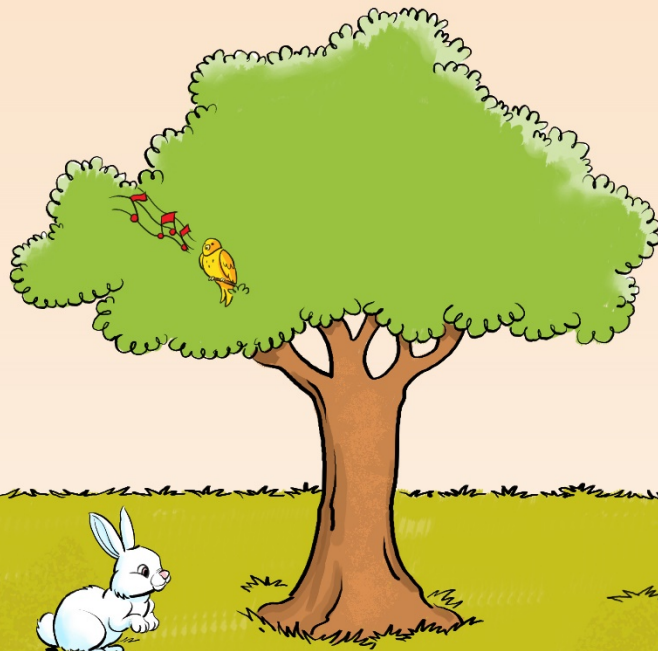
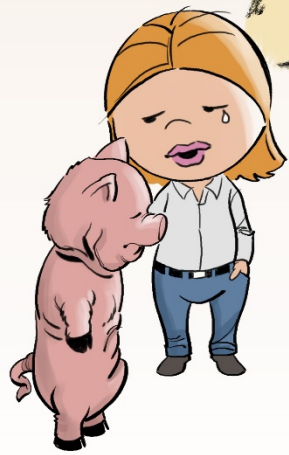
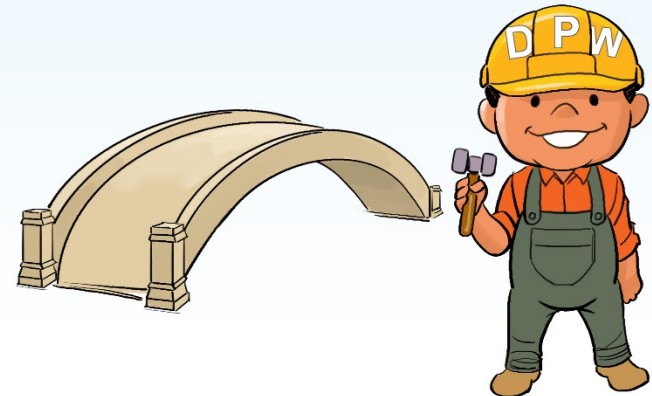
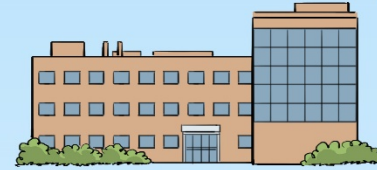


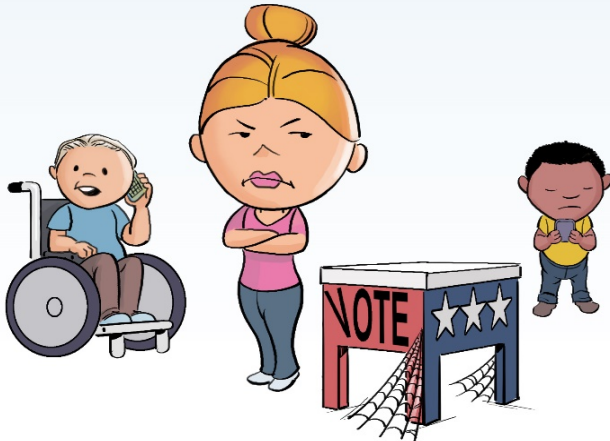
The New Financial Sustainability Framework: *A Guide to Changing Governance to Sustain your Community without Breaking your Piggy Bank*













Why This Framework?

- Makes finance everyone's business
 - Everyone is involved in using resources, everyone needs to be involved in sustaining them
- Goes beyond the numbers
 - Accounting records don't tell the whole story
- Based on more accurate models of behavior
 - Compatible with findings in behavioral sciences
- It works!
 - Demonstrated by real governments, experimental evidence, and mother nature!



Some Reasons Why

Start	End
So we can hire qualified personnel	So we can communicate the value of public services to the community
To improve/maintain our infrastructure	So people will continue to want to come to our community
	To honor the vision of our community's founders (who wanted to make a great place to live)
To maintain good public safety services	To work with the community (including working with non-profits) to reach our goals for a safe community.
To enable service continuity	To understand the reasons why we provide services, make sure those reasons are still relevant and that services produce value for the public, and plan finances accordingly.
	To achieve public trust & confidence



Discussion Question

- Where have you observed a “tragedy of the commons” in local government finance?

- 1 minute silent contemplation

- Discuss your idea with a neighbor
 - 2 minutes each

What Does the Framework Include?

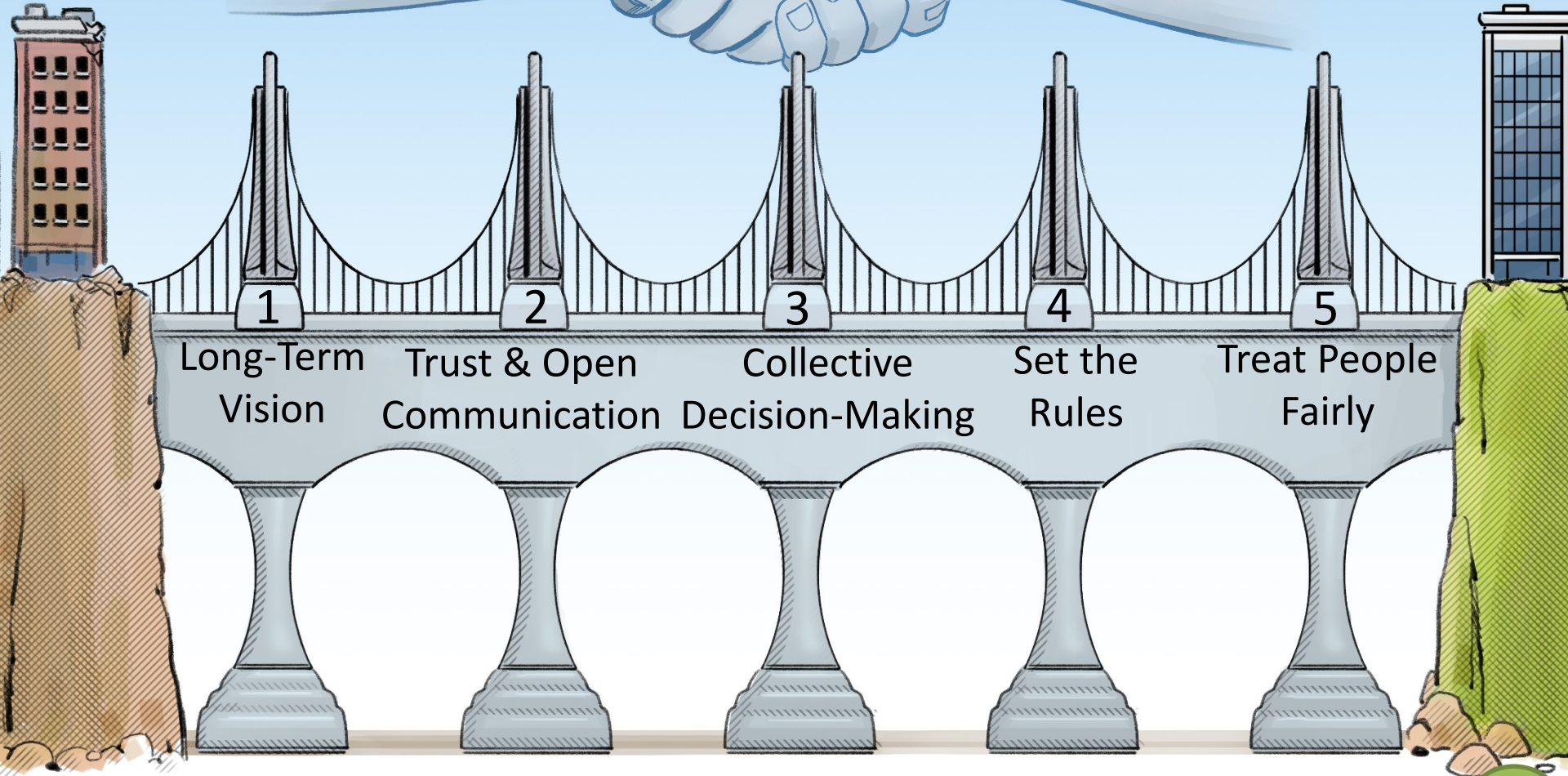
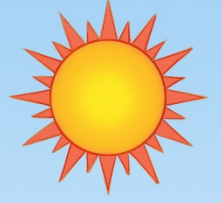
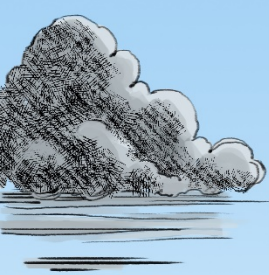
- 6 Leadership Strategies
 - Local leaders cannot “order” people to behave in a sustainable way. They must inspire pride, loyalty, and enthusiasm so people will want to make the organization financially sustainable.
- 8 Institutional Design Principles
 - The rules of the game for how local government and other organizations work together for a sustainable financial future. These provide context for the leadership strategies.



Strong Reciprocity

- Underlying financial sustainability is the concept of strong reciprocity
- Reciprocity is the practice of exchanging with others for mutual benefit.
- Two features to consider:
 - People cooperate as long as others do too
 - People are willing to punish others for taking advantage of the system, even at a cost





Financial Sustainability 





#1 – Establish a Long-Term Vision to Give People Reason to Cooperate

- If people see they will be better off working together, they will work together. A shared vision is how people see.
- Financial sustainability requires long-term thinking. Financial sustainability requires short-term thinking. Balance them to thrive.



Convince Stakeholders of Collective Benefits



Contribute
Money to a
Common Pool

Experimenter
Multiplies the
Contribution



Money is
redistributed
evenly





Convince Stakeholders of Collective Benefits



Contribute
Money to a
Common Pool

The below-average
contributor gains

No multiplier!



Money is
redistributed
evenly



San Bernardino County

- Largest County in USA
- Very diverse geographies
- Diverse stakeholders



An Unsustainable Path...

In 2009, \$80M deficit rolled into next year (10% of total budget), even while salary and benefit increase approved





County Vision Strategic Plan

- What does the County and the community want to be in 20 years and how it will get there?
 - Highlights everyone's shared interest
 - Defines why County should be financially sustainable
 - Provided tangible demonstration of benefits available from collaboration

- Led to shared vision of management of water resources between previously isolated agencies

- Coordinate County & city resources (e.g., Parks)



Discussion

- How can local leaders introduce motivation to think beyond the short term in the organization?
- 1 minute to think about it
- 2 minutes to share thoughts with one other person



#2 - Build trust and open communication to encourage cooperation

- Financial sustainability requires open communication with elected officials, open communication with staff, and open communication with the public.
- Trust is the foundation. The foundation is trust. Without it, financial sustainability is compromised.



City of Redmond's Priority Driven Budgeting





City of Redmond

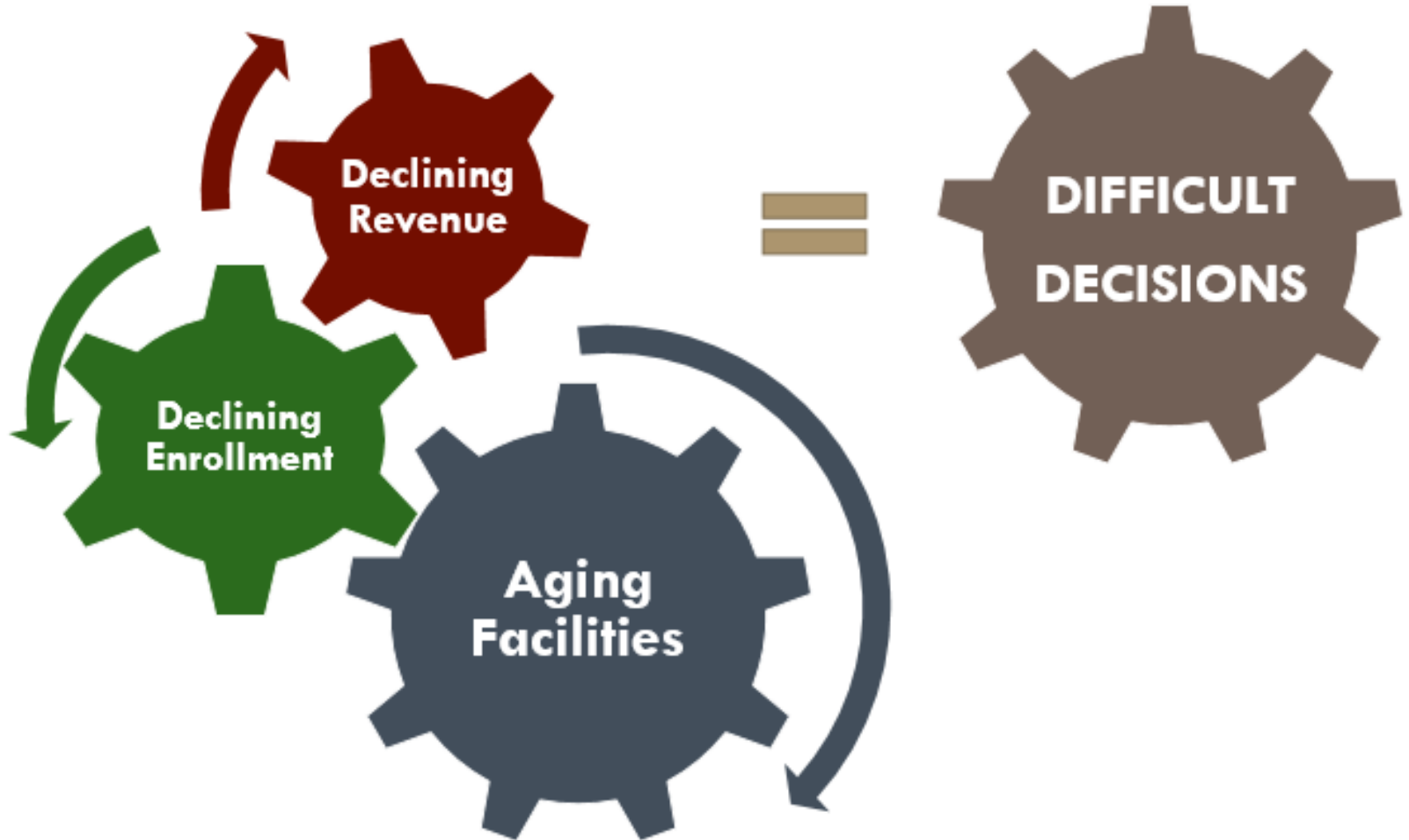
- Deliberate model for building trust practiced by City leadership

- Cross-functional teams of staff evaluate proposed spending by programs

- Departments encouraged to submit joint budget proposals...
 - ...And they do



Traverse City Area Public Schools



TCAPS Three Principles

- Education priorities should drive the budget
- You can't be all things to all people
- Get the most bang for our buck



#3 - Use collective decision-making to foster a forum to cooperate

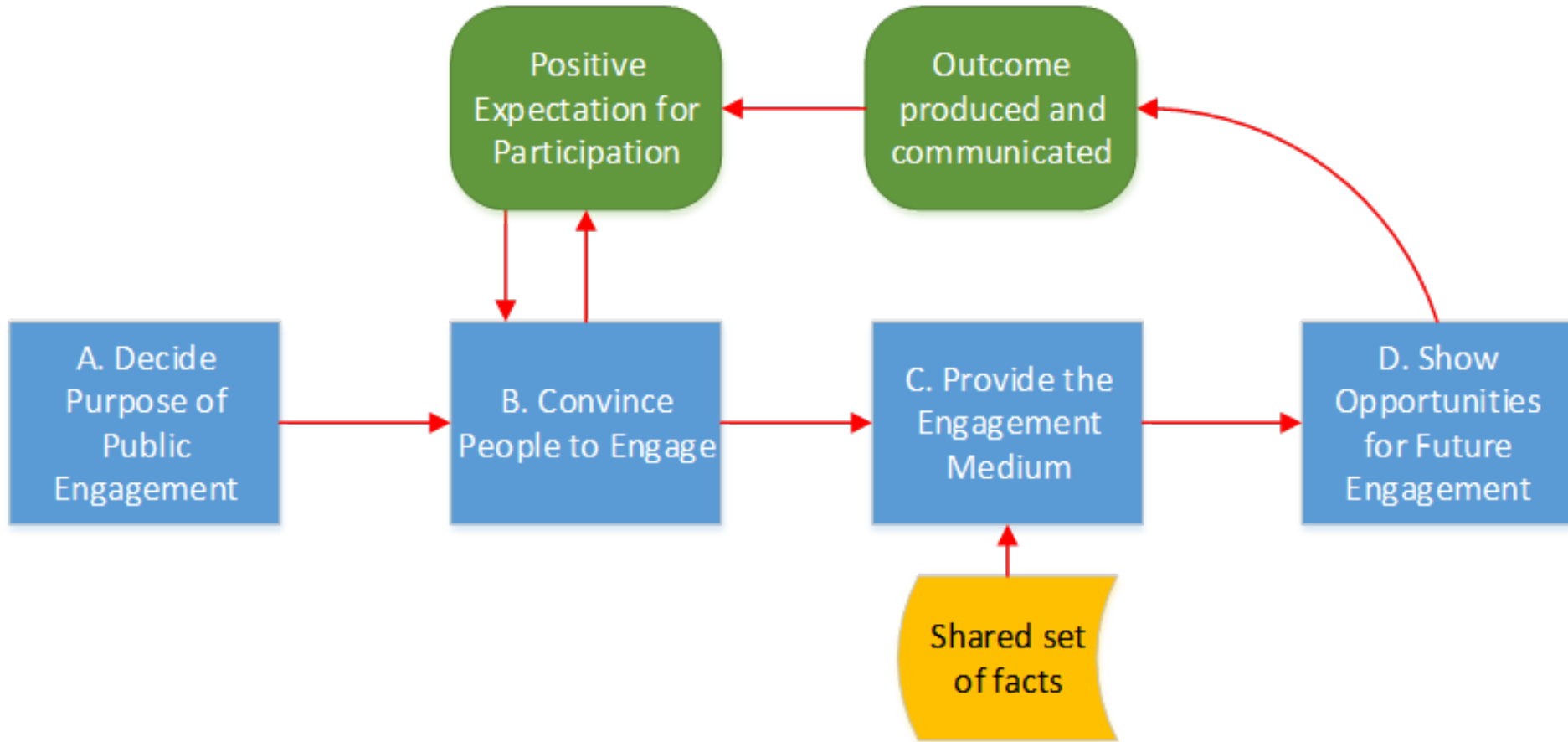
- Everyone is either working for or against financial sustainability. If people are engaged, they are working for it. If people are not engaged, they are working against it.
- When people participate in making decisions, the decisions will be better.
- Join up to survive. Join up to thrive. The future lies in joined up government.





“The standard process called for our City manager to work behind closed doors until she proposed a budget to the elected body, which then held public hearings. Insiders could object to proposed cuts, and new cuts were substituted – too late for opposition to gather or be effective. That process favors insiders and leads to conflict, pitting individuals against each other and against their own elected representatives.”





A New Approach

- Set a clear purpose
 - Make trade-offs between service levels

- Give a convincing reason to participate
 - “Does this city keep cutting services or do we rebuild?”



A New Approach

- Provide the medium
 - Provide basic facts about taxes
 - Make the experience interesting

- Require trade-offs
 - Invest, protect, or disinvest?





Discussion

- Which of the engagement design principles we discussed presents the biggest opportunity for your government?
- 1 minute to think about it
- 2 minutes to share thoughts with one other person





#4 - Set rules and ensure they are followed

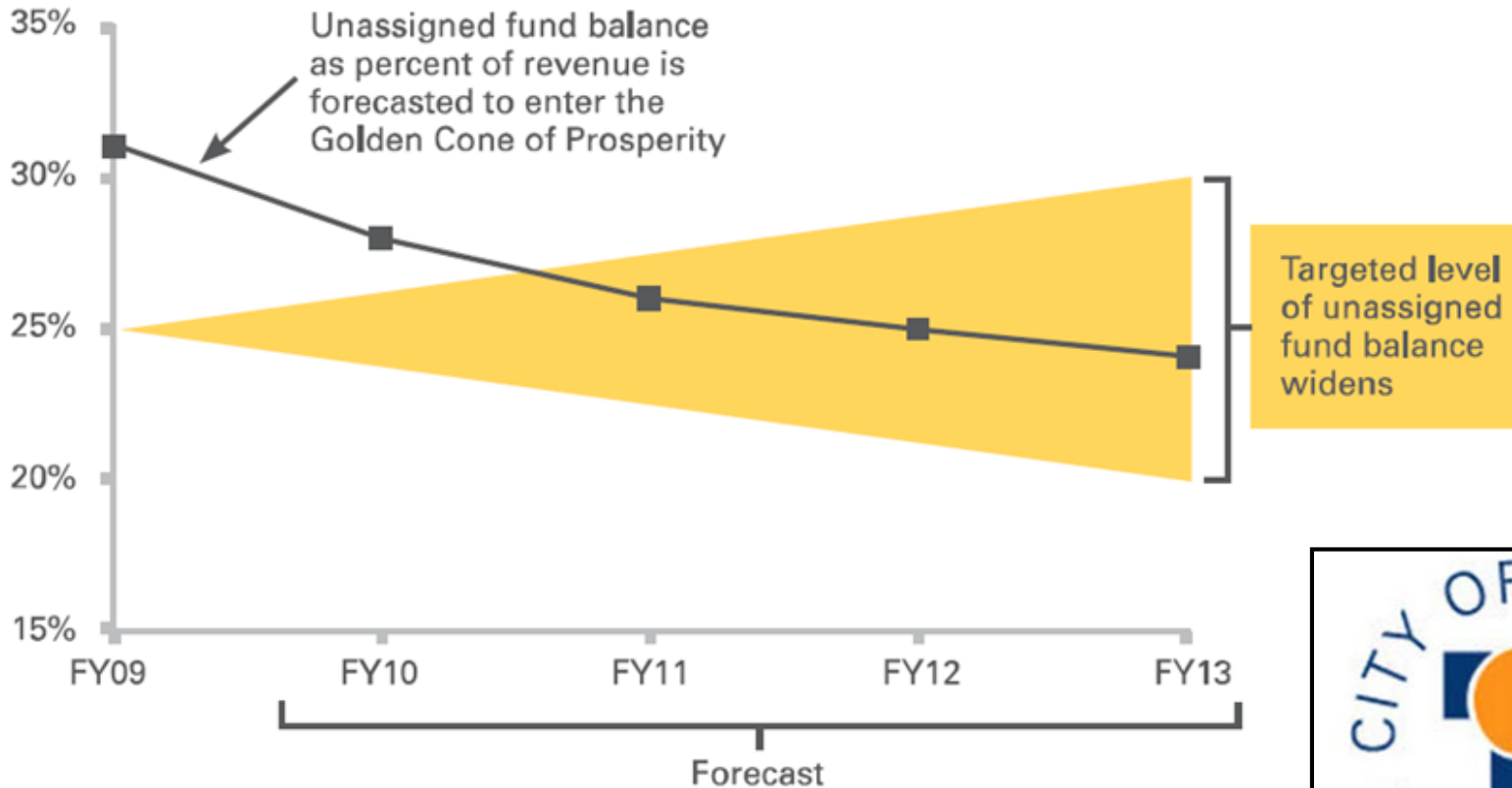
- Boundaries are the rules of the game. The rules determine how the game is played. For everyone to win, the rules must be well-defined.
- When people feel their actions are seen & their reputations are on the line, people are encouraged to play by the rules.
- Financial sustainability requires cooperation, but cooperation requires reinforcement.
- Incentives can encourage the right thing or the wrong thing. See the difference & design your institutions accordingly.







The Golden Cone of Prosperity





Contribute
Money to a
Common Pool

Experimenter
Multiplies the
Contribution



Money is
redistributed
evenly



Experimenter
Multiplies the
Contribution



What if
someone holds
out?

Hold-out gains
at expense of
others



An Incremental Budget

Danger!

Departments may try to capture funds to build it into their base budget to insulate themselves from future competition

Tempe's Solution

- Base budget: Same amount from year to year
- Supplemental: Any additional funding

All supplementals reviewed by the entire City Management team using agreed upon criteria

Budget Controls

- Each department's budget has two parts:
 - Personnel budget
 - Everything else

- ERP automates controls so all departments must respect this boundary

Monitoring During the Year

- Distribute budgets across the year and monitor variances quarterly

General Fund Revenue	Rating
All General Fund	Positive
Sales Tax	Negative
Property Tax	Positive
Bed Tax	Negative
Franchise Fees	Watch
Intergovernmental	Positive



Discussion

- What is your “golden cone of prosperity”?
How do people know if you are in the right track?
- 1 minute to think about it
- 2 minutes to share thoughts with one other person



#5 - Treat participants fairly under the rules

- Financial decisions are subject to dispute. Prevent destructive conflict, promote constructive conflict.
- Local government will be more financially sustainable when people get what they pay for and pay for what they get.
- Local governments need autonomy to make local decisions.



Fairness Matters

Evidence:

The Ultimatum Game



Procedural Justice

- People are willing to accept & support decisions that aren't in their self-interest, if the process used to reach that decision ...
 - Was perceived as fair
 - Operated by rules that are applied to all participants
 - Truly considered their views.



Decisions are Based on Accurate Information

- May need to take time to find the facts and define the problem
 - Picking salary comparables
 - Hampton's tax experience





Transparent Decision-Making Criteria Consistently Applied

- Recall...
 - TCAPS principles
 - Tempe's budget criteria
 - Redmond's priority budgeting evaluation



City of Redmond
WASHINGTON



All Affected Stakeholders Have Opportunity for Input

- This could include ...
 - The opportunity to articulate interests
 - Provide input on options under consideration
 - Define decision-making criteria
 - Collective decision-making



Mistakes are Recognized and Corrected

- Acknowledge risks that decisions may not work out
- Evaluate how decisions are going
- Use pilot projects, where possible





Discussion

- To what extent does your budget process exhibit the characteristics of procedural justice? What is your best opportunity to enhance procedural justice?
- 1 minute to think about it
- 2 minutes to share thoughts with one other person





Our Pilot

Intrepid local governments are...

- Working together to evaluate the extent to which they are financially sustainable.
- Forming the vanguard of a new group within GFOA to move this idea forward.

What are your Take-Aways?

What is your biggest take-away from this session? What are you going to do next?

- 1 minute to gather your thoughts
- 2 minutes to share your ideas with one other person
- 4 minutes to expand upon your ideas in groups of four



Questions?

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- Read the papers at
 - <https://www.gfoa.org/financial-sustainability>